

## 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

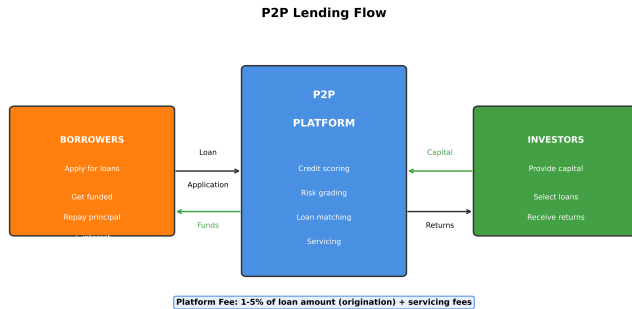
## P2P Lending vs Traditional Banking

Traditional Bank		P2P Platform	
Intermediary:	Bank holds deposits, lends own capital	Marketplace:	Connects borrowers directly to investors
Cost structure:	Branches, staff, compliance overhead	Cost structure:	Tech platform, lower overhead
Interest spread:	3-6% spread between deposit/loan rates	Interest spread:	Platform takes 1-3% fee
Approval time:	Days to weeks	Approval time:	Minutes to hours (automated)
Minimum loan:	Often \$5,000+	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 removes bank intermediation—connecting lenders directly to borrowers via digital platforms.



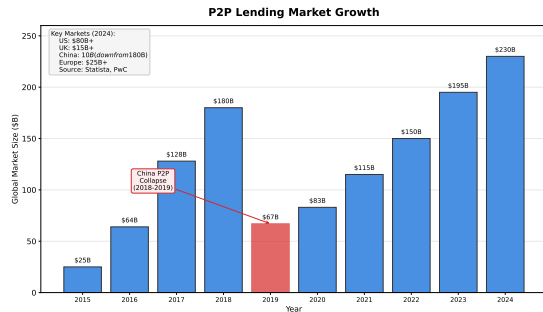
[CONCEPTUAL FLOW DIAGRAM]

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

# Market Evolution

## Growth Trajectory

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



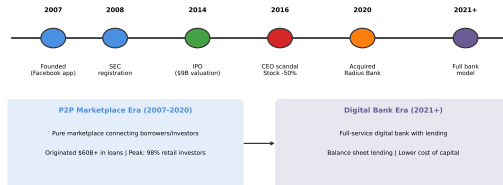
P2P grew from Zopa (2005) to **\$580B** global volume—China once held 80% market share.

# LendingClub Case Study

## US Market Leader

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

## LendingClub Evolution: P2P to Bank



Source: LendingClub SEC filings, company announcements

**LendingClub originated \$80B in loans—then acquired Radius Bank in 2020 to become a full bank.**

## P2P Platform Unit Economics

(Per \$10,000 loan originated)

REVENUE		
Origination fee:	3-5%	\$300-500
Servicing fee:	1% annually	\$100/year
Late fees:	Variable	\$20-50
Investor fees:	0-1%	\$0-100
Total Revenue: \$420-750		

COSTS		
Customer acquisition:	-	\$150-300
Credit underwriting:	-	\$30-50
Servicing costs:	-	\$50-100
Default losses:	3-8%	\$300-800
Total Costs: \$530-1,250		

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]

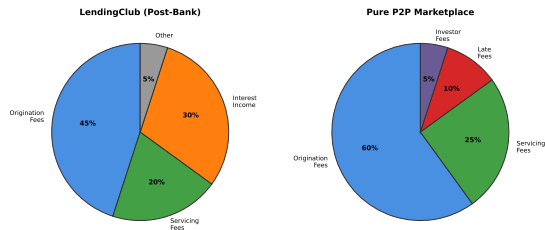
Pure marketplaces take no credit risk—revenue comes from fees, not interest margin.

# Revenue Structure

## Fee Types

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

## P2P Platform Revenue Breakdown



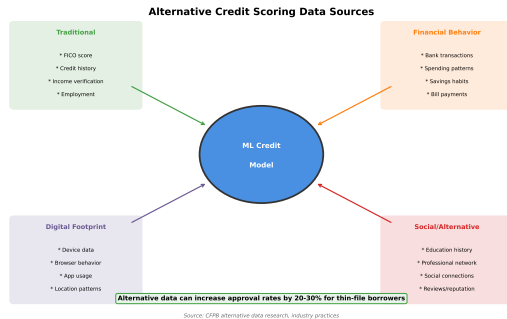
Note: Bank model includes interest income from balance sheet lending | Source: Company Filings (ILLUSTRATIVE)

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

# Alternative Credit Scoring

## Data Sources

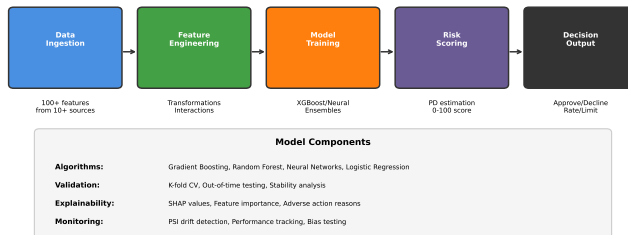
- Traditional FICO score
- Bank transaction data
- Social media footprint
- Education/employment



