

# Peer-to-peer lending – An Industry Insight

June 21, 2007

## 1. Background and Introduction

Peer-to-peer (P2P) lending is a part of the overall social computing activity that is driving the rise in power of consumers on the Internet. This is revealed by the sheer volume of information, opinion and services transmitted directly between ordinary consumers over the internet. For e.g., each day volunteers create close to 10,000 articles for the online encyclopedia Wikipedia.

The timing is right for sites like Zopa and Prosper, which are part of a broader wave of sites aimed at fostering online communities. These companies are challenging the status quo using an online loan marketplace with a social computing twist. These online lending communities can be considered as a combination of eBay and MySpace.com — a place where consumers come together to loan and borrow money from each other.

The principle behind Zopa and Prosper is very similar to local micro-finance companies that operate in Asia and Latin America. Families, neighbors or friends lend amongst themselves to the benefit of the community as the groups are closely knit and trust is not usually an issue. The

*“Loan marketplaces undoubtedly are about money, but they’re also about participation. It’s the intersection of commerce and community.”- According to Chris Larsen, CEO, Prosper*

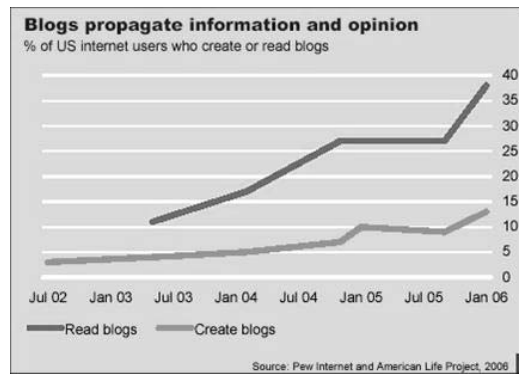
growth of the Internet, the advancement in verification and credit scoring technology, and changing attitudes to corporate institutions have resulted in viability of this method of lending and borrowing for everyone. Additionally, an increase in individual debt, a low return on savings, and increasing asset prices are also changing consumers' borrowing and lending behavior thereby creating a favorable environment for alternative investment platforms such as peer-to-peer online lending exchanges.

The success of these web based P2P lending communities can be gauged by the strong growth in their members and loan volume. Zopa has attracted 87,000 members and Prosper currently boast of approximately 100,000 members.

In addition, Zopa won "Internet Innovation of the Year" at the 2006 CNet Technology awards and was named by American magazine Business 2.0 as one of the eleven most disruptive companies in the world.

## 1.1. Blogs propagate information and opinion

According to a research by Pew Internet and American Life Project, July 2006, 8% of adult internet users (approximately 12 million American adults) report keeping a blog. About 39% of adult internet users report reading blogs. And as described in the Pew Internet Project's Teen Content Creators and Consumers report, 19% of internet users age 12-17 keep a blog and 38% of online teens read blogs. This illustrates how easy it is for consumers to follow the experiences of many other users (accurately presented or not) before taking decisions.



## 1.2. Social computing augmenting commercial success

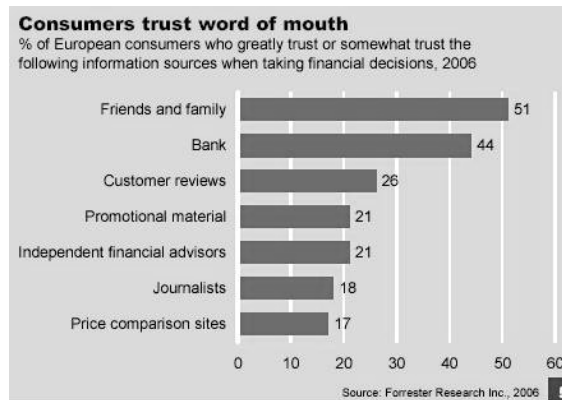
Some of the best-performing internet firms rely on user-created content to enrich their services. Customers love to share their views on products they own. Amazon, an internet retailer, publishes such comments to inform undecided shoppers.

