

# Lesson 7: Peer-to-Peer Lending

## Module 1: FinTech Fundamentals

Digital Finance

# P2P Lending Model

## Disintermediation

- Direct lender-borrower match
- Platform intermediation
- Lower cost structure
- Higher returns potential

## P2P Lending vs Traditional Banking

Traditional Bank	P2P Platform
<b>Intermediary:</b> Bank holds deposits, lends own capital	<b>Marketplace:</b> Connects borrowers directly to investors
<b>Cost structure:</b> Branches, staff, compliance overhead	<b>Cost structure:</b> Tech platform, lower overhead
<b>Interest spread:</b> 3-6% spread between deposit/loan rates	<b>Interest spread:</b> Platform takes 1-3% fee
<b>Approval time:</b> Days to weeks	<b>Approval time:</b> Minutes to hours (automated)
<b>Minimum loan:</b> Often \$5,000+	<b>Minimum loan:</b> \$1,000 or less

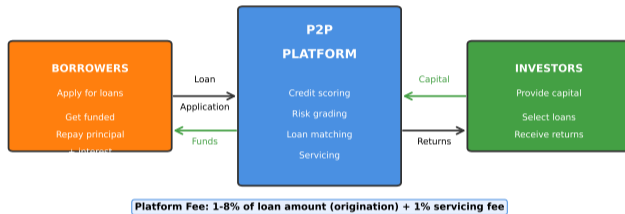
**P2P Value: Better rates for borrowers | Higher returns for investors | Faster decisions**

Typical Rates (2024):  
Bank personal loan: 10-24% APR  
P2P personal loan: 7-20% APR  
Bank savings: 4-5% APY  
P2P investor return: 5-10%  
Source: Bankrate, LendingClub

Source: bankrate.com, lendingclub.com (Rate Comparison)

**P2P removes bank intermediation—connecting lenders directly to borrowers via digital platforms.**

## P2P Lending Flow



Source: lendingclub.com, prosper.com (Fee Disclosures)

Platform handles credit scoring, matching, and collections—earning fees from both sides.

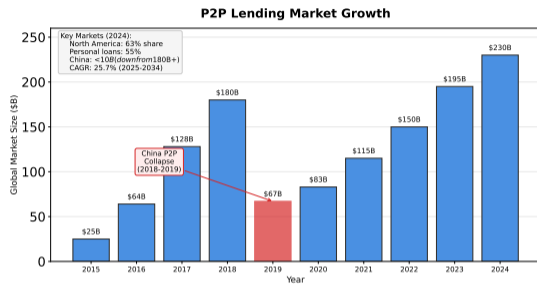
# Market Evolution

## Growth Trajectory

- 2005: Zopa launch (UK)
- 2007: LendingClub (US) WAS true before 2020; China's P2P market has completely collapsed<sup>a</sup>
- China: 80% market share

<sup>a</sup>Source:

<https://p2pmarketdata.com/articles/p2p-lending-history/>



Source: [imarcgroup.com/peer-to-peer-lending-market](https://www.imarcgroup.com/peer-to-peer-lending-market) (2024)

\$90-100B+ loans originated (LendingClub official site says \$100B+)<sup>1</sup>

Data sources: P2P Market Data 2024

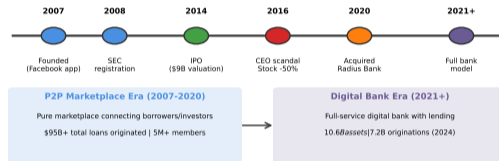
<sup>1</sup>Source: <https://www.lendingclub.com/resource-center/institutional-investing/loan-statistics>

# LendingClub Case Study

## US Market Leader

- Founded: 2007
- \$80B loans originated
- 2020: Bank acquisition
- Became regulated bank

## LendingClub Evolution: P2P to Bank



Source: [lendingclub.com](https://www.lendingclub.com) (Q4 2024 Results)

LendingClub originated \$80B in loans—then acquired Radius Bank in 2020 to become a full bank. [Source: Federal Reserve, ECB 2024]

## P2P Platform Unit Economics

(Per \$10,000 loan originated)

REVENUE			COSTS	
<b>Origination fee:</b>	3-5%	\$300-500	<b>Customer acquisition:</b>	\$150-300
<b>Servicing fee:</b>	1% annually	\$100/year	<b>Credit underwriting:-</b>	\$30-50
<b>Late fees:</b>	Variable	\$20-50	<b>Servicing costs:</b>	- \$50-100
<b>Investor fees:</b>	0-1%	\$0-100	<b>Default losses:</b>	3-8% \$300-800
<b>Total Revenue: \$420-750</b>			<b>Total Costs: \$530-1,250</b>	

Margin Analysis:  
Break-even requires: Low CAC + Low defaults + Scale  
Profitable loans: Prime borrowers, repeat customers  
Challenging: Subprime, high marketing spend

Source: [lendingclub.com/personal-loan/rates-fees](https://lendingclub.com/personal-loan/rates-fees), SEC 10-K (2024)

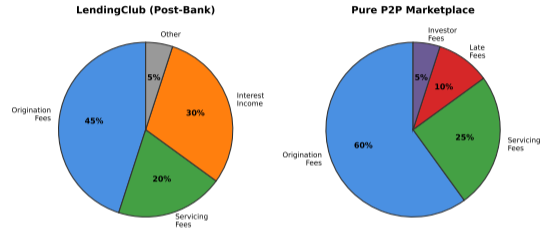
Pure marketplaces take no credit risk—revenue comes from fees, not interest margin.

