

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

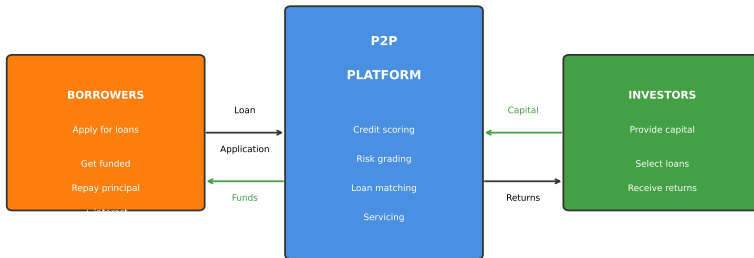
P2P Lending vs Traditional Banking

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 Lending Flow

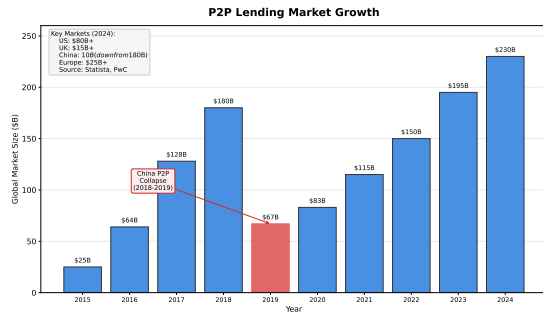


Platform Fee: 1-5% of loan amount (origination) + servicing fees

[CONCEPTUAL FLOW DIAGRAM]

Growth Trajectory

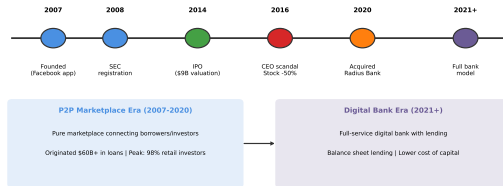
- 2005: Zopa launch (UK)
- 2007: LendingClub (US)
- 2023: **\$580B** global volume
- China: 80% market share



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

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:

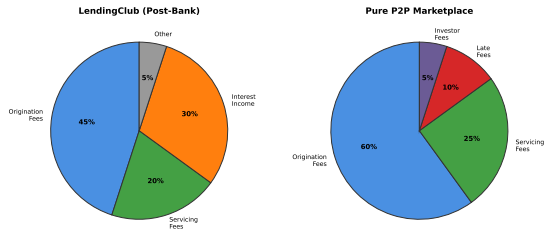
Break-even requires: Low CAC + Low defaults + Scale
Profitable loans: Prime borrowers, repeat customers
Challenging: Subprime, high marketing spend

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

Fee Types

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

P2P Platform Revenue Breakdown

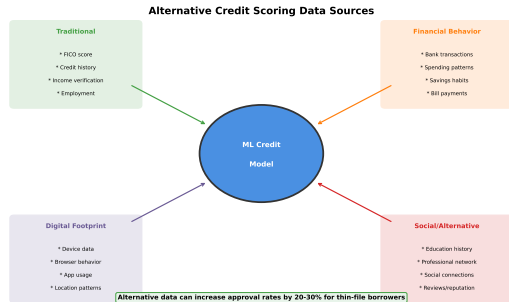


Note: Bank model includes interest income from balance sheet lending | Source: Company filings (ILLUSTRATIVE)

