The advent of electronic peer to peer (P2P) lending, and the global P2P lending market was in 2005 with the launch of the British P2P lending company Zopa. In 2007, Lending Club was one of the first companies to bring P2P lending to the United States. The P2P lending market was quite small at the time, worth only a few million dollars, but enjoying exponential growth. <https://www.pmifunds.com/p2p-lending-interactive-chart-data/>

By early 2008, the P2P lending market was over $100 million and climbing, and it began to look like P2P lending would eventually overtake traditional bank loans. The first signs of weakness struck in 2016 after an increase in interest rates made other investment vehicles more popular, and rising rates of borrower default began to cut into returns and investor confidence. Growth began to falter, and Lending Club, which was muddling through a scandal and a change in leadership, entered a three-year slide in share prices. The P2P lending market continues to grow, but the conditions have been made clear: lending platforms like Lending Club are accountable to investor needs, including ensuring good rates of return, and minimizing risk.

Lending Club’s business model works by making lending more efficient, and thereby making available better investor returns and faster, cheaper loans for borrowers at the same time. This is achieved by a combination of reduced overhead from cutting out the middle-man, and a faster and supposedly more accurate way of determining borrower reliability. The loans average around $8,000 and are typically used to refinance expensive credit card debt. The average interest rate over all loans is 12.3%, but after factoring in early repayment, loan defaults, and platform fees, investors average a 5% annual return. For lenders owning more than one hundred notes, returns can be fairly consistent (low volatility), but for those investing in just a few loans, the returns can vary wildly, ranging from above 10% to subzero (negative) returns.