

## 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

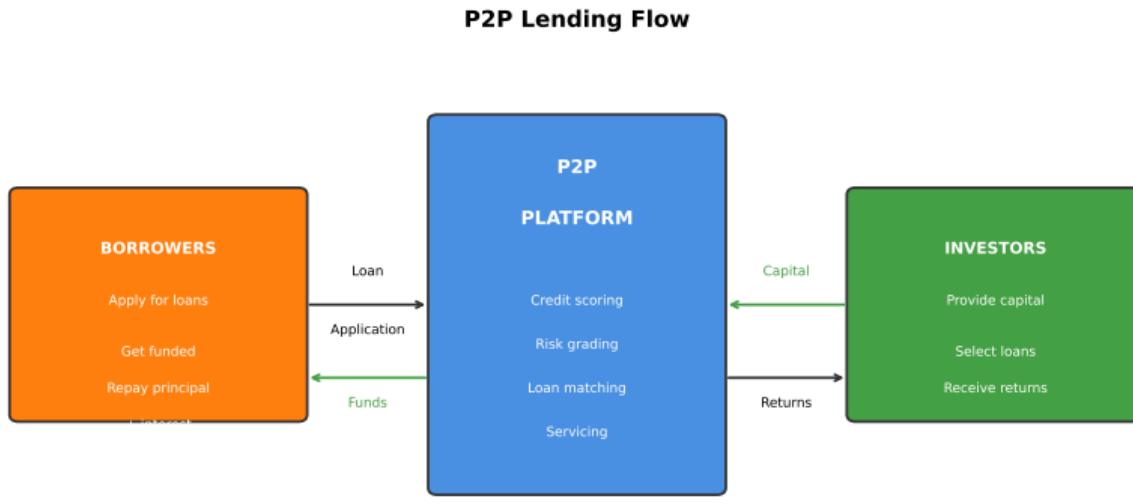
Traditional Bank	
Intermediary:	Bank holds deposits, lends own capital
Cost structure:	Branches, staff, compliance overhead
Interest spread:	3-6% spread between deposit/loan rates
Approval time:	Days to weeks
Minimum loan:	Often \$5,000+

P2P Platform	
Marketplace:	Connects borrowers directly to investors
Cost structure:	Tech platform, lower overhead
Interest spread:	Platform takes 1-3% fee
Approval time:	Minutes to hours (automated)
Minimum loan:	\$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

# P2P Lending Flow

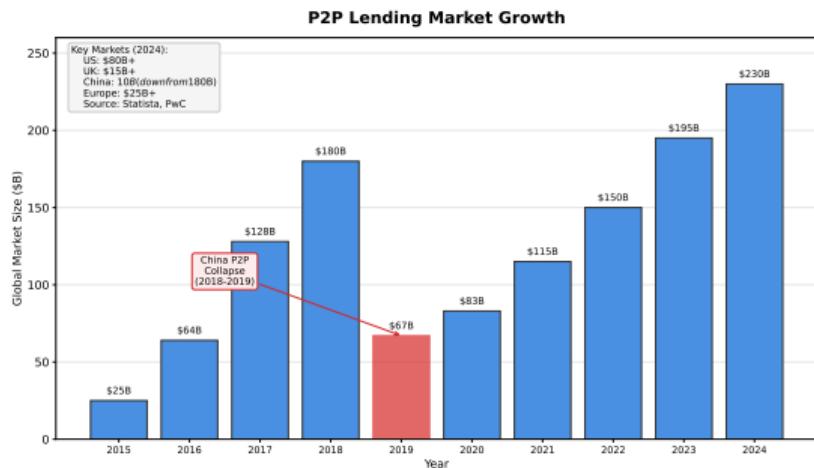


[CONCEPTUAL FLOW DIAGRAM]

# Market Evolution

## Growth Trajectory

- 2005: Zopa launch (UK)
- 2007: LendingClub (US)
- 2023: \$580B global volume
- China: 80% market share



# LendingClub Case Study

## US Market Leader

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

## LendingClub Evolution: P2P to Bank



**P2P Marketplace Era (2007-2020)**

Pure marketplace connecting borrowers/investors  
Originated \$60B+ in loans | Peak: 98% retail investors

**Digital Bank Era (2021+)**

Full-service digital bank with lending  
Balance sheet lending | Lower cost of capital

