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Peer-to-Peer Lending Survey

Online alternative to bank loans, credit cards

By Monica Steinisch

Three P2P lending websites—Lending Club (www.lendingclub.com), Peerform (www.peerform.com) and Prosper (www.prosper.com)—enable unacquainted borrowers and lenders (called investors) to enter into a loan agreement in any U.S. state where the companies operate. The money to fund the loans is put up by individuals or groups of investors, not banks or credit card companies.

Marketed as a more accessible and less expensive alternative to mainstream financing sources, P2P lending is becoming an attractive option for many consumers, especially in an economy where traditional financing has become harder to get.

Consumer Action took a look at the "big three" P2P lending sites to see how they work, how they compare and what prospective borrowers need to know.

Eligibility requirements

All three P2P lending sites require borrowers to be U.S. citizens or permanent residents and at least 18 years old. (Minors—anyone under 18—are not permitted to enter into legal contracts.) You must also have a Social Security number and an account at a financial institution.

Lending Club and Peerform both require FICO credit scores of 660, while Prosper requires 640. The FICO credit scoring scale goes from 300 to 850—generally, the higher your score, the better your financing options and the lower your interest rates.

All three sites offer unsecured (no collateral), fully amortizing—meaning the loan balance is paid off through equal monthly payments—fixed-rate loans that can be used for most legal purposes except post-secondary education expenses. None of the sites allows loans for college tuition, books or other related expenses because the Higher Education Opportunity Act requires that the borrower be given at least 30 days to accept or reject a loan offer, and P2P loans have a 14-day lifecycle (from listing to funding or expiration). (Peerform's borrower agreement includes a long list of very specific uses for the money that are forbidden—from funding a pawn shop or taxi service to financing a furniture store or a hotel reservation service—but it is unlikely that these restrictions would preclude many borrowers.)

None of the three P2Ps is available to borrowers in all states. Prosper is the most widely available, operating in all states except Iowa, Maine and North Dakota. Lending Club is available to borrowers in 42 states. Peerform is the most limited, facilitating loans in only 13 states (see chart). State licensing and regulatory requirements prevent P2P lenders from operating in certain states.

Loan listing process

Borrowers who have been approved by the P2P lending site and have selected a loan option (in other words, agreed to a loan amount, repayment period, interest rate, fees and other terms) are ready to "list," or post, their loan on the website for investors to view.

During the approval process—an evaluation of credit report data, income, employment, loan amount and term, and other information that may indicate ability and willingness to repay the loan—the P2P lending company may ask for additional documentation, such as pay stubs. Depending on how quickly you supply the required information, your loan could be listed on the site within just a few days, or sooner.

A loan listing tells prospective lenders how much you want to borrow and what you plan to do with the money. It also lists the interest rate the investor will earn (which is the interest rate you'll pay minus the monthly loan servicing fee that investors pay), information taken from your credit report, such as delinquencies, public records and total number of credit accounts, and other information that could help investors make a lending decision.

All three P2P lending sites confirmed that a borrower's real name and other identifying, contact or employer information is never shared on the site. Borrowers and lenders use screen names or member numbers to protect their true

See "P2P Survey" on page 2

Breaking barriers to credit

By Ruth Susswein

Borrowing has become more difficult in recent years. Many lenders have tightened their purse strings, making it a challenge for even consumers with a decent credit history to qualify for a traditional bank loan. At the same time, a good credit score remains as important as ever, not just for borrowing power, but to rent an apartment, buy insurance, get utility and wireless service, and even to qualify for certain jobs. As a result, consumers increasingly are taking advantage of alternatives to mainstream credit, turning to peer-lending and credit-builder programs to help them achieve their goals.

Peer-to-peer lending sites

Long before there were banks, credit card companies and other formalized lending institutions, someone who needed money was likely to go to family members, friends or other personal contacts for a loan. Thanks to the Internet, person-to-person lending—also known as peer-to-peer lending, P2P lending and social lending—is no longer limited to whom you know. P2P lending sites bring together borrowers and investors from across the U.S., marrying both parties' goals—for a fee.

There are three major peer-to-peer lending sites: Lending Club, Prosper and Peerform. Lending Club and Prosper are the most widely available to borrowers, both operating in more than 40 states. Peerform offers access to loans in only 13 states. (For details on each P2P site, see "Peer-to-Peer Lending Survey" above.)