Examples	Methods	Business Value*
Amazon, Ciao DooYoo	Customers read and write product reviews and give recommendations	Advertisements, sales, brand loyalty
Amazon, Mechanical Turk	Marketplace for routine jobs, people are better at than machines (e.g. picture recognition)	10% commission
Flickr, YouTube	Users share photos, videos and other content	Advertisement, premium services
Google Answers	Users pay other users for answering their questions	50 ¢ listing fee; 25% commission
MySpace, OpenBC	Online communities to create and manage personal and business networks	Advertisements, premium services
*Does not necessarily apply to each example		

### 1.3. Consumers seek online information and opinion before taking decisions

The majority of European consumers shop around before buying financial products. This increases the importance of information sources such as the internet, which reveals conveniently where prices are cheaper and services better.

Information exchanged directly enjoys a high level of trust. Consumers trust the advice of family members and friends which may also include online acquaintances more than advice from any other source.



## 2. Why do people use it?

Prima facie, the idea of making loans to complete strangers seems crazy. But it turns out that online communities can do a lot of what banks, credit card and payday loan companies do and cheaper. The opportunity lies in consumers' mistrust of financial institutions.

*"If we can get this done cheaper between ourselves, what do we need a bank for?" – Catherine Graeber, a Forrester analyst, on consumer attitude on traditional banking.*

According to a Forrester study, "most people believe their banks put their own interests ahead of consumers', and a majority doesn't think their financial institutions have strong ethics."

Increasingly, people want to make their own choices, especially when it comes to their finances. They don't want a faceless corporation or an institution which is completely struck in a 'provider versus consumer' mindset to dictate what they can and can't do. Zopa and Prosper allows lenders and borrowers to do just this at their marketplace.

*"We worked with ethnographers and social economists, looking at macro-economic trends and how technology affects society, government and regulation. We got very interested in a group of consumers we call free-formers - people categorized by self-reliance. They've given up on trusting corporations, government, and other institutions. They're more likely to be freelancers, or have double incomes, or move jobs more frequently. We now have 76,000 UK members of all ages and income brackets, but most are looking for an alternative to traditional banking" – Richard Duvall, CEO, Zopa*

Mostly, though, borrowers and lenders are drawn by better prices. In Prosper's market, loan rates are set by auction. Borrowers post an application, and prospective lenders bid on the interest rate, aided by basic analysis tools provided by Prosper such as simplified credit scores. This results in cheaper loans for borrowers, while lenders can earn more than from other investments.

Not surprisingly, increasing numbers of consumers would love to bypass the murky world of financial services and deal directly with each other, applying lessons learned from web-based services such as eBay, where sellers meet buyers in an auction-style environment.

*According to the Guardian, February 2006, "A look at moneysupermarket.com shows that Zopa is currently the cheapest personal loan provider. This eBay-style loan exchange body has the added benefit of not imposing early redemption charges - useful if you want to overpay before the end of the loan period."*

### 3. Benefits of P2P lending

The benefits of the P2P lending are a plenty with some listed below:

- **Avoid banks and other middleman.** Online P2P lending marketplace operate on the principal that people needing to borrow money and those wanting to lend it are better off dealing directly with each other rather than using banks or other middle-men. Each, for a fee of course, are trying to facilitate this P2P lending while providing safeguards and services to both sides of the transaction.
  - "Prosper gives people the opportunity to take back the marketplace for consumer credit. By providing the platform and tools for an efficient marketplace created by and for people, Prosper aims to make consumer lending more financially and socially rewarding for everyone." – Chris Larsen, Chief Executive Officer and co-founder of Prosper
- **Anonymous transaction.** All transactions are done anonymously and borrowers are not inundated with emails and telephone calls as are borrowers registering with traditional online lending companies.
- **A whole new asset class.** Lenders get a whole new asset class which is neither a savings account nor an investment. It is also independent from anything else in the existing portfolio.
- **Optional rates and loan amount.** Lenders can choose their rates and loan lengths (with few marketplaces), and whether they want to lend in a specific credit profile.
- **Lower interest rates for borrowers.** According to Sunday Telegraph, August 2006, "The benefits for borrowers are that interest rates can be lower than those charged by traditional lenders and that there are no early repayment penalties. This

