





Response to press article on bad debt, 26th January 2012 (updated 31st January 2012)

There was an article in the Daily Mail (25th January) and [This is Money](#) stating that P2P lenders should beware after “a rise in borrowers failing to repay debt”. P2P Money, the online peer-to-peer money website, believes that this needs to be put into context. The actual lifetime bad debt rate for Zopa (excluding listings) of 0.71% is well below their weighted estimated rate of 2.47%.

Bad debt can occur with any lending, and bad debt estimates should always be factored into any lending decision. P2P Money believes that it is not necessarily the headline bad debt rate that is the most important, but the difference between the predicted and actual bad debt, as this is effectively a “profit” or “loss” on the overall lending rate.

Company	Predicted Bad Debt			Actual Bad Debt		Comparison	
	Annual (AER)	Lifetime		Lifetime		Lifetime	
		Range	Average	Range	Average	Range	Average
	0.4% to 5.2%	0.8% to 11.0%	2.47% (excluding listings)	0.00% to 10.94%	0.74% (excluding listings)	+5.97% to -3.94%	+1.70% (excluding listings)
	0.6% to 3.3%	0.9% to 5.1%	2.55%	0.00% to 0.64%	0.37%	+3.06% to +0.90%	+2.18%
	N/A	< 1.4%	< 1.4%	0.18%		+1.22%	
	1.5% to 11.0%	3.0% to 25.0%	7.96%	0.00% to 23.05%	12.22%	+6.23% to -19.51%	-4.26%

Data extracted from [P2P Money](#) which is a summary of latest data supplied by Zopa, YES-secure, Funding Circle and YES-secure. Data excludes markets which don't have sufficient data and Zopa listings which didn't have any predicted bad debt estimates.

The data can demonstrate that the actual lifetime bad debt is lower than predictions for all of the companies listed above, except for YES-secure who represent less than 0.5% of the peer-lending market. Therefore a lender, who was sufficiently diversified (spread their money over a large enough number of borrowers over all markets) and took into account estimated bad debt rates, would see a return on their lending above expectations.

There are several caveats with this data, specifically it is harder to draw conclusions on immature or rapidly expanding loan books, and that bad debt will continue at the current rates, but P2P Money believes this analysis is sufficient to illustrate that peer-lending, while not risk free, can make a positive difference to both lenders and borrowers.

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

Ian Gurney, founder of P2P Money, has lent money on Zopa, Funding Circle, RateSetter and YES-secure. Please also refer to the [disclaimer](#).