Source: LendingClub SEC filings, company announcements

# Platform Business Model

## 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: Industry analysis, LendingClub/Prosper disclosures [ILLUSTRATIVE]

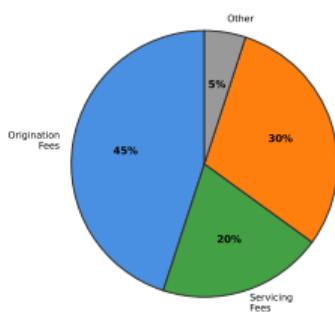
# Revenue Structure

## Fee Types

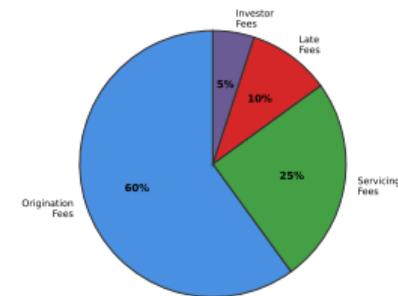
- Origination: 1-6% borrower
- Servicing: 1% annual
- Late fees: \$15-35
- Institutional placement fees

## P2P Platform Revenue Breakdown

LendingClub (Post-Bank)



Pure P2P Marketplace

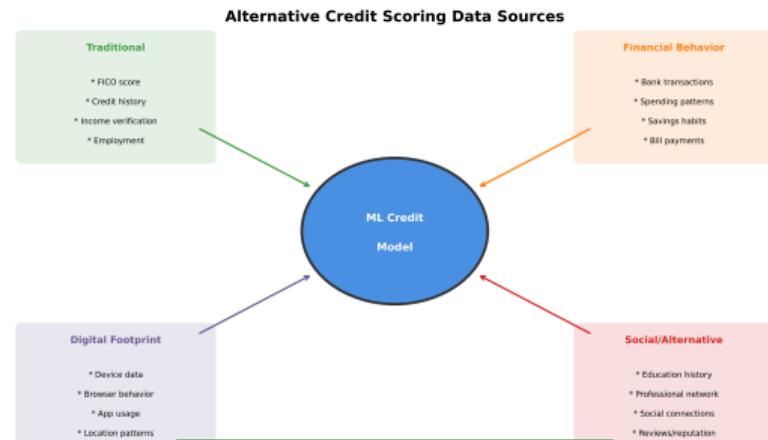


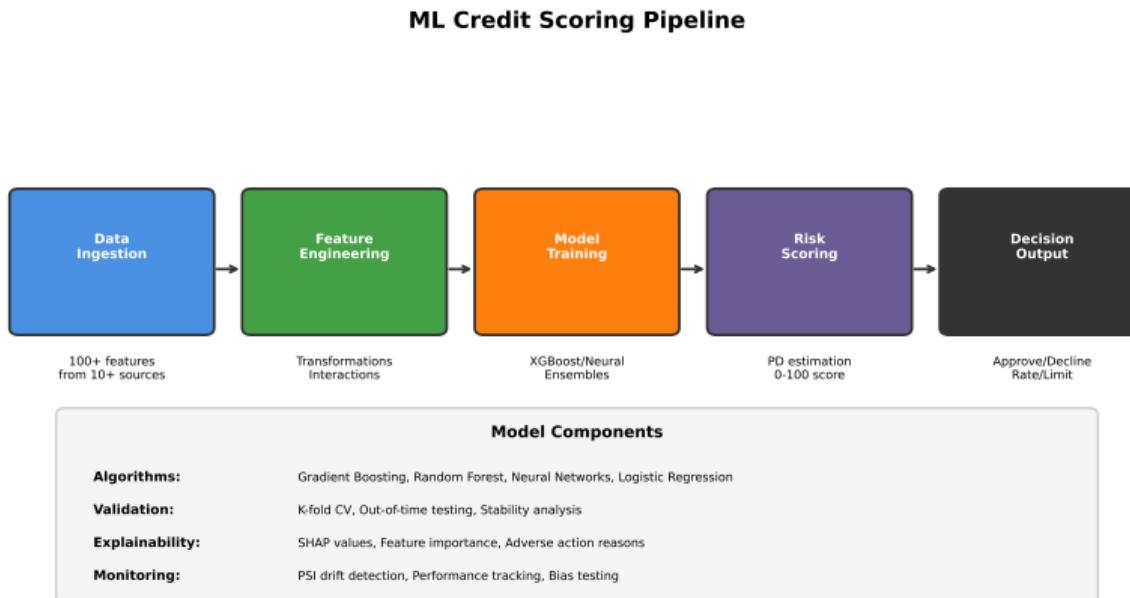
Note: Bank model includes interest income from balance sheet lending | Source: Company filings (ILLUSTRATIVE)