P2P lending sites promote their services as an easier, faster and cheaper way to get the funds you need, and as a way for individual lenders to make a greater return on their money than they could elsewhere. Because P2P lending operates exclusively online, the companies have lower overhead and administrative costs than brick-and-mortar lending institutions. Lending Club says its best rate (6.78% APR) beats the national average rate (11.41%) for comparable bank loans by more than 4% (http://www.lendingclub.com/public/compare-borrower-rates.action). De-

See "Credit barriers" on page 4

New credit-builder resource

Consumer Action has created a webpage where you can locate and learn about credit-builder loan programs in your state. To view this and other resources on P2P and credit-builder loans go to http://bit.ly/credit_builder_directory.

We intend to update the page as we learn of new programs. Alert us to any credit-builder loan programs that are not included on our list. Email us at editor@consumer-action.org. ■

Mission possible

Lending circle tradition inspires innovative program

By Shaynah Jones

Establishing and building credit is never easy, but it can be particularly difficult for low- and moderate-income families and newcomers to the United States.

Mission Asset Fund (MAF) (www.missionassetfund.org), a non-profit organization headquartered in San Francisco's Mission District, is making it much easier for community members with no credit history or a low credit score to eventually qualify for the mainstream financial opportunities available only to consumers with good credit.

MAF's pioneering Cestas Populares program (www.lendingcircles.org) mirrors the "lending circles" formed in many cultures around the world, where groups of individuals pool their money and take turns receiving a loan from the pot.

MAF's circles consist of six to 12 people who agree on how much they will contribute to the fund and how long they'll take to pay back their loans. Typically, the repayment period is the same number of months as there are people in the group. Before any money is contributed, the group meets to receive financial training, get to know each other and build a sense of community and accountability. MAF credits this process with maintaining the program's 0% default rate.

Each group member takes his or her loan in turn (typically, equivalent to the sum of all members' contributions for one month).

Funding of the pool is ongoing, and

See "Lending circle" on page 4

Web Bonus: More online!

Find these stories at http://bit.ly/p2p_lending_survey:

Smoothing loans between family and friends Several web-based services offer tools to facilitate direct P2P lending.

P2P loan or credit card? Consumer Action offers tips and advice to help you compare credit card borrowing and P2P loans.

Funded by a crowd of supporters 'Crowdfunding' websites provide an exchange for people or groups to attract individual donations for a project, business, need or cause.

Consumer Action

www.consumer-action.org

Consumer Action has been a champion of underrepresented consumers nationwide since 1971. A non-profit 501(c)3 organization, Consumer Action focuses on financial education that empowers low- to moderate-income and limited-English-speaking consumers to financially prosper.

By providing financial education materials in multiple languages, a free national hotline and ongoing financial services research, Consumer Action helps consumers assert their rights in the marketplace and make financially savvy choices.

Advice and referral hotline

Submit consumer complaints about consumer problems to our hotline:

hotline@consumer-action.org

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P2P Survey

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identities.

All three sites allow you to personalize your listing.

The listing will stay active until either it is fully funded or the 14-day listing period ends. If your listing does not receive at least the minimum required level of funding within the listing period, the listing will expire and no loan will be made. If you want to try again, you can create a new listing. Prosper borrowers have the option to accept the loan with 70% or more of funding. Lending Club and Peerform will issue the loan if it is at least 60% funded (and at least $1,000) unless you notify them in writing of your desire to withdraw your loan request before the listing expires.

Once your listing is funded, the money will be deposited directly into your bank account within a few days. You can cancel your loan during the listing period without penalty, but once the loan is made to you, you do not have any right to rescind it. (You could, of course, repay the entire loan immediately, but you would be out the origination fee and any interest between the time you received the money and when you paid it all back. All three sites allow you to pay off your loan early without penalty.)

Loan limits and terms

Each P2P lending site assigns the applicant a grade on the company's proprietary creditworthiness scale. While the exact formula differs among P2P lenders, all take into consideration factors that help estimate the loan application's level of risk—for example, credit score, employment status, income, number of open accounts and length of credit history. The borrower's grade determines the maximum loan amount, the term (length of repayment period) and the pricing (interest rate and origination fee) the borrower qualifies for.

Peerform loans range from $1,000 to $25,000 and must be repaid within three years.