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



## ML Credit Scoring Pipeline



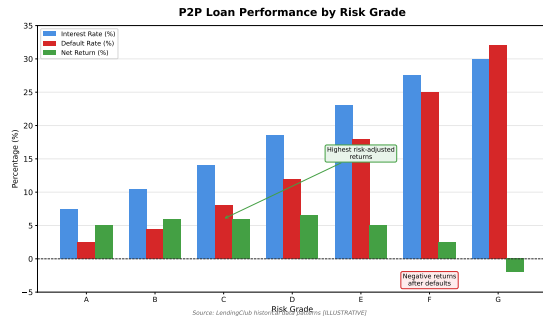
[CONCEPTUAL ARCHITECTURE]

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

# Risk Grading System

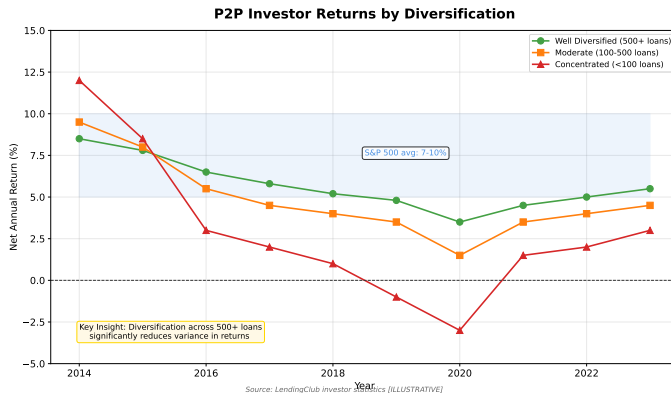
## LendingClub Grades (A-G)

- 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.

# Investor Returns Analysis

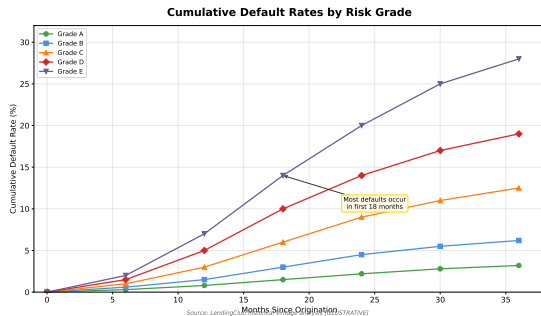


**Diversified P2P portfolios target 5-9% net returns—after accounting for defaults and fees.**

# Default Rates by Grade

## Historical Performance

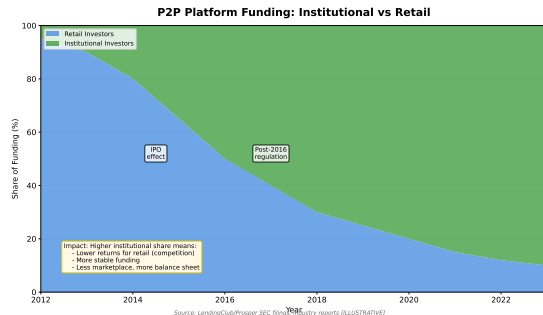
- Grade A: 2-3% default
- Grade C: 8-12% default
- Grade F: 25-30% default
- Economic cycle sensitivity



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

## From P2P to Marketplace

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



**Institutional investors now fund 90% of loans—“peer-to-peer” has become a misnomer.**

## P2P Lending Regulatory Landscape



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

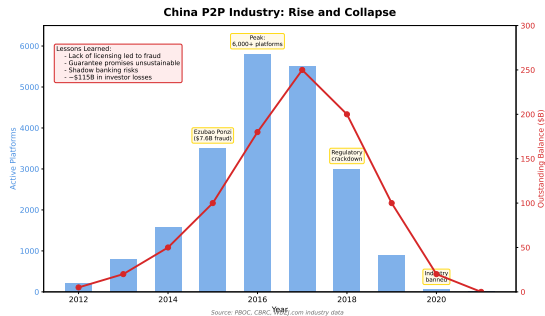
Source: FCA, SEC, PBOC, EU ECSP Regulation (2020/1503)

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

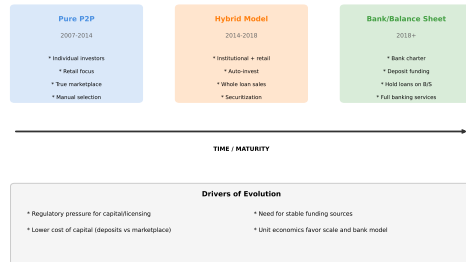


China's P2P industry collapsed entirely—3,500 platforms to zero, with \$128B investor losses.

## Platform Strategies

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

## P2P Lending Business Model Evolution



(CONCEPTUAL EVOLUTION MODEL)

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

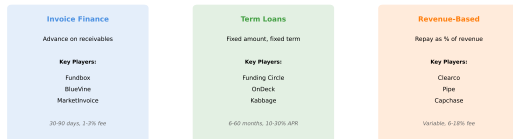


# SME Lending Platforms

## Business Lending

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

## SME P2P Lending Landscape



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

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

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

[SCENARIO ANALYSIS]

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.