*"For those earning £25,000 plus, there's an alternative. Zopa is a unique internet brokerage which couples people who want to lend with those who want to borrow.....Loan rates vary daily with the amount and length of borrowing. It's mainly competitive for borrowing with high grade over shorter period. Then it can be super-cheap." – monevsavinnexpert.com. February 2006*

has made Zopa particularly attractive to the self-employed and others who, because they have fluctuating earnings, may find it difficult to borrow from the banks and may also wish to repay loans early."

- **Higher returns for lenders.** The appeal for lenders is the prospect of higher rates of r

*According to Richard Duvall, CEO, Zopa, "the average Zopa lender makes 7% to 10% after bad debt is written off, twice what top British savings accounts pay".*

rn than those provided by banks and building societies.

- **Faster and easy process.** Online P2P lending marketplace being a leaner organization compared to traditional financial institutions makes the process faster with lower overall overheads. A typical loan application at Zopa or Prosper takes three to four days to get approved which is much faster compared to banks and other finance companies.
- **Increased transparency and control.** Lenders and borrowers also benefit by the transparency of the costs and the control that direct lending/borrowings give them.
  - Prosper.com has taken the unusual step of allowing person to query their business model directly. One get all the information about how much business they are writing, the default and arrears rates and much more, making Prosper's business transparent.
- **Satisfaction.** People may get satisfaction to borrow from real people rather than a faceless institution.

Benefits to the P2P lending marketplace are immense with substantially lower overheads and administration charges, zero interest expense, and minimal regulatory costs.

However, the biggest problem at the moment at these online lending marketplaces is the imbalance between number of lenders and borrowers. There is just not enough money in the system to meet all the reasonable needs.

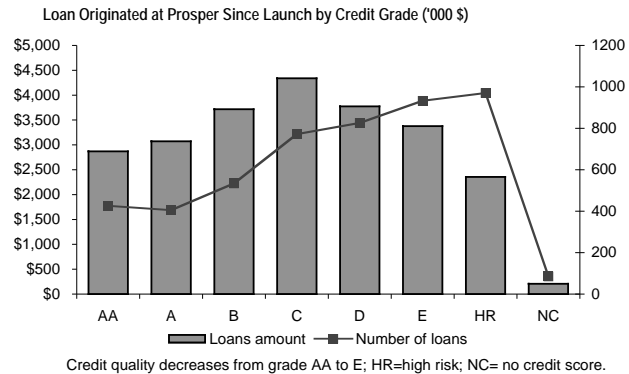
#### 4. Who uses it?

P2P lending market places have a diverse clientele in terms of demographics and end use of loan. They range from small entrepreneurs who want small seeding money to individuals who want to carry out regular purchases.

*According to Catherine Graeber, Forrester Research, "It (P2P lending market place) might attract 18- to 28-year-olds who need credit and spend hours logged on to social networking sites. These people are much less likely than their parents to care about brands when choosing a bank. They are also routinely ignored by banks.*

## 5. Market potential

Since its launch in February 2006, Prosper has witnessed 4,951 deals amounting to approximately \$24 million. Industry analysts expect peer-to-peer lending to emerge as a large market in the future. Prosper believes that these numbers will only continue to increase as more people realize the financial benefits available to them through participation in the credit marketplace. According to Asheesh Advani, CEO of CircleLending, a startup that provides billing services for friends-and-family loans, "Americans make 6.1 million friends-and-family loans, for more than \$89 billion each year".



