Lesson 7: Peer-to-Peer Lending

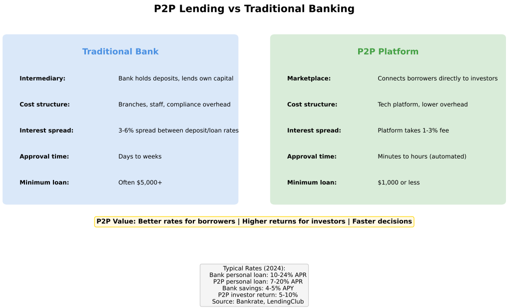
Module 1: FinTech Fundamentals

Digital Finance

P2P Lending Model

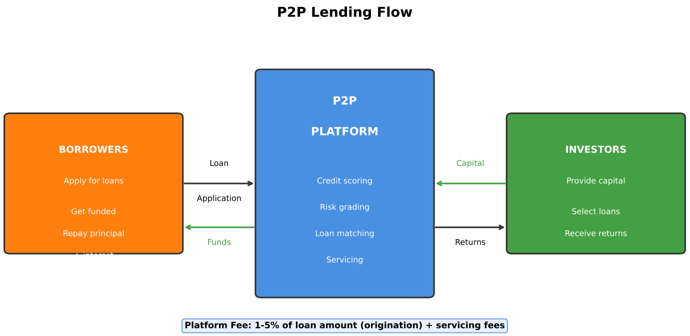
Disintermediation

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



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

P2P Lending Flow

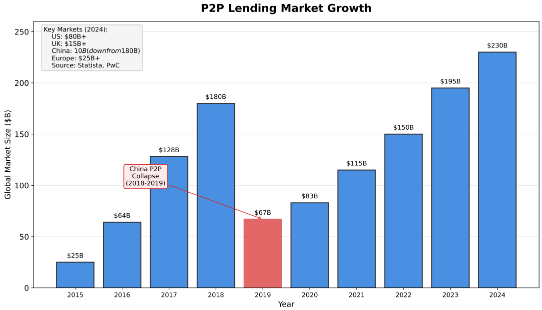


[CONCEPTUAL FLOW DIAGRAM]

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

Growth Trajectory

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

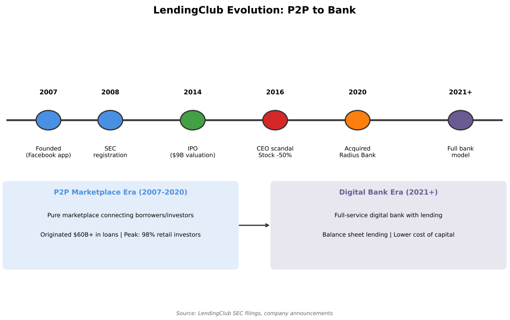


P2P grew from Zopa (2005) to $580B global volume—China once held 80% market share.

LendingClub Case Study

US Market Leader

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



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

Platform Business Model

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

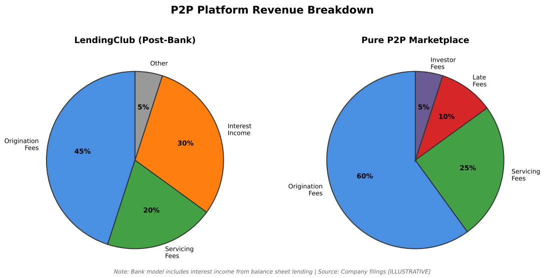
Source: Industry analysis, LendingClub/Prosper disclosures [ILLUSTRATIVE]

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

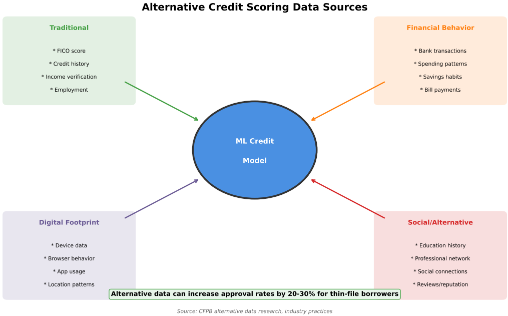


Origination fees (1-6%) are primary revenue—annual servicing fees provide recurring income.