# Revenue Structure

## Fee Types

- Origination: 1-6% borrower
- Servicing: 1% annual
- Late fees: \$15-35
- Institutional placement fees

## P2P Platform Revenue Breakdown



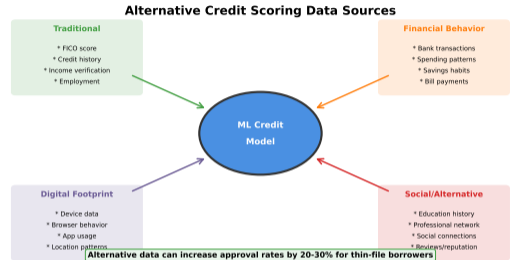
Source: LendingClub SEC 10-K filings, [last10k.com/sec-filings/](https://www.lendingclub.com/sec-filings/) (2024)

**Origination fees (1-6%) are primary revenue—annual servicing fees provide recurring income.**

# Alternative Credit Scoring

## Data Sources

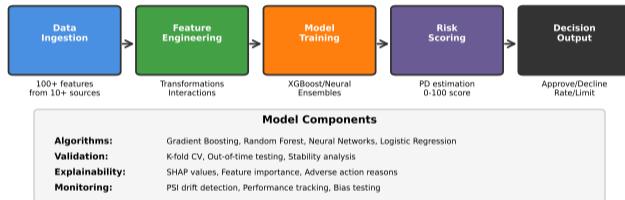
- Traditional FICO score
- Bank transaction data
- Social media footprint
- Education/employment



Source: [consumerfinance.gov](https://consumerfinance.gov), [finexplab.org](https://finexplab.org) (Alternative Credit Data)

**Alternative data (transactions, social, education) enables credit decisions for thin-file borrowers.**

## ML Credit Scoring Pipeline



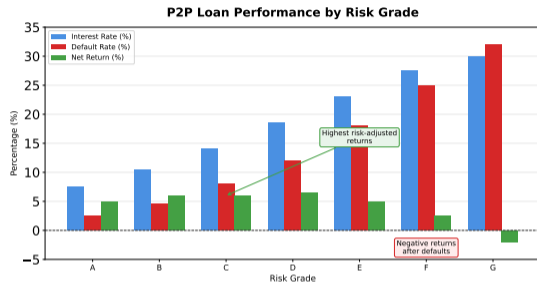
Source: [federalreserve.gov](https://www.federalreserve.gov), [consumerfinance.gov](https://www.consumerfinance.gov), [lendingclub.com](https://www.lendingclub.com) (ML Credit)

**ML models process 1000+ features—outperforming traditional scorecards on default prediction.**

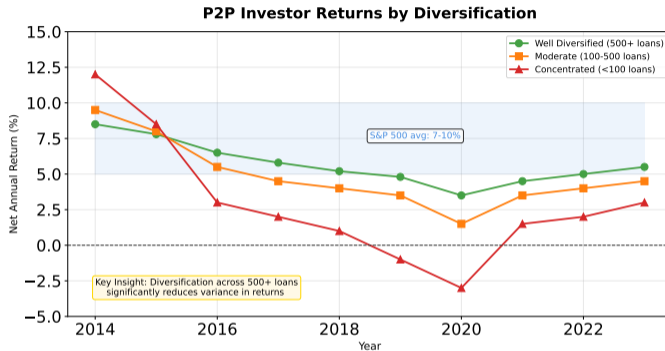
# Risk Grading System

## LendingClub Grades (A-G)

- Grade A: 7-9% APR
- Grade D: 18-22% APR
- Grade G: 28-31% APR
- Default rate correlation



**Grade A loans yield 7-9% APR with 2-3% defaults—Grade G hits 28-31% APR with 25-30% defaults.**



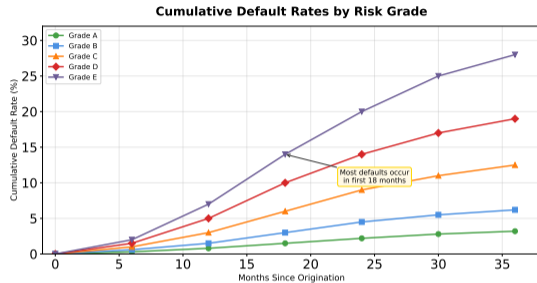
Source: lendingmemo.com, mooloo.net (illustrative patterns based on industry data)

Diversified P2P portfolios target 5-9% net returns—after accounting for defaults and fees.