*"Clearly there is a market for this. The site gives borrowers an alternative to credit-card debt or loans from credit unions or banks. For lenders, there is the appeal of helping someone while making a few bucks at a better rate than bonds or CDs would return" – Greg McBride of Bankrate.com., which tracks consumer finance trends*

According to a TowerGroup research, P2P online lending exchanges are emerging in the US and UK as an alternative platform to traditional savings and investment options, a trend they predict will have an impact on unsuspecting financial services institutions.

*"Given the instability we're experiencing in the global economy and increases in bad debt, many banks are reacting by adopting more sophisticated risk management frameworks. By being more selective about to whom they lend and not offering the most competitive rates, banks are making it more expensive for consumers to borrow ... a growing number of consumers have responded by exploring alternative investment means in order to get better returns on their money -- a potentially disintermediating force over the long term for traditional lending institutions." – Ted Iacobuzio, managing director, European Banking & Payments research practice, TowerGroup.*

Another report from Online Banking Report concludes that there are indeed promising niches to be mined by Prosper and its U.K. counterpart Zopa. However, the companies will first have to fend off threats from con artists and deadbeat applicants and win over individual lenders.

***The Online Banking Report predicts that within five years the total market for P2P lending in the U.S could surpass 100,000 loans annually, worth more than \$1 billion.***

## 6. How it works?

### 6.1. Prosper.com

Prosper.com was created with the objective of making consumer lending more financially and socially rewarding for everyone. The online marketplace works very similar to eBay. Instead of listing and bidding on items as is the case in eBay, people list and bid on loans using Prosper's online auction platform.

*"Prosper gives people the opportunity to take back the marketplace for consumer credit. By providing the platform and tools for an efficient marketplace created by and for people, Prosper aims to make consumer lending more financially and socially rewarding for everyone." – Chris Larsen, co-founder of Prosper.*

Prosper facilitates people to form groups, which borrowers join to request loans up to \$25,000. Borrowers post credit listings indicating the maximum interest rate they wish to pay and the reason why they want the loan. Lenders search for and select these listings based on the borrower's credit, debt profile, and group affiliation. Prosper provides information on homeownership, credit history and debt-to-income ratio. Lenders bid on listings by indicating a minimum rate they are willing to accept. Prosper handles all of the tasks needed for payment and collection of the loan after the loan is matched between borrower and lender.

Lenders through Prosper can choose to bid on financing an entire loan request or to take a piece of the debt thus spreading the risk of an individual loan among a number of lenders. The lowest rate offered wins but one would assume that a borrower could end up with a blended rate from different lenders.

To participate, borrowers and lenders must submit to a credit check and then link their bank accounts to their Prosper account. All money transfers are automated, simplifying the repayment process. When a payment is due, Prosper withdraws the money from the borrower's bank account and deposits it, on a pro-rata basis, into the various lenders' Prosper accounts.

### 6.2. Zopa.com

Zopa is the first person-to-person lending and borrowing marketplace in the world. People with spare money lend it directly to people who want to borrow. Zopa matches the lending offers from lenders and loan requests from borrowers. To minimize risk, all borrowers are identity-checked and credit-scored. Zopa evaluate the credit scores of people looking to borrow and rank them as an A\*, A-, B- or C-rated borrower. People without any of these credit ratings are not allowed to borrow on zopa marketplace.

Unlike Prosper.com where a lender bid on the borrower's loan requirement, Lenders at Zopa make lending offers. Lenders offer to lend a specific amount at a particular interest rate for a specific time period to borrowers with specific credit rating. Lenders at Zopa can not choose to lend to a specific

individual borrower. Lenders transfer funds into their Zopa account from where it is made available to the borrowers on the terms chosen by lenders.

Borrower size up the rates offered to them, and selects the ones they like. When a borrower makes a borrowing request in a market, the money is taken from each lender in rank order until the full amount has been matched.

To reduce the risk of exposure to individual borrowers and create a mixed portfolio of borrowers, Zopa spreads the lenders money across at least 50 borrowers so that a number of investors own a piece of each loan.. Borrowers enter into legally binding contracts with their lenders. Borrowers repay monthly by direct debit from their bank accounts.

