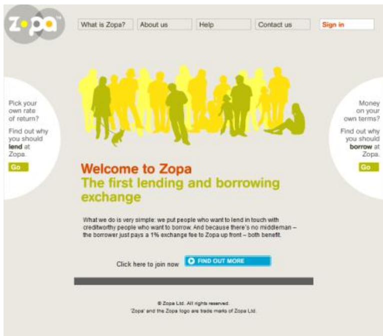
p2p money

Article for Save our Savers, 2nd December 2011

Over half a decade ago, in 2005, a new company called Zopa (which stands for "zone of possible agreement") launched the first lending and borrowing exchange. The concept was simple and innovative – a marketplace where creditworthy individuals could borrow money from others who were happy to lend, without a bank in the middle. Thus peer-to-peer lending was born.



At the time, as someone who had been burnt by the tech crash a few years earlier, I was looking for something safer than the stock market, but with more growth potential than a standard savings account. So I took the plunge and signed-up.

Peer-lending typically splits a lender's money amongst many borrowers to reduce the risk of single defaults dramatically affecting a lender's return. The lenders themselves set the interest rate to compensate for any bad debt.

Bad debt is a fact of peer-lending, and this is the biggest distinction with classical savings, as it is not covered by the Financial Services Compensation Scheme. The generic term "saver" is replaced with "lender" as they are quite different. The return a lender will receive is variable as, while they can estimate what bad debt they may experience, the actual bad debt will vary, and there is a potential for negative returns. Peer-lending is taxable, but tax is paid before bad debt, but after fees, meaning that the actual return is not as simple to calculate. For example a headline figure of 9% may equate to only 4% after deductions and basic rate tax, but this is still better than available elsewhere. This is one of the reasons why P2P Money was founded, to provide clear, unbiased and independent information on peer-lending.

These differences have not slowed the growth of peer-lending in the UK. P2P Money exclusively reported in November 2011 that peer-lending in the UK had now surpassed £100,000,000 (that is one hundred million pounds) in active loans. Of these loans 98% were made through Zopa, Funding Circle and RateSetter, who are all founder members of the Peer to Peer Finance Association, a new trade body set up to ensure minimum standards within peer-lending.

In summary, peer-lending can be a valuable addition to any saver's portfolio, but consumers need to fully understand the concept and the different providers.

http://www.p2pmoney.co.uk/press

Ian Gurney, founder of P2P Money, has lent money on Zopa, Funding Circle, RateSetter and YES-secure.