The 4 Best P2P Lending Platforms For Investors In 2017 -- Detailed Analysis

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Peer-to-peer lending is a new method of debt financing that allows people to borrow and lend money without a financial institution. Harnessing technology and big data, P2P platforms connect borrowers to investors faster and cheaper than any bank.

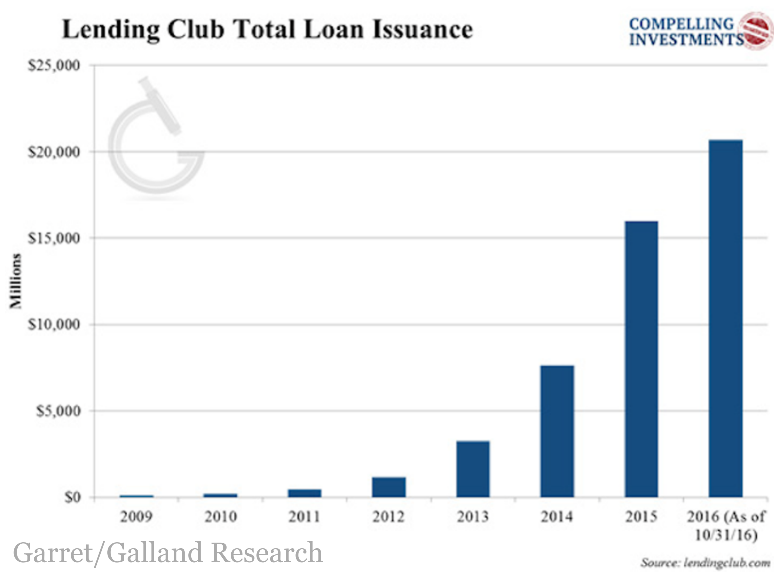
P2P lending has grown rapidly in recent yearsand is a new source of fixed income for investors. Compared to stock markets, P2P investments have less volatility and a low correlation. They also offer higher returns than conventional sources of yield.

With interest rates at all-time lows since 2008 and many historically "safe" investments like government bonds carrying negative yields, investing in P2P loans in 2017 is a no-brainer.

Here, I take an in-depth look at the four best P2P lending platforms for investors, including their default rates, interest rates, and other important metrics.

Lending Club

Founded in 2007, Lending Club is the world's largest P2P lending platform with over $20 billion in loan issuance. It offers both consumer and small- and medium-sized enterprise (SME) loans over fixed periods of 36 or 60 months.



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Lending Club has grown exponentially and currently has a 45% market share. It raised over $900 million from its IPO in 2014, but its share price has since fallen 72%.

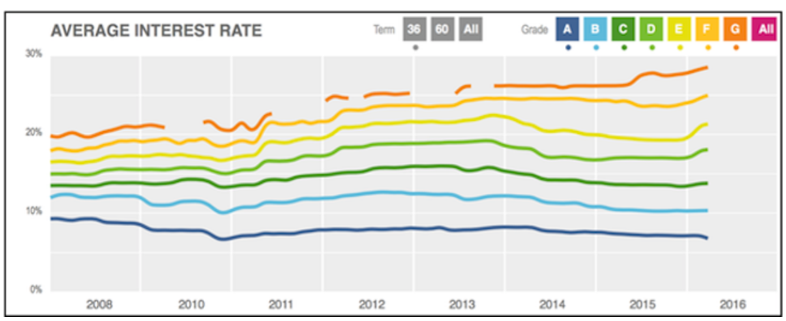
The company was recently embroiled in a scandal surrounding founder Renaud Laplanche. He was forced to resign after an internal investigation found improprieties in the company's lending process, including the altering of millions of dollars' worth of loans.

Although the event damaged the reputation of Lending Club and the industry, the company is well capitalized. The company prospectus states that in the event of bankruptcy, a backup system will come online and function as the intermediary.

Lending Club operates on a notary business model, meaning it acts as an intermediary between borrowers and investors. Once a loan has been funded, the money is released to the borrower by a partner bank. Lending Club and Prosper (reviewed below) both use Utah-based WebBank.

Lending Club then issues a note to the investor that is essentially a security. Lending Club offers loans from $1,000 to $35,000 for individuals and from $15,000 to $300,000 for businesses.

The next charts show the average interest rate charged to borrowers across all credit grades for 36- and 60-month loans.