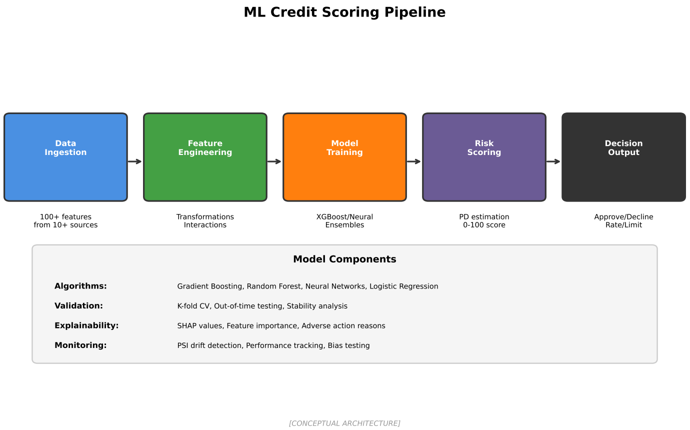
Alternative Credit Scoring

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.

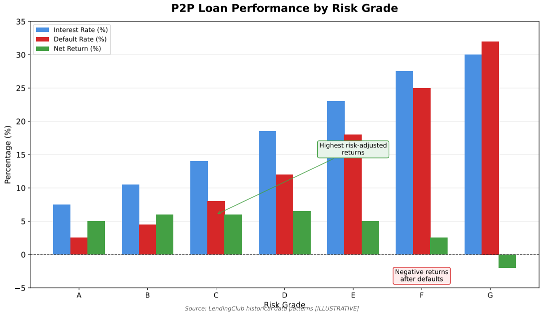


ML models process 1000+ features—outperforming traditional scorecards on default prediction.

Risk Grading System

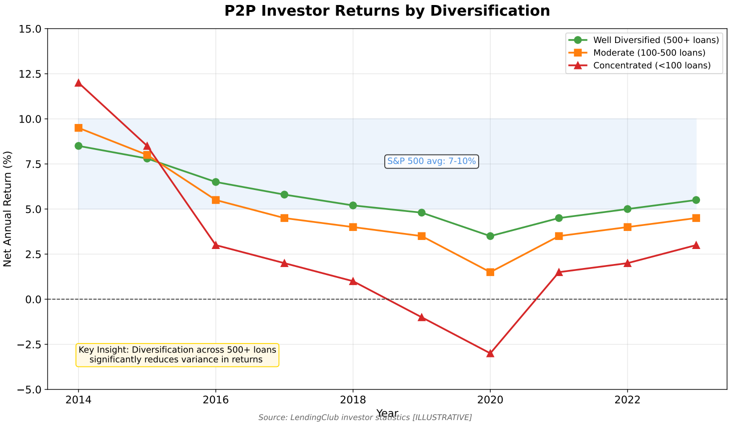
LendingClub Grades (A-G)

- 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



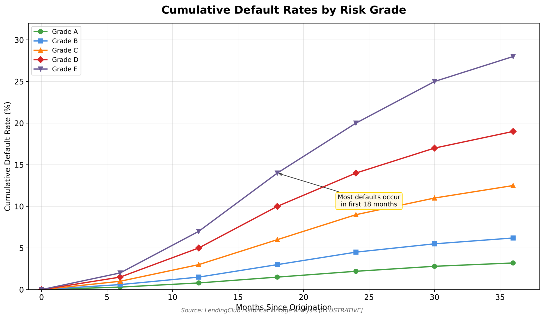
Source: LendingClub investor statistics [ILLUSTRATIVE]

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

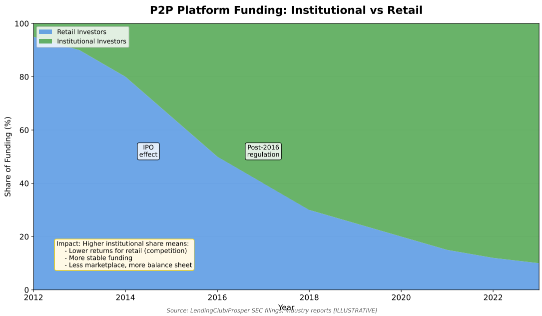


Default rates highly correlated with grade—economic downturns can double baseline defaults.

