

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

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`figures/p2p_lending_flow.pdf`

Market Evolution

Growth Trajectory

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

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LendingClub Case Study

US Market Leader

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

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Revenue Structure

Fee Types

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

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Alternative Credit Scoring

Data Sources

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

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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

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Default Rates by Grade

Historical Performance

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

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Institutional Dominance

From P2P to Marketplace

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

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China P2P Collapse

Boom and Bust

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

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Platform Strategies

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

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SME Lending Platforms

Business Lending

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

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Future Outlook

Market Consolidation

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

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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