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Overstating the risks of peer-to-peer lending, 20th June 2015

Yesterday the Yorkshire Building Society published their guide to peer-to-peer lending, entitled "Peer-to-peer lending explained". So why would an organisation publish a guide about a product that they *don't* offer?

Peer-to-peer lending has grown into a £2billion a year market in the UK, with more than 50 companies now operating within this sector. Banks, building societies and other financial institutions are starting to take notice as they are a direct competitor to the incumbents.

The Yorkshire Building Society's guide highlighted the lack of understanding about peer-to-peer lending, and we would fully concur that there are a lot of misconceptions about the industry. We believe that some of these risks are sometimes overstated, or taken out of context.

A peer-to-peer lender who has diversified their funds between multiple borrowers and multiple platforms will experience some defaults, but the interest received on the remainder of loans should more than make compensate for the bad debts. Lenders capital is therefore at risk, however returns of 5% AER to 6% AER are achievable even after deductions for basic rate tax payers.

Peer-to-peer lending isn't just unsecured. Loans secured on property and assets are available. Some peer-to-peer providers operate provision funds to reimburse lenders when a loan defaults, and this is paid for through an increased margin between the lender rate and the borrower rate.

As with any financial investment, peer-to-peer lenders should do some research. Lenders need to ensure their investments are fully diversified between multiple borrowers and P2P providers to ensure that a single negative event does not adversely affect their overall return.

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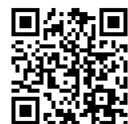

Ian Gurney, founder of the P2P money website, has lent money on some of the peer-to-peer platforms in the UK. Please also refer to the disclaimer.

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