# Alternative Credit Scoring

## Data Sources

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



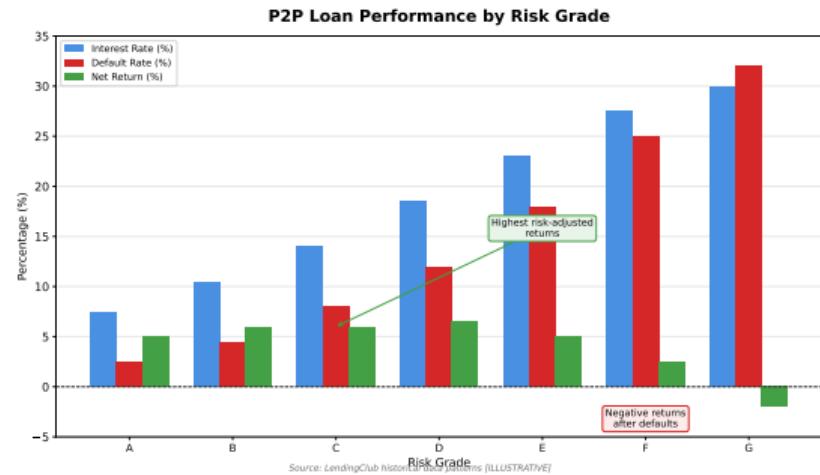


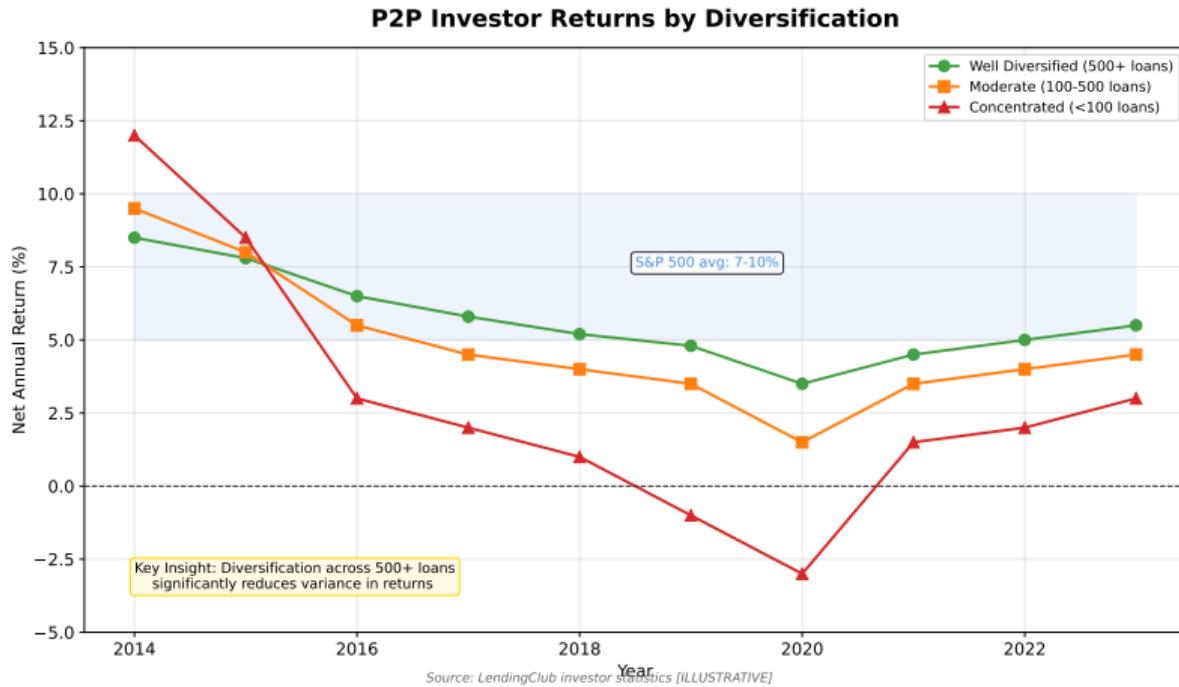
[CONCEPTUAL ARCHITECTURE]