Alternative Credit Scoring

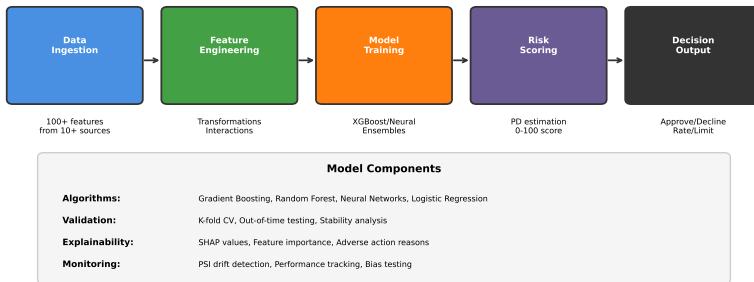
Data Sources

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



Source: CFPB alternative data research, industry practices

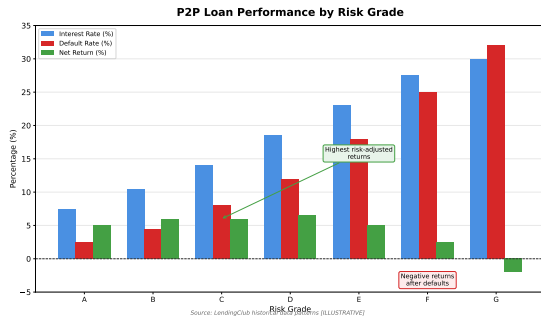
ML Credit Scoring Pipeline

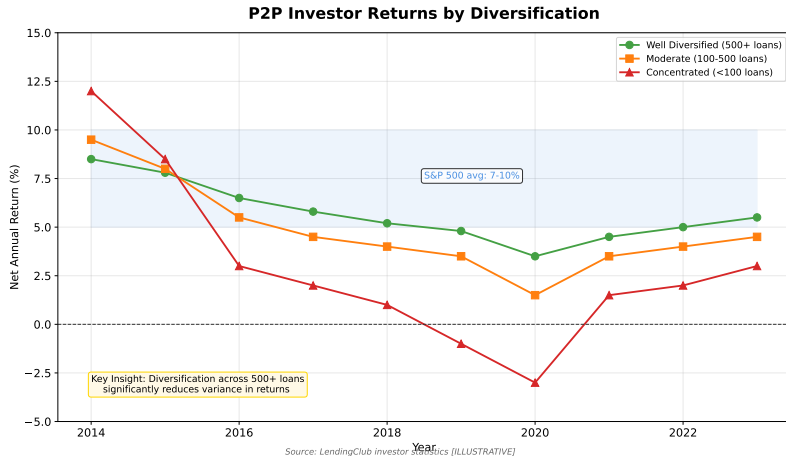


[CONCEPTUAL ARCHITECTURE]

LendingClub Grades (A-G)

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

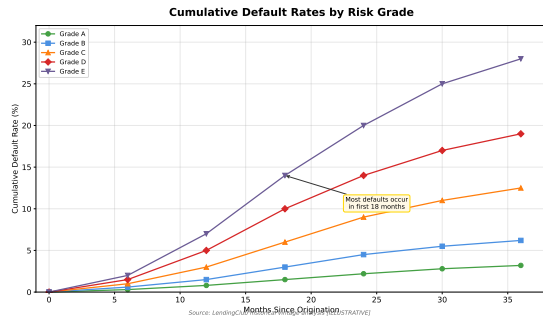




Default Rates by Grade

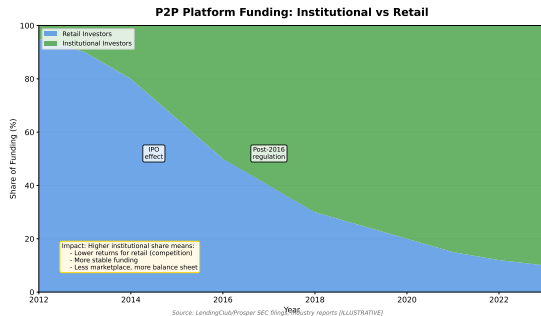
Historical Performance

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



From P2P to Marketplace

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



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

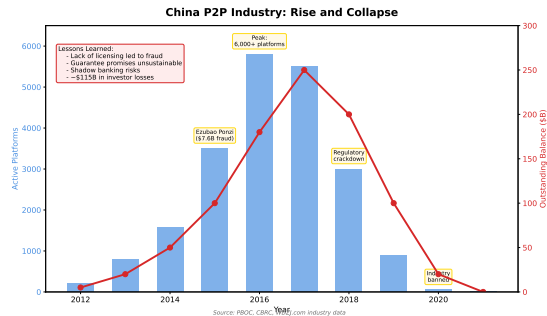
Global Trend: Moving from self-regulation to formal licensing and capital requirements

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

China P2P Collapse

Boom and Bust

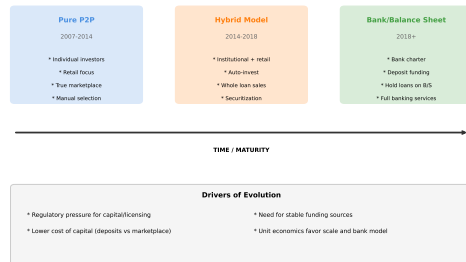
- 2015: 3,500 platforms
- 2023: Zero platforms
- \$128B investor losses
- Mass fraud, Ponzi schemes



Platform Strategies

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

P2P Lending Business Model Evolution



(CONCEPTUAL EVOLUTION MODEL)

Business Lending

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

SME P2P Lending Landscape

Invoice Finance

Advance on receivables

Key Players:

Fundbox
BlueVine
MarketInvoice

30-90 days, 1-3% fee

Term Loans

Fixed amount, fixed term

Key Players:

Funding Circle
OnDeck
Kabbage

6-60 months, 10-30% APR

Revenue-Based

Repay as % of revenue

Key Players:

Clearco
Pipe
Capchase

Variable, 6-18% fee

SME Online Lending Market:
- Global: \$100B+ annually
- Growth: 15-20% CAGR
- Fills \$3T credit gap for SMEs
Source: World Bank SME Finance Forum

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

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]

- **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