Institutional Dominance

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.

Regulatory Challenges

P2P Lending Regulatory Landscape

United States
(SEC + State)
* SEC securities registration
* State lending licenses
* CFPB consumer protection
* Bank partnership model emerging

United Kingdom
(FCA Regulated)
* Full authorization required
* Client money rules
* Marketing restrictions
* Investor appropriateness tests

European Union
(ECSP Regulation)
* Harmonized framework (2022)
* EUR 5M limit per project
* Investor protection measures
* Cross-border passporting

China
(Banned (2020))
* Peak: 6,000+ platforms
* Massive fraud/failures
* All P2P lending banned
* Shift to licensed microlenders

Asia-Pacific
(Mixed)
* Singapore: Licensed
* Australia: Credit license
* Indonesia: OJK regulated
* India: NBFC framework

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

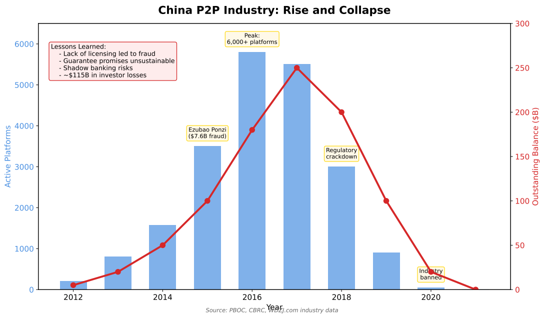
Source: FCA, SEC, PBOC, EU ECSP Regulation (2020/1503)

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

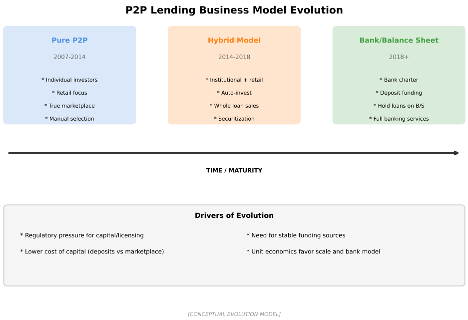


China's P2P industry collapsed entirely—3,500 platforms to zero, with $128B investor losses.

Business Model Evolution

Platform Strategies

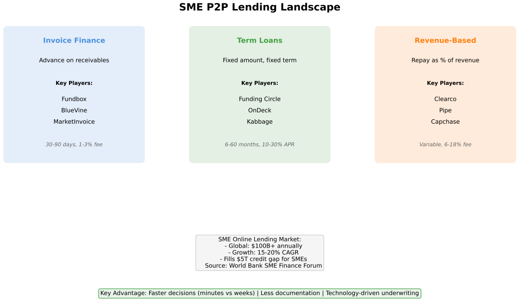
- Balance sheet lending
- Bank partnerships
- Acquisition by banks
- Regulatory arbitrage ends



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

Business Lending

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

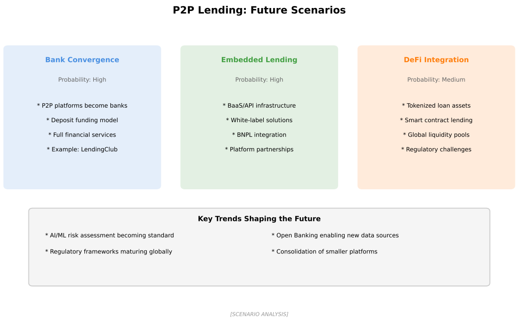


SME platforms like Funding Circle offer 24-48h approval—filling gaps left by traditional banks.

Future Outlook

Market Consolidation

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



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

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