Zopa uses a collection agency, Credit Resource Solutions Ltd, with similar recovery process that the banking industry uses, in case any repayments are missed.

Payments are sent directly to Prosper or Zopa, which distribute the money to lenders and report deadbeats to credit agencies or collection firms.

### 6.3. Overall Comparison

	Prosper	Zopa
Web site	www.prosper.com	www.zopa.com
CEO	Chris Larsen	Richard Duvall
CEO's previous projects	Online mortgage lender E-Loan	Online bank Egg
No. of members	100,000 in U.S.	87,000 in U.K.
Type of borrowers	All credit ratings	Prime
Notable backers	Omidyar Network	Tim Draper; Benchmark Capital; Bessemer Venture Partners; Wellington Partners
VC \$ raised	\$20M	\$31M

### 6.4. Feature Comparison

Feature	Prosper.com	Zopa.com
Loan duration	Three years, fully amortized	One to five years
Borrowing amount	\$1,000 - \$25,000 (may vary by states)	£1000 to £15000 under contracts of £10 each, in multiples of £100



Feature	Prosper.com	Zopa.com
Lending amount	Prosper allows lenders to bid on all or parts of loans, lenders can fund as little as \$50 and as much as \$25,000 on any particular loan listing	£10 - £25,000 (One can lend a higher amount if one holds a Consumer Credit Licence)
Loan type	Unsecured	Unsecured
Prepayment penalties	No	No
Approval time	Two to four days of the match. However, a borrower can request an expedited loan, which will take the first lenders who meet the minimum requirements for amount and interest rate	NA
Fee from borrowers	1% of funded loan amount deducted from the amount of loan at origination \$5 failed payment fee Late fee: 5.0% of the unpaid installment amount or \$15, whichever is greater (may vary by states)	0.5% transaction fee Zopa also receives commission if a borrower chooses to take out repayment protection insurance from its insurance underwriting partner, Pinnacle Insurance plc. If a borrower miss a payment and do not contact Zopa first, the details are passed on to the collections agency which may charge a fee of £20
Fee from lenders	0.5% annual loan servicing fee	0.5% annual servicing fee
Maximum interest cap	6% to 30% (may vary by states)	NA
Credit checking	Yes	Yes
Collection Agency	Yes	Yes
Risk Mitigation strategies	Groups; credit scores; collection agency	Diversification; credit grades; collection strategy

## 7. Management and backing

Prosper was founded by Chris Larsen (co-founder of E-LOAN) and John Witchel (co-founder of Red Gorilla and XCom). Prosper is backed by Omidyar Network (established by Pierre Omidyar, founder of eBay Inc.).

Zopa was set up by many of the team who launched Egg, and is backed by Benchmark Capital (who backed Alphyra, Betfair, eBay, Juniper Networks, Sulake and Setanta Sports Group and manages \$3 billion in committed venture capital), Wellington Partners (currently have €400 million under management), Bessemer Venture Partners (the VC firm which backed Skype, Staples, Gartner Group, American Superconductor and Verisign and manages over \$1 billion of venture funds), Tim Draper (invested in and contributed to Skype, Overture.com, Parametric Technology, Hotmail, Tumbleweed Communications, PLX Technologies, Digidesign and Redgate), and The Rowland Family (which invests in Internet-based companies such as Autonomy and Demon Internet).

## 8. Risks in the P2P lending model

The online lending and borrowing marketplaces faces inherent risk of default on loans especially when lenders are dealing with strangers. Additionally, evaluating such a large number of small loans can be time-consuming, and there is always the potential for misrepresentation when dealing online with strangers. Further, Prosper and Zopa being a start-up, may face some technical glitches.

## 9. Risk mitigation

Prosper and Zopa uses various risk mitigation tools such as group formation, portfolio diversification, credit grades, identity verification, default cover, and deployment of collection agencies.