# 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

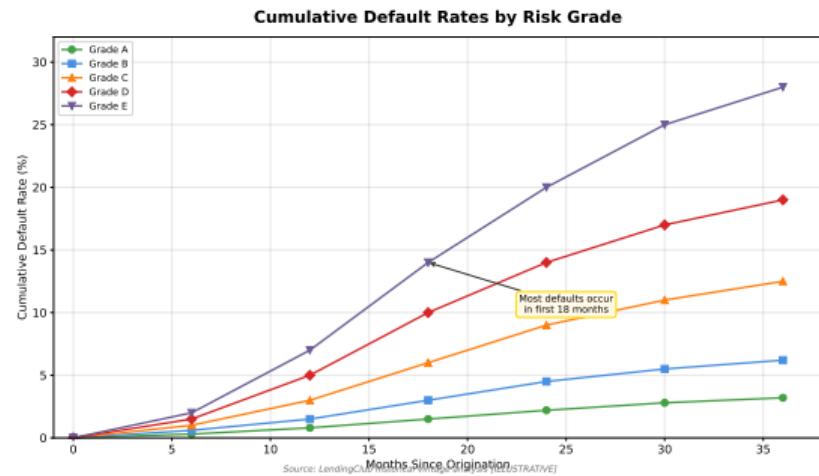




# Default Rates by Grade

## Historical Performance

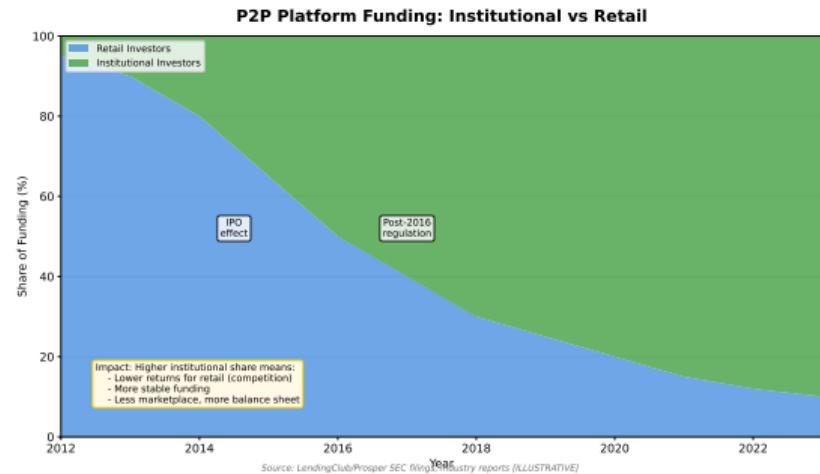
- Grade A: 2-3% default
- Grade C: 8-12% default
- Grade F: 25-30% default
- Economic cycle sensitivity