Prosper has the same loan limit ($25,000), but has a higher minimum loan requirement at $2,000. It also offers the most term options—loans can be for one year, three years or five years. However, not all borrowers will qualify for the maximum loan amount or their choice of repayment term. An A rating allows loans up to the maximum $25,000 and the choice of one-, three- and five-year terms. B, C and D ratings still have a choice of term length but the loan cannot exceed $15,000. E-rated borrowers, too, have their choice of term length, but are limited to loans of $4,000 or less. An HR (high risk) rating limits you to a loan of $4,000 or less and a mandatory three-year term.

Lending Club offers the highest loan limit at $35,000 ($1,000 minimum). Loans for $15,975 or less must be repaid within three years, while loans above that amount qualify for a three-year or five-year term.

You may be able to get a lower interest rate by reducing the loan term. For example, Prosper charges a higher rate for E borrowers with a 5-year loan (33.04%) than for HR borrowers with a 3-year loan (31.77%).

Interest rates

Interest rates are based on the loan grade assigned by the P2P company. The rate quotes in this story were all taken from the P2P websites on the same day, April 30, but are subject to change.

Lending Club assigns grades of A1 through G5, with rates ranging from 6.03% (6.78% APR on a three-year loan) for an A1-rated loan to 24.89% (27.99% APR on a three-year loan) for a G5-rated loan. APRs include the loan origination/closing fee (see next section for more information).

Peerform's scale ranges from AAA to G, with interest rates on three-year loans increasing from 6.33% (6.54% APR) to 25.51% (29.83% APR).

Prosper's grades range from AA through E, and then HR (high risk). Prosper's interest rates range from 5.65% (6.59% APR) on a one-year loan for AA-rated borrowers who have had one or more previous Prosper loans (repeat borrowers may qualify for discounted rates) to 31.77% (35.80% APR) on a three-year loan for HR-rated borrowers with no previous Prosper loans.

You may be able to get a lower interest rate by reducing the loan amount. For example, Lending Club assigns each grade an upper loan limit. If you request a loan above that limit, you'll be penalized with a lower grade and, therefore, a higher interest rate.

The initial application process on all three P2P lending sites takes just a few minutes. After you plug in some personal data (name, address, birth date, etc.) plus info about the loan (amount, term and purpose), the P2P company pulls your credit report and you receive a rate quote. That rate won't change between application and listing. According to all three companies, having your credit report pulled for a rate quote is a "soft" inquiry," meaning it will not affect your credit score.

All three P2P companies offer live assistance via a toll-free number.

P2P fees

Origination/closing fees. None of the P2P companies asks for a listing fee. However, all three charge a one-time fee when the loan is funded—Lending Club and Peerform call it an origination fee, while Prosper calls it a closing fee. The fee is a percentage of the loan amount, and depends on the loan grade.

Lending Club's origination fee ranges from 1.11% for A1-rated loans with a three-year term to 5% for B- through G-rated loans with a five-year term.

Peerform's lowest origination fee is .31%, for AAA-rated loans. The company's highest origination fee is 5.50%, for loans rated E or below (F and G).

Prosper charges AA-rated borrowers with a one-year term .50%. All five-year loans have a closing fee of 4.95%, as do three-year loans for borrowers rated B through HR.

The origination/closing fee is subtracted from the loan amount before the money is deposited in your account. For example, if you request a $3,000 loan and there is a 4% origination or closing fee, you will receive only $2,880, but you will repay the full $3,000. If you need a set amount, add the potential fee on top.

Check processing fees. Loan payments are made to the P2P company, which deducts the lenders' service fee before disbursing the funds to them.

All three companies charge a $15 fee if you elect to make your payments by check. There is no fee for ACH payments (automatic debit from a bank account).

Peer-to-peer loan primer

By Michelle De Mooy

Though they may seem more informal than a traditional bank loan, P2P loan agreements are legally binding contracts that carry many of the same consequences for late and missed payments.

How do P2P lending companies assess the ability of the borrower to repay the loan?

While there are many factors that lenders consider when assessing the ability of a borrower to repay a loan, credit score carries the greatest weight. Another important factor is debt-to-income ratio. A high ratio (a lot of debt in relation to your income) counts against borrowers.

Lenders also look at other credit report information such as length of credit history, amount of debt and public records. Employment history and income are factors in the loan underwriting process.

Regardless of lenders' criteria, never borrow more than you can comfortably repay at the given terms. Failing to make payments will open you to fees and hurt your credit. Use the calculators at LoansCalculator.org to figure monthly payments for any personal loan amount, loan term and interest rate.

