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)—enabled unqualified 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.

Marketeted 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—those 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), fixed-rate loans using 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 specific uses for the money that are forbidden—from funding a pawn shop or taxi service to financing a furniture store or a home reservation service—but it is unlikely that these restrictions would preclude many borrowers.)

None of the three P2P 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 identities.

Breaking barriers to credit

By Beth Sasuewia

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, more and more consumers increasingly are taking advantage of alternative sites to mainstream credit, turning to peer-lending and credit-building 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, personal-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 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% (www.lendingclub.com/publi c/compare-borrower-rates.action). De-

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.mission assetfund.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 Cesaras Populares program (www.lendingcircles.org) mimics 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

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.

See “Mission possible” on page 2

See “Breaking barriers to credit” on page 4

See “New credit-builder resource” on page 4

See “Credit barriers” on page 4

See “Lending circle tradition inspires innovative program” on page 4

See “Peer-to-Peer Lending Survey” on page 2

See “Mission possible” on page 2

See “Lending circle tradition inspires innovative program” on page 4

See “Breaking barriers to credit” on page 4

See “Web Bonus: More online!” on page 4

See “Peer-to-Peer Lending Survey” on page 2
**Consumer Action**

**www.consumer-action.org**

Consumer Action has been a champion of consumers’ rights and interests nationwide since 1971. A non-profit, non-partisan organization, Consumer Action focuses on financial education and promotes the rights of consumers to be financially prudent, informed, and savvy choices.

**Tips for P2P borrowers**

By Monica Steinick

Before applying for a P2P loan, check out these tips for getting a better interest rate, faster approval, and better terms.

What are my options if I can’t make loan payments on time or am medically emergency?

If you are out of work due to job loss or medical emergency, you should contact your lender. The federal government has created an emergency loan modification program which may allow you to make one payment and be current on your payments. Lenders must also modify the terms of the loan during the time the borrower is unemployed.

What are the consequences if I miss a P2P loan payment?

Generally speaking, it means late fees and penalties accumulate. The interest rate may also increase. You may also be charged a late fee if you do not make the required payment on time. The interest rate may also increase and your credit score may also be affected. If you are late with your payments, your credit score will be affected. If you are consistently late, your credit score may also be affected. If you are consistently late, your credit score may also be affected.

What do I do if I think my P2P loan is too high or too low?

You can contact your lender to discuss your loan terms and conditions. You can also contact the Consumer Financial Protection Bureau (CFPB) to report your lender. You can also contact the Consumer Credit Counseling Service (CCCS) to find a local agency that can provide assistance.

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Finding a credit-builder loan program

By Shayna Jones

Finding a loan program that will help you build credit or improve a low credit score can be challenging, even if you are a limited number of programs and 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/DlFrRQ).

If you don’t see a program that serves your region, follow these tips to check if a program might be available. If you can’t 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. Ask for a community bank and local credit unions (see below) if they have credit-builder programs.

• Contact a program like Mission Asset Fund (MAF) (www.missions-assetfund.org) to find out if they or one of their affiliated programs is being offered in your area. Even if there isn’t, letting MAF know there is demand for the services in a region 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 products and services that could help you establish or build credit. According to CUNA, the Credit Union National Association, only 15% of credit unions offer credit-builder programs. One such program places the money you borrow in a savings account that you open. As you make regular payments on the loan, the credit union reports your activity to the credit bureau. 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 or call 1-800-359-5010.

• Keep your eyes and ears open for news of credit-builder programs in local newspapers and on in-language radio and television. Look for a program respond- ing to any loan program announce- ment, 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 orga- nizations—and they won’t charge high fees.

Lending circle

Continued from page 1

Finding a credit-builder loan program

Credit barriers

Continued from page 1

The loans can be used for any pur- pose—past participants have used them for car payments, rent, and to repay other high-rate credit cards. Other uses range from starting a small business to paying for a wedding.

Loans are paid off through equal monthly payments to the P2P lending circle 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 bor- rower’s credit score. In exchange for being built 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 about 49 points after just six months of partici- pating 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 of 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 participa- tion in money management classes. They are generally small, short-term loans that require no collateral and no minimum credit score. Some programs 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 require- ment—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. Instead, 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 com- munity non-profits, a group of up 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 con- tributions 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 by using a secured credit card, which is a credit card backed by money you deposit with the issuer. Typically, your credit line equals the amount of money you deposit. A secured card offers immediate access to a credit line, which is not the case with all credit- builder loan programs. Secured cards issuers report your payment history to major credit bureaus.

Read Consumer Action’s secured card survey and newsletter (http://bit.ly/BFF9D) for more information.