### 9.1. Credit Rating

Both Prosper and Zopa assigns credit rating to all borrowers which help in the decision making process of lenders. Prosper assigns a grade based on borrowers credit score with Experian, a credit-rating service. The highest is "AA," which has a historical risk of default of 0.20% for a normal debt-to-income loan. The lowest is "HR," for high risk, which has a historical risk of default of 19.1% for a similar loan. The "NC" designation signifies no credit history.

Zopa performs its credit rating through one or more of the UK's credit bureaus (e.g. Equifax, Call Credit, Experian). It classify borrowers as an A\* (will meet the criteria really, really well), A (will meet the criteria really well), B (will meet the criteria well), C (will meet the criteria), or none of the above. To become a

*"Only 2% of Prosper applications from poor-credit customers have been funded" – SavageNumber.com, an Atlanta Web site that tracks Prosper's data*

Zopa borrower, people should have demonstrated a responsible use of credit over the last 6 years, have been on the electoral register for 6 years or more and have not increased their borrowing recently. Lenders manage the credit risk by simply ignoring the high-risk borrowers or price expected loan default rates into the interest they charge.

Zopa boasts a bad-debt record of only 0.05 per cent in the first 18 months of its existence. It attributes its low default rate to its credit-scoring methods for assessing borrowers.

## **9.2. Diversification**

Zopa extensively use diversification as the key to mitigate default risk. Zopa is able to manage default risk by taking a more protective approach with respect to lenders by only accepting borrowers with high credit quality and by forcing lenders to diversify their loans across at least 50 borrowers. At Prosper, lenders can diversify, but are not forced to do so. It allows lenders to bid small amounts on all or part of loans; it is easy for lenders to create well-diversified portfolios. Using Prosper's standing order feature, lenders can efficiently diversify their portfolio by automatically funding listings that reflect their pre-defined criteria. For example, a lender can bid as little as \$50 on any loan listing.

## **9.3. Collection Agencies**

There's always the risk of default, and in the event a borrower fails to pay the loan, it is turned over to the collection agencies. Prosper has contracts with three collection agencies while Zopa has contract with one collection agency.

Borrowers who miss payments on Prosper incur late fees, which are collected by Prosper and passed onto the lenders. During the 15 days grace period, Prosper communicates directly with the borrower to encourage repayment. After the grace period, Prosper notifies the group leader of the late payment and that the group's reputation is at risk. After 30 days, Prosper engages a nationally-licensed collection agency, giving borrowers 90 days to payback. At 120 days past due, the loans are sold to a debt buyer and at that point, the borrower's credit report is negatively impacted with a default, they are banned from the platform, and the group's reputation is negatively affected.

At Zopa, if a borrower fails on a payment and do not contact Zopa first, Zopa pass on the information to a collections agency to recover the outstanding money. If the collection agency is unable to do so after 120 days, lenders have to sell the debt to the collections agency for a price that will be agreed at the time.

## **9.4. Peer Pressure**

Compared to Zopa, Prosper has added a number of community elements, the most important one being groups. Prosper relies on a strategy borrowed from hoi: shame, believing that people repay real-world co-operatives because they fear losing face among peers. It works on the principle that people from close communities act more responsibly towards each other. It leverages this powerful

concept of group responsibility and applies it to P2P lending resulting in better interest rates for people that borrow and lend.

Prosper has 1,000 organized groups set up to let members lend to one another. Designated group leaders confirm that everyone in the group is real, and by joining a responsible group with a good payment history, borrowers get a good reputation by association, and lenders are more likely to offer good interest rates.

Anyone (who qualifies with a verifiable name, bank account and Social Security number) can start a group or join an existing group that matches their interests or philosophy. If group members display a high degree of responsibility managing their individual debts then the group will qualify for more advantageous rates in the future.