What if I don't have enough money in my checking account when the loan auto-deduction is made?

If the money's not there when the auto-deduction is made, you'll be charged an unsuccessful payment fee of $15. Prosper charges one of these per payment period, while Lending Club and Peerform charge a separate fee for each failed attempt to collect the payment.

Your financial institution also will charge you an overdraft fee. The fee will be lower if you have signed up for an overdraft protection plan in which funds are transferred from your savings account or a linked credit line at your bank.

What are the consequences if I make my P2P loan payment late?

If your payment is more than 15 days late, all three lenders charge late fees of either 5% of the outstanding payment or $15, whichever is greater. The fee is charged only once per payment period.

What are the consequences if I miss one or more loan payments entirely?

If you miss one payment, you will be charged a late fee and, if an auto-deduction attempt failed, at least one unsuccessful payment fee.

You will continue to accrue late fees each month that you miss a payment and eventually the delinquent loan will be noted on your credit report. Eventually, your account would be sent to collections and be subject to additional fees and interest. Ultimately, you could be sued and it's possible that your wages could be garnished if you lost the lawsuit.

What can I do if I can't make P2P loan payments because of a job loss or medical emergency?

If you have experienced a major life crisis, contact the P2P lending company directly to explain the situation and discuss your options. Like banks, P2P lenders have some discretion when it comes to how to treat late or missed payments, which means they can decide on a case-by-case basis. They might be willing to suspend their collection process long enough (say, 30 days) for you to get your finances together. However, this is not written into any of the P2P lending companies' terms of service.

If you can't get back on track, your outstanding debt, including late and other fees, would be sent to collections. You may be hounded by debt collectors, or even sued. If you lose the lawsuit, your wages could be garnished by court order.

What laws and regulations govern how delinquent borrowers are treated?

All lenders must comply with federal credit and lending laws, including the Fair Credit Reporting Act (FCRA) and the Fair Debt Collection Practices Act (FDCPA). Under the FCRA, the lender must report accurate loan payment information. The FDCPA governs debt collectors' activities, including limiting how they communicate with delinquent borrowers, forbidding any harassing or threatening language or behavior and requiring proof of the debt.

Lenders must also comply with the laws of the states in which they do business and where the lender's bank is chartered. Many states have their own debt collection laws. State law typically supersedes federal law when it provides greater protections for consumers.

Complaints regarding debt collectors should be made to your state Attorney General's office (www.naag.org) and the Federal Trade Commission (www.ftc.gov). Staff at the AG's office can help you determine your rights. To learn more about debt collection and other credit-related issues, visit www.ftc.gov/credit. ■

Consumer Action's Peer-to-Peer (P2P) Lending Survey

Data (interest rates and fees) were recorded on April 30. Consumer Action's 2012 P2P lending site survey was conducted by Shaynah Jones and coordinated by Monica Steinisch. **Note:** You are prohibited from using Consumer Action's name or any reference to its surveys in advertising or for any other commercial purpose. ■