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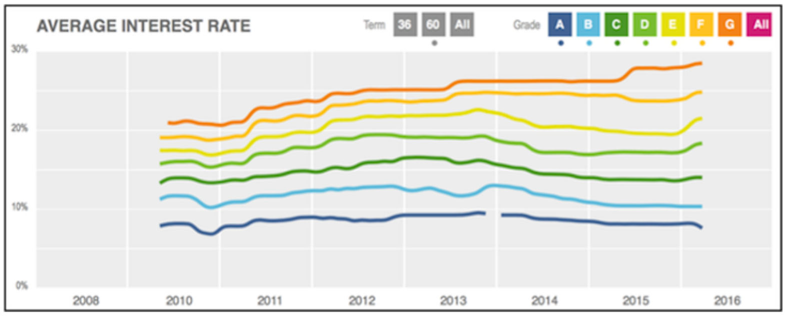

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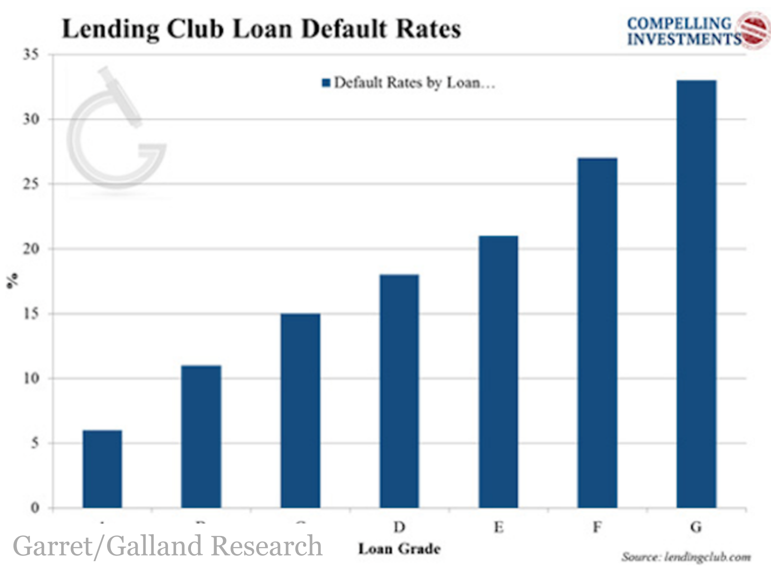
We can see from the variance in default rates that Lending Club's grading system works as it should...



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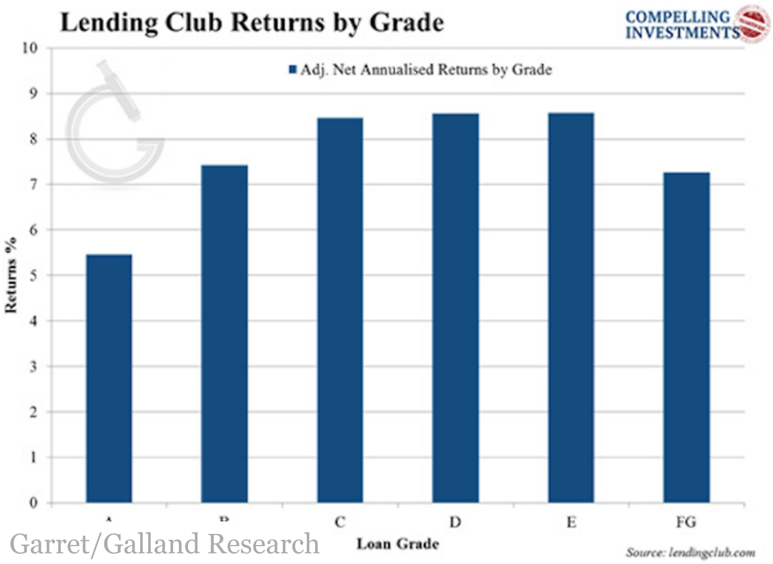
...with corresponding increases in returns.



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Lending Club charges investors a fee equal to 1% of the amount of borrower payments received within 15 days of the due date. The borrower pays an origination fee that ranges from 1% to 5%, depending on the grade. Investors must deposit $1,000 in order to start investing on Lending Club.

Lending Club uses a model rank system to grade borrowers. The system uses a combination of a proprietary scoring model, FICO score, and other credit features of the applicant.

For non-performing loans, Lending Club charges investors 18% of any amount collected if no litigation is involved. If litigation is needed, investors must also pay 30% of hourly attorney fees.