The group leader also becomes a first line enforcer in the collections process. In addition, the group leader receives cash rewards for every loan that is funded and for every timely payment. The leader can choose to keep the rewards or to share them on a sliding scale from 25 percent to 100 percent with group members in the form of lower loan payments. The kicker, of course, is that groups where the rewards are shared are going to attract more members.

Groups are categorized as "arts and cultural", "business & Professional", "Civic & Political", "religious and spiritual", "hobbies and clubs", "military", etc. and a number of sub-categories within these designations. A total of 2,461 groups are listed across the various categories but there is a good deal of overlap with some groups listing themselves several different ways and a few appearing in every category. Membership in the various groups ranged from one person (the lonely group organizer) up to nearly two thousand.

Should a member miss a payment, the group's leader is contacted before the collection agency.

*"The group dynamic should help make Prosper a success. Group concept can work as a powerful marketing tool. If Prosper is able to recruit highly connected and motivated individuals as group leaders, the task of signing up borrowers will be much easier". – Asaf Buchner, analyst, Jupiter Research, New York City*

## 9.5. Default Cover

For lenders, the trick is charging enough to cover defaults and still generate returns. According to a Prosper guideline, if online communities are paid as reliably as others, lenders must add 2% or so to rates for defaults. Small companies are springing up to help in this regard. Some part-timers from Germany to Atlanta have set up sites to crunch data about Prosper market conditions. For example savangenummer.com, wiseclerk.com, ericscc.com, etc.

## **9.6. Identity Verification**

P2P lending players ensure that the participants in the marketplace are real person and the same person they say they are. For e.g., Prosper uses data from credit reporting agencies and other identity and anti-fraud verification databases in addition to data such as name, date of birth, Social Security number, details of bank account, address and telephone number to conduct identity verification checks.

## **9.7. Contractual agreement**

At Zopa.com, the borrowers and lenders enters into a legally binding contractual agreement for a loan amount. The loan contract include the agreement, incorporating the loan conditions, that is agreed when a borrower's confirmed bid matches a lender's loan offer and the borrower electronically counter-signs the corresponding credit agreement, recording a loan of £10 to that borrower from that lender. Even in the event of a total business failure of Zopa, the loan agreements still stand because Zopa is not a party to any loan contracts; it only provides the mechanism. The repayments will continue to be collected by Credit Resource Solutions Ltd, the collections agency that is appointed by Zopa lenders to collect missed payments.

## **9.8. Payment protection cover**

Zopa also offers Zopa Repayment Protection, an insurance policy to protect borrowers from failed payment through Pinnacle Insurance Plc. The premium is calculated based on the term and amount of loan. The premium is rounded to £10 and added to the amount of loan borrowed.

## **9.9. Regulatory aspect**

The online P2P lending sites are also regulated. For e.g., Zopa has FSA authorization, holds consumer credit licences from the Office of Fair Trading, is a member of the Finance and Leasing Association, and member of CIFAS and National Hunter, the UK's leading anti-fraud associations.

## **10. Current players**

### **10.1. [www.kiva.org](http://www.kiva.org)**

Kiva lets lenders connect with and loan money to unique small businesses in the developing world. By choosing a business on Kiva.org, lenders can "sponsor a business" and help the world's working poor make great strides towards economic independence. Throughout the course of the loan (usually 6-12 months), lenders can receive email journal updates from the business they have sponsored. As loans are repaid, lenders get their loan money back.

Kiva identifies the companies which need financing through their partnerships with various microfinance institutions. Kiva provides a data-rich, transparent lending platform for the poor. To date Kiva has funded 13 small enterprises in Uganda, including a livestock business, a medicine shop, several produce businesses, a fish monger and a clothing reseller. Two of the entrepreneurs

have already repaid their loans in full. The enterprises Kiva is working with are asking for loans averaging \$500, and the average lender is loaning between \$25 and \$100.