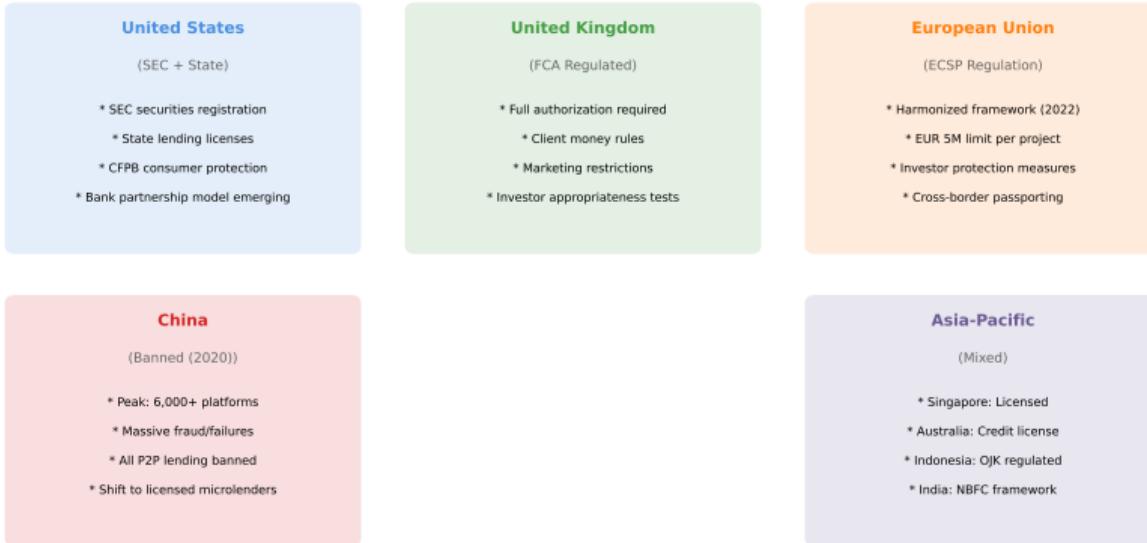
# Institutional Dominance

## From P2P to Marketplace

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



## P2P Lending Regulatory Landscape

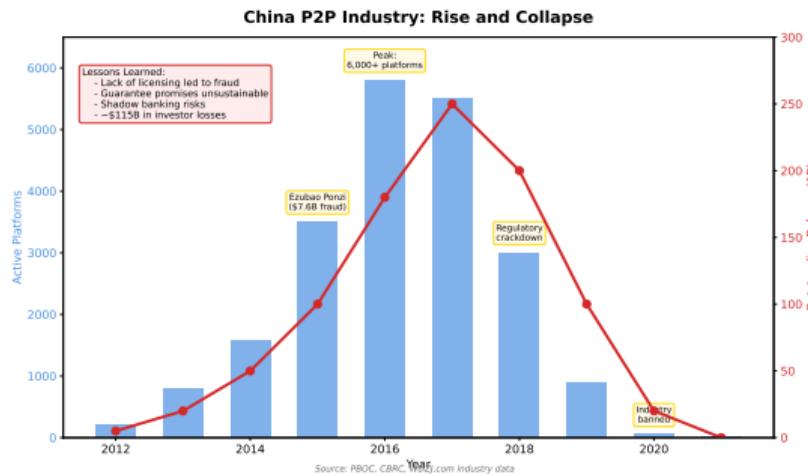


Source: FCA, SEC, PBOC, EU ECSP Regulation (2020/1503)

# China P2P Collapse

## Boom and Bust

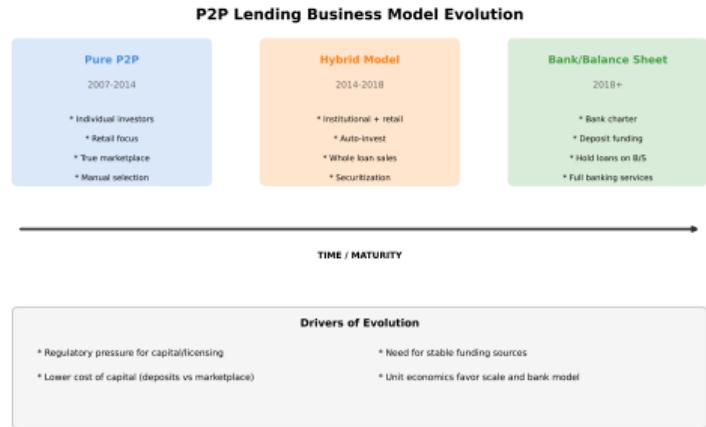
- 2015: 3,500 platforms
- 2023: Zero platforms
- \$128B investor losses
- Mass fraud, Ponzi schemes



# Business Model Evolution

## Platform Strategies

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



(CONCEPTUAL EVOLUTION MODEL)

# SME Lending Platforms

## Business Lending

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

## SME P2P Lending Landscape



SME Online Lending Market:  
- Global: \$100B+ annually  
- Growth: 15-20% CAGR  
- Fills \$5T credit gap for SMEs  
Source: World Bank SME Finance Forum

Key Advantage: Faster decisions (minutes vs weeks) | Less documentation | Technology-driven underwriting

# Future Outlook

## Market Consolidation

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

## P2P Lending: Future Scenarios



## Key Trends Shaping the Future

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

[SCENARIO ANALYSIS]

## 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