	Lending Club (lendingclub.com)	Peerform (peerform.com)	Prosper (prosper.com)
State availability	Available to borrowers in all states except Iowa, Idaho, Indiana, Maine, Mississippi, North Dakota, Nebraska and Tennessee	Available to borrowers in 13 states: Arizona, California, Connecticut, Florida, Georgia, Illinois, Louisiana, Maryland, Michigan, Missouri, Ohio, Virginia and Washington	Available to borrowers in all states except Iowa, Maine and North Dakota
Borrower eligibility	U.S. citizen or permanent resident and at least 18 years old with a bank account and a Social Security number	U.S. citizen or permanent resident and at least 18 years old with a bank account and a Social Security number	U.S. citizen or permanent resident and at least 18 years old with a bank account and a Social Security number
Minimum credit score	660	660	640 (600 for repeat borrowers who meet criteria)
Loan amount and term options	$1,000 to $35,000 with 3- and 5-year terms (loans of $15,975 or less only available with a 3-year term)	$1,000 to $25,000 with 3-year term on all loans	$2,000 to $25,000 with 1-, 3- and 5-year terms (term options depend on Prosper grade and loan amount)
Interest rate range	6.03% for A1 rating (6.78% APR on 3-year loan) to 24.89% for G5 rating (27.99% APR on 3-year loan)	6.33% (6.54% APR) for AAA rating to 25.51 (29.83% APR) for G rating	5.65% (6.59% APR) for AA rating (1-year term and one or more previous Prosper loans) to 33.04% (35.84% APR) for E rating (5-year term and no previous Prosper loans)
Origination/ closing fee	Ranges from 1.11% of loan amount for A1-rated loans with 3-year term to 5% for B- through G-rated loans with 5-year term	Lowest is .31% of loan amount for AAA-rated loans; highest is 5.50% for loans rated E or below (F and G)	Ranges from .5% of loan amount for AA-rated loans with 1-year term to 4.95% for all 5-year terms and also for B- through HR-rated loans with 3-year terms
Check processing fee	$15 for payments made by check; no charge for automatic account withdrawal (ACH)	$15 for payments made by check; no charge for automatic account withdrawal (ACH)	$15 for payments made by check; no charge for automatic account withdrawal (ACH)
Late payment fee	5.00% of the unpaid installment amount or $15, whichever is greater (may be charged only once per late payment); when payment is late after 15-day grace period, fee is charged on 16th day; fee is passed on to investors	5.00% of the unpaid installment amount or $15, whichever is greater (may be charged only once per late payment); when payment is late after 15-day grace period, fee is charged on 16th day; fee is passed on to investors	5.00% of the unpaid installment amount or $15, whichever is greater (may be charged only once per late payment); when payment is late after 15-day grace period, fee is charged on 16th day; fee is passed on to investors
Unsuccessful payment fee	$15. A separate fee may be assessed for each failed attempt to collect the monthly payment.	$15. A separate fee may be assessed for each failed attempt to collect the monthly payment.	$15. Only one failed payment fee will be charged per payment period.
Reports to	Equifax, Experian, TransUnion	TransUnion	Experian, TransUnion

Late fees. All three P2P companies assess a late payment fee of $15 or 5% of the missed installment amount, whichever is greater.

Late fees are charged only once per late payment, when the payment is 15 days late. This fee is passed on to investors.

Failed payment fees. All three P2P companies assess a failed, or unsuccessful, payment fee of $15.

A failed payment occurs when there are insufficient funds in the account or the account has been closed. Lending Club and Peerform charge a separate fee for each failed attempt to collect the monthly payment. Prosper charges only one failed payment fee per payment period.

These fees apply unless your state caps late fees at a lesser amount.

Lending Club reports your account activity to all three of the major credit bureaus. Peerform reports only to TransUnion. And Prosper reports to Experian and TransUnion. Late or missed payments may damage your credit score and make it more difficult to get a loan in the future. Serious delinquency could result in your account being sent to collections.

(See "Peer to peer loan primer" below left for more about your options, rights and potential consequences when you can't make your P2P loan payments.)

Send any comments about this survey to editor@consumer-action.org. ■

Tips for P2P borrowers

By Monica Steinisch

Before applying for a P2P loan, check out these tips for getting your application approved, your interest rate reduced and your loan funded.

Get more than one P2P loan quote. Since each P2P lending site uses a unique grading formula and a different interest rate range, it's unlikely you'd get the same rate quote from any two. The origination/closing fee is likely to differ too, which could be significant on larger loans.

Tweak the loan amount to reduce your interest rate. In an example posted on SocialLending.net, a "B2-rated" loan request (the seventh grade on a 35-grade scale, so considered relatively low risk) for $15,000 on Lending Club was quoted an interest rate of 13.49%. By reducing the loan amount by just $25, to $14,975, the loan grade changed and the interest rate dropped to 12.42%. Each site makes it easy to see how your costs would change with a different loan term or amount.

Consider a shorter loan term to reduce your interest rate. For example, the rate on a three-year AA-rated loan for someone who has had one or more previous loans with Prosper is 6.49%; it's 9.76% for a five-year term.* Since reducing the repayment period by as much as two years can significantly increase the monthly payment even at a lower interest rate, this won't be an option for every borrower. *(*Rates were found on Prosper.com on April 30, 2012.)*

Factor the origination fee into your loan amount. If you need the loan to pay a particular bill or to purchase something specific, ask for enough to cover that cost and the fee. For example, if you request a $3,000 loan and there's a 4% origination or closing fee, you will receive only $2,880—in this example, you'd have to borrow $3,125 to walk away with the full $3,000.

Respond promptly to requests for information. The P2P lending site may request additional information to verify your identity, income, employment, etc. If Lending Club doesn't receive a response within three business days, your loan listing could be cancelled. Peerform allows prospective investors to ask borrowers questions. A delayed, partial or vague response could be taken as a sign that you may be financially irresponsible.