#### **10.2. PalTrust.com**

PalTrust builds and protects relationship between family and friends by automatically managing and tracking the loan. It helps by instantly structuring loans between friends and family, track what's paid and what's still owed online, automatically debit repayments from borrowers bank account and in the process provide more attractive rates for friends/family than formal investments.

#### **10.3. Moneytwins.com**

The first service that allows individuals and small groups of people to exchange their foreign currency notes directly with each other without using the services of a bank. The site wants to pair people up to trade currencies without hefty bank surcharges. A person can make an offer, look for open trades and close deals with people all around the world. This sounds like a great concept. Not just for those funny bills left over from last vacation, but also for the increasing amount of transnational families and their informal money transfers - a phenomenon that is also known as remittances. It is estimated that immigrants transfer up to 300 billion dollars back to their home countries every year."

#### **10.4. Rippleplay.com**

Ripple is a monetary system that makes simple obligations between friends as useful for making payments as regular money. User create a profile on the system and indicate who he/she know and how much he/she trust them by connecting to people by email address and giving them credit limits. Then whenever user want to make a payment to another Ripple user using only friendly obligations, the system finds a chain of intermediaries connecting user to the person user want to pay, and records the payment in each intermediary's account all the way down the chain. User end up owing one of his/her "neighbours" on the system, and the payment recipient ends up being owed by one of her neighbours.

#### **10.5. CircleLending**

CircleLending is a specialty loan administration company based in Waltham, Massachusetts. The company manages "person to person" loans and mortgages between relatives, friends and other private parties. The company is widely regarded as a pioneer in the U.S. financial services industry for designing products and services for the private loan market. CircleLending provides everything customers need to formalize and repay private loans. This includes loan documentation, repayment schedules, electronic billing, payment processing using electronic funds transfer, credit reporting, year-end statements for tax purposes and record keeping, web-enabled (and toll-free) account administration, etc.

CircleLending has helped entrepreneurs, first-time home buyers, students, and other individuals with limited resources access credit at favorable terms from relatives, friends, and business associates. CircleLending's products and services give confidence to lenders thereby improving access to credit for borrowers.

CircleLending launched its first product, a variation of today's Handshake Plus™ offering, in September 2001. Since then, CircleLending's loan volume has been growing at over 25% per quarter, comprised of loans as small as \$500 and as large as \$500,000. The company's loan volume surpassed \$100 million in early 2006.

### 10.6. ModestNeeds.org

Modest Needs is a charitable organization reaching out to the people who conventional philanthropy has forgotten: hard working individuals and families who suddenly find themselves faced with a small, unexpected expense that threatens their ability to remain self-sufficient.

Compassionate persons whose lives have been touched by kindness pass that kindness on to individuals and families struggling to remain self-sufficient despite a temporary financial setback. Modest Needs is proud to be the one and only licensed charity in North America serving otherwise self-sufficient individuals and families who find themselves in temporary financial distress.

## 11. Conclusion

P2P marketplaces are changing the way people borrow and lend money. P2P lending provide a democratic, off-the-grid alternative to the consumer credit matrix, and have the potential to change the way people borrow and dole out dollars. However, these firms are still in their early stages, but they're promising, especially since the consumer lending space is ripe for reinvention. According to Chris Larsen, "Other competitors coming into the market will cement the industry in people's minds and make it more likely they would want to try it as lenders and borrowers."

Currently these websites work for relatively small, unsecured, and primarily personal loans. With maturity the market may potentially see some other entrepreneurs entering the market and eventually starting up other financial services e.g., mortgages for homeowners to finance purchases or refinances. Such sites could ultimately supplant the existing financial institutions.

*"Previously disruptive innovations in banking, (for example, Internet Banking) didn't actually interfere with the special role that banks have in society. Non bank payment systems (such as Paypal) and P2P lending go right to the core of what banks have traditionally done and challenge the incumbent players" – James Gardner, Director for Retail Banking, Getronics.*

As a response, the incumbent financial institutions may either start their own lending marketplaces or will partner with the niche P2P lending marketplaces.