**PRESS RELEASE**

**\*\*\* Tuesday 2nd May 2017 \*\*\***

**THE LURE OF FREE ACCESS IN P2P LENDING COMES WITH PITFALLS**

**Easy-access accounts offer lower interest, but not necessarily lower risk**

**Money could still be tied in, especially during economic crises**

Many individuals lending their money through peer-to-peer lending platforms are willing to earn considerably less interest on peer-to-peer lending accounts marketed as easy or free access. These accounts charge no fees when lenders apply to get their money early – before their borrowers have fully repaid their loans. However, these accounts are not like easy-access *savings* accounts. There are pitfalls to consider according to 4thWay® – an independent ratings agency for the peer-to-peer lending market.

* **Lenders earn nearly 2% less interest per year**
* **Longer-term lending products appear to offer better risk-adjusted returns**
* **Some free easy-access accounts have no features to enable swifter access**
* **Early access is not guaranteed**

**Lenders earn nearly 2% less interest per year**

* The average lending interest rate on accounts that offer free early access and which are marketed as such is 3.16% (1).
* The average lending rate on other P2P lending accounts is 4.92%, which is 1.76% more (1).
* The average early-exit fee on those other P2P lending accounts: 0.48% (approximately one months’ interest).
* The exit fee on a £5,000 pot is typically £25, which is the amount of interest earned after just six-weeks of lending.
* A £5,000 pot could grow to £6,357 in five years in the longer-term accounts compared to £5,841 in easy access.

In short, the much higher interest earned on accounts that do not offer free easy access easily covers their modest early