



## AN INTRODUCTION TO PEER-TO-PEER LENDING

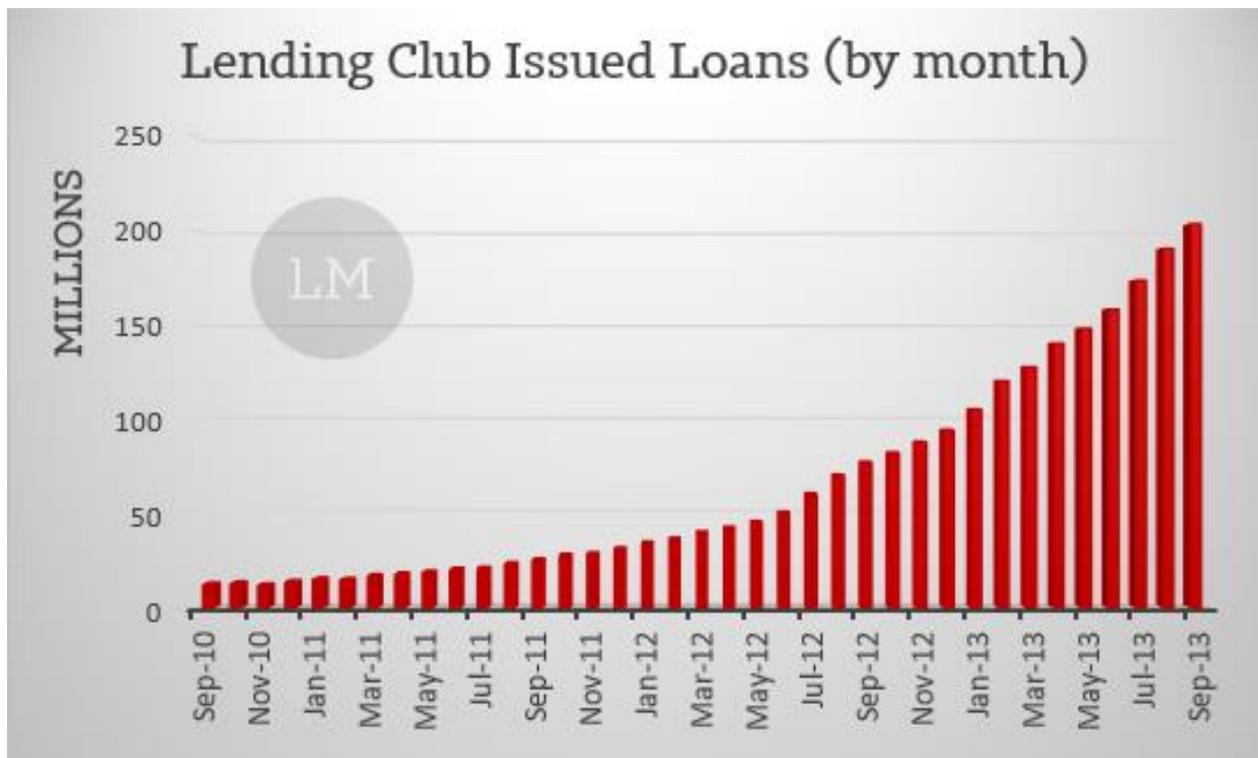
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### What is Peer-to-Peer Lending?