# Default Rates by Grade

## Historical Performance

- Grade A: 2-3% default
- Grade C: 8-12% default
- Grade F: 25-30% default
- Economic cycle sensitivity



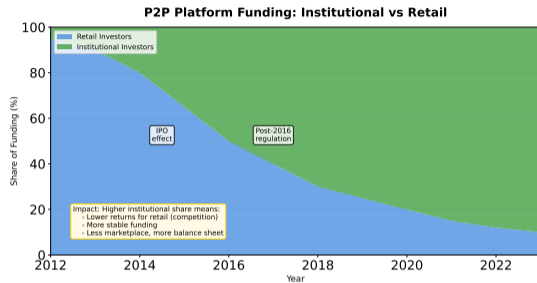
Source: i:lendingclub.com (Q4 2024), lendingmemo.com (illustrative patterns)

Default rates highly correlated with grade—economic downturns can double baseline defaults.

# Institutional Dominance

## From P2P to Marketplace

- 2010: 100% retail investors
- 2023: 90% institutional
- Hedge funds, banks enter
- “Peer-to-peer” misnomer



Source: [lendingclub.com, sec.gov \(P2P-SEC-Filings\)](https://lendingclub.com/sec.gov/P2P-SEC-Filings/)

**Institutional investors now fund 90% of loans—“peer-to-peer” has become a misnomer. [Source: P2P Market Data 2024]**

## P2P Lending Regulatory Landscape



**Global Trend: Moving from self-regulation to formal licensing and capital requirements**

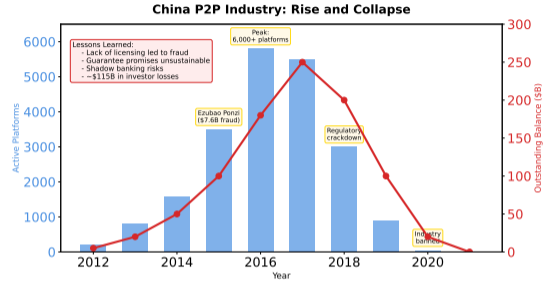
Source: [fca.org.uk](http://fca.org.uk), [sec.gov](http://sec.gov), [eur-lex.europa.eu](http://eur-lex.europa.eu) (ECSP 2020/1503)

US requires SEC registration; UK has FCA authorization—global regulatory approaches vary widely.

# China P2P Collapse

## Boom and Bust

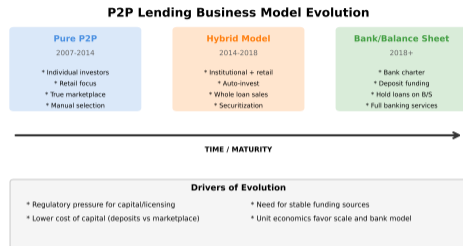
- 2015: 3,500 platforms
- 2023: Zero platforms
- \$128B investor losses
- Mass fraud, Ponzi schemes



China's P2P industry collapsed entirely—3,500 platforms to zero, with \$128B investor losses. [Source: P2P Market Data 2024]

## Platform Strategies

- Balance sheet lending
- Bank partnerships
- Acquisition by banks
- Regulatory arbitrage ends



Source: jbs.cam.ac.uk (CCAF), sec.gov, fca.org.uk

Many platforms now use balance sheet lending or seek bank charters—regulatory arbitrage ended.

# SME Lending Platforms

## Business Lending

- Funding Circle (UK)
- Invoice financing
- Faster approval (24-48h)
- 8-15% interest rates

## SME P2P Lending Landscape



Source: [smefinanceforum.org](http://smefinanceforum.org), [ifc.org](http://ifc.org) (SME Finance)

SME platforms like Funding Circle offer 24-48h approval—filling gaps left by traditional banks.

## Market Consolidation

- Regulatory convergence
- Bank integration
- Embedded lending
- Open banking data leverage

## P2P Lending: Future Scenarios

### Bank Convergence

Probability: High

- \* P2P platforms become banks
- \* Deposit funding model
- \* Full financial services
- \* Example: LendingClub

### Embedded Lending

Probability: High

- \* BaaS/API infrastructure
- \* White-label solutions
- \* BNPL integration
- \* Platform partnerships

### DeFi Integration

Probability: Medium

- \* Tokenized loan assets
- \* Smart contract lending
- \* Global liquidity pools
- \* Regulatory challenges

### Key Trends Shaping the Future

- \* A/ML risk assessment becoming standard
- \* Regulatory frameworks maturing globally
- \* Open Banking enabling new data sources
- \* Consolidation of smaller platforms

Source: lendingclub.com, cbinsights.com (P2P Scenarios)

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**Future lies in embedded lending and open banking data—standalone P2P is converging with banks.**

## Key Takeaways

- **Model:** Direct matching reduces intermediation costs
- **Evolution:** P2P became institutional marketplace lending
- **Scoring:** Alternative data improves credit decisions
- **Returns:** 5-9% investor returns with default risk
- **Regulation:** Increased oversight, bank convergence

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P2P disrupted lending but is now converging with traditional banking—technology persists, pure model fades.