Make a strong case for your loan. All three P2P lending sites enable borrowers to personalize their loan listing, personal profile or posted responses in some way. Take advantage of every opportunity to make a compelling case for why you are a good candidate for the loan. Make sure your writing is clear, concise and correct—use spellcheck and be careful about typos.

Promote your loan listing. Prosper encourages borrowers to try to get at least some of their funding from friends and family—it's reassuring to prospective investors if the people who know you best are willing to put their money behind you. Prosper friends who fund your loan can also write a recommendation for you.

Don't shop for credit in the six months before applying for a P2P loan. Lending Club will decline loan requests for applicants with credit scores 740 and higher that have more than eight inquiries in the last six months or for applicants with credit scores below 740 that have more than three inquiries. ■

Finding a credit-builder loan program

By Shaynah Jones

Finding a loan program that will help you establish credit or improve a low credit score can be challenging—there are a limited number of programs and they may not promote their services widely. Start your search by checking Consumer Action's online state-by-state credit-builder loan program directory (http://bit.ly/LDftiQ).

If you don't see a program that serves your region, follow these tips to check if a program exists in your area. (If you find one, please send the information to editor@consumer-action.org so that we can add the program to our list.)

- Contact a local community service organization that provides financial services to low-income individuals—many loan programs will promote their services here first. Ask community banks and local credit unions (see below) if they have credit-builder programs.
- Contact a program like Mission Asset Fund (MAF) (www.missionassetfund.org) to find out if there is an affiliated program being offered in your area. Even if there isn't, letting MAF know there is demand for the services in a particular area can help to get a new lending circle program started. *(See "Mission possible" on page 1.)*
- If you're a member of a credit union, ask about credit-builder loans or similar products and services that could help you establish or build credit. According to CUNA, the Credit Union National Association, nearly 15% of credit unions offer credit-builder programs. One such program places the money you borrow in a savings account you open. As you make regular payments on the loan, the credit union reports your account activity to the credit bureau and you build a positive credit history. After you have repaid the loan in full, the money in the savings account is yours to use as you please. If you don't already belong to a credit union, find one at ASmarterChoice.org (www.asmarterchoice.org) or call 800-358-5710. Some banks also offer credit-builder loans.
- Search online for sites and stories that highlight lending circles and other credit-builder programs. Organizations that offer such programs have been the subject of many articles.
- Keep your eyes and ears open for news of credit-builder programs in local newspapers and on in-language radio and television. But before responding to any loan program announcement, investigate it. Contact a local credit union, the Better Business Bureau (http://www.bbb.org/us/Find-Business-Reviews/), a local consumer protection agency or other trusted organization to inquire about the program. Legitimate credit-builder programs will be known to respected community service organizations—and they won't charge high fees. ■

Lending circle

Continued from page 1

collected from all members via automatic withdrawals from their bank accounts. They are, in essence, making monthly loan payments even if they haven't yet had their turn at receiving the loan. These payments are reported to Experian and TransUnion, helping participants build credit. According to MAF statistics, its lending circle participants see an average increase of 49 points in their credit scores after just six months.

The only requirements for participation in the MAF program are a government ID, a checking account, proof of household income and a Social Security or taxpayer ID number. There are no credit requirements, program fees or interest payments on the loans. However, participants who are late with a payment face a $10 late fee. They have 30 days to make the payment before a missed payment is reported to the credit bureaus. If a participant has to leave the circle because they're unable to make the monthly payments, MAF secures the loan. In other words, the organization covers the payments (thanks to a grant from Citibank) so that no other circle participant loses money.

The loans can be used for any purpose—past participants have used them for car payments, rent and to repay other outstanding loans or bills. All together, MAF has processed over $1 million in loans since it opened in 2007.

Now the organization is working on replicating its Cestas Populares model in other communities. MAF will soon serve more neighborhoods within San Francisco and in other parts of California and will expand into Nevada with support from Charles Schwab Bank and Wells Fargo. It will employ a grant from the Northwest Area Foundation to help establish lending circle programs in five communities within the Foundation's region (Idaho, Iowa, Minnesota, Montana, North Dakota, Oregon, South Dakota and Washington).

"Even the poorest communities are rich in social capital," said Jose Quinonez, MAF's founding executive director. "We're bringing lending circles to different communities to turn social wealth into financial stability."

MAF also offers matched savings accounts and other services to help eliminate barriers to financial security. ■

Credit barriers

Continued from page 1

spite touting easier access, the loans are not available to consumers without an established credit history—all three P2P companies require a credit score in the mid-600s. They also require borrowers to be U.S. citizens or permanent residents and at least 18 years old, and to have a Social Security number and an account at a financial institution.

Borrowers complete an online loan application that takes about five to ten minutes. If you meet the P2P company's minimum qualifications, you get an instant rate quote based on information you've provided and your credit score. (You grant the P2P permission to pull your credit report when you fill out the application.) You can adjust your loan amount and, in some cases, the term (repayment period) to see how your rate and payment would change. Once you select the loan amount and term, you create your loan listing. The listing will be posted for prospective investors to view. Meanwhile, the P2P company may verify information you have provided.

Your listing contains information for investors, such as the loan amount and term, the interest rate, the purpose of the loan, your credit score and other data to help investors decide whether the loan's a good bet. You make a case for why you are a good candidate for the loan, and investors decide whether to lend to you.

Any one lender can fund your entire loan, or can lend as little as $25. If the loan is fully funded—or, in some cases, even if it is partially funded—the money is deposited into your bank account.

From online application to receiving the loan money in your account, the entire P2P lending process can take as little as five days. Much depends on how quickly you submit required documents and how quickly individual investors decide to fund your loan. Of course, the loan might *not* get funded, in which case it will expire after 14 days. You can always try again.

All three sites offer fixed-rate loans that can be used for nearly any purpose other than post-secondary education expenses. The most common use for a P2P loan is paying off more expensive debts, like high-rate credit cards. Other uses range from financing a car or making home repairs to starting a business or paying for a wedding.

The loans are paid off through equal monthly payments to the P2P lending company over a one-, three- or five-year term. Borrowers pay an origination fee to the company (up to 5.5% of the loan amount), and interest, as you would on any loan. Investors pay the P2P site a 1% loan servicing fee.

P2P loan interest rates range from about 6% to 35% depending on a borrower's credit score, the amount borrowed and the length of the loan, among other factors. *(See the chart on page 3.)*

Community-based programs

Since a strong credit history is so important to financial prosperity, some non-profit organizations offer special loan programs that enable people with credit problems, or who are new to the U.S. credit system, to borrow and build a credit history.

Credit-builder loan programs are designed to help community members achieve financial security and prosperity. What makes these loans different is the emphasis on building credit over simply borrowing money.

Consumers who use credit-builder loans can see their credit scores improve dramatically in a short time with on-time monthly payments reported regularly to at least one of the three major credit bureaus. For example, Mission Asset Fund reports an average credit score increase of 49 points after just six months of participating in one of its lending circles. *(See "Mission possible" on page 1.)*

Credit-builder loan programs generally fall into two categories: loans made by non-profit organizations, often with support from corporations or foundations, and "lending circles," where loan funds come from the participants themselves.

Organizational loans. Direct credit-builder loans do not require group participation the way a lending circle does, and they don't require borrowers to contribute their own money to the loan fund, though they may require contributions to a savings account and participation in money management classes. They are generally small, short-term loans that require no collateral and no minimum credit score—in some cases, they require that participants have no credit history or have damaged credit. They report to at least one of the three major credit bureaus.

There is typically a residency requirement—borrowers must live in the area the organization serves—and there may be identification or documentation requirements as well. As of yet, there is no single non-profit credit-builder loan program that is open to borrowers nationwide. Many of the programs are structured for entrepreneurs and require the loan funds to be used to establish or expand a small business.

Lending circles. In lending circles, which typically are administered by community non-profits, a group of six to 12 people contribute money each period—say, monthly or biweekly—to allow one member at a time to take a loan and help all members build credit. In formal lending circles, members' monthly contributions are treated as loan payments and reported to at least one of the major credit bureaus.

Right now there are not many formal lending circles in the U.S., but existing programs are expanding into new areas. *(See article at top left.)*

Secured credit cards

Consumers also can establish a good credit history is by opening a secured credit card, which is a credit card backed by money you deposit with the issuer. Typically, your credit line equals the amount you deposit. A secured card offers immediate access to a credit line, which is not the case with all credit-builder loan programs. Secured card issuers regularly report your payment history to major credit bureaus.

Read Consumer Action's secured card survey and newsletter (http://bit.ly/JfQk9D) for more information. ■

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