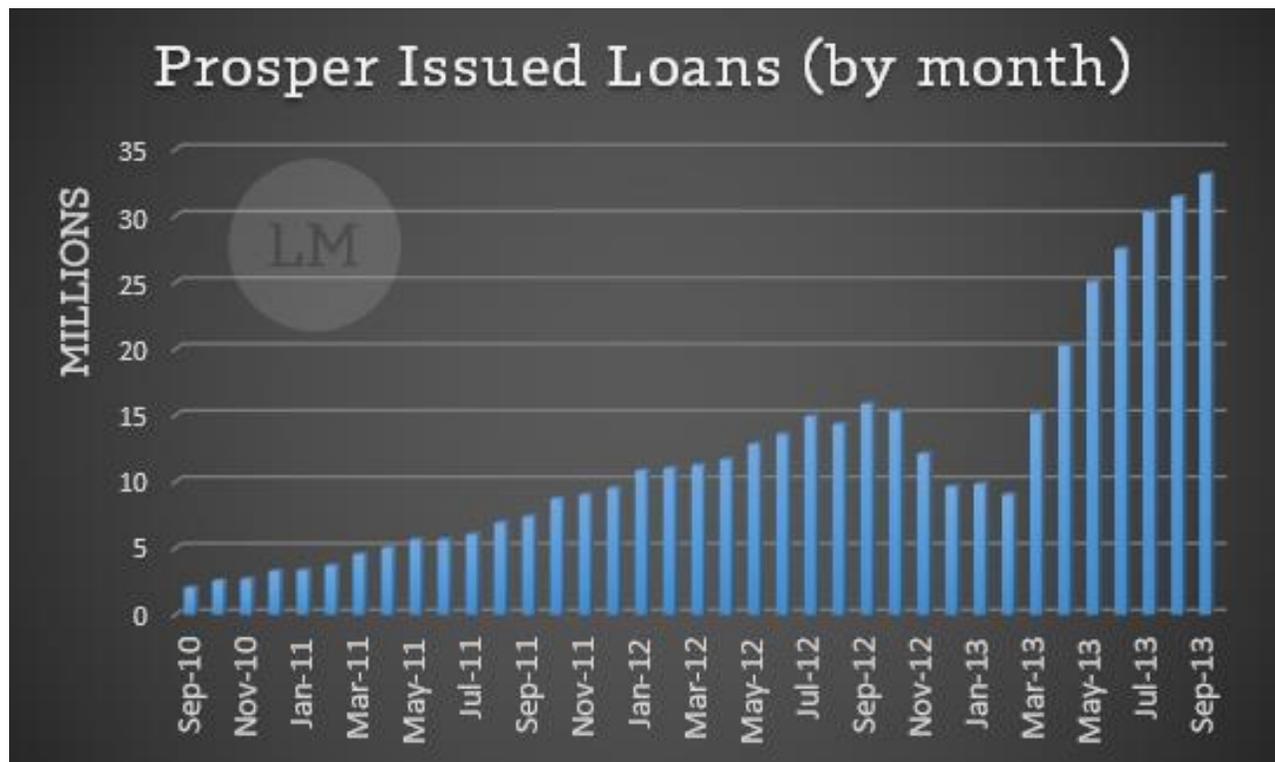
Put simply, *peer-to-peer lending is investing in people*. Many people are seeking to consolidate debts, start a business, or make home improvements. These are often short-term loans (3-5 years) and can pay good returns. There are a growing number of online market platforms that allow investors to make small loans to consumers. It is often a win-win scenario as borrowers pay a lower interest rate than with a typical credit card, and investors receive a higher interest rate than they receive with many other yield-producing assets, like a savings account or CD.

Two of the companies that I have personal experience with are [Prosper.com](http://Prosper.com) and [LendingClub.com](http://LendingClub.com). While there are some differences between these two lending platforms, they both operate in a very similar way. In fact, the high rate of return offered by loans through these companies have attracted major institutional investors, including hedge funds and wealth-management firms.

[LendingClub.com](http://LendingClub.com) – My personal favorite peer-to-peer lending platform is LendingClub.com. It is a fast-growing online peer-to-peer lending platform that offers plenty of creditworthy borrowers with very attractive interest rates. As you can see from the chart below, LendingClub has seen a dramatic increase in demand for its small loans.



[Prosper.com](http://Prosper.com) – To get started on Prosper.com, you simply select a borrower based upon your own criteria (creditworthiness, purpose of the loan, interest rate, etc.) and then fund the loan. And, just like a regular loan, or credit card, the borrower begins making monthly payments of principal and interest that show up in your bank account. Many people have used Prosper.com to create a passive income stream.



While both LendingClub and Prosper have a terrific track record, and require decent credit scores to qualify for a loan, I personally prefer LendingClub, as it seems to go the extra mile in vetting potential borrowers by using stringent credit criteria. 81.79% of LendingClub borrowers report using their loans to consolidate debt or pay off their credit cards. And based on the latest figures, a three-year B1 loan at LendingClub (for borrowers with FICO scores above 720) is generating 10% average annual interest rates for investors. So what's not to like?

But there are a few things you should know before making the leap into peer-to-peer lending.

- Defaults will occur and you could definitely lose money if someone fails to repay their loan. If that thought scares you, you should either avoid peer-to-peer lending, or only lend to borrowers with A-rated credit scores.
- Another way to prevent the negative effects of a default is by diversifying your investments across several different borrowers.
- You also should know that peer-to-peer lending is not available in all states. Currently, only 28 states support LendingClub and 31 states support Prosper.

Prosper is currently available to investors in the following states: Alaska, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New York, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

LendingClub is currently available to investors in the following states: CA, CO, CT, DE, FL, GA, HI, ID, IL, KY, LA, ME, MN, MO, MS, MT, NH, NV, NY, RI, SD, UT, VA, WA, WI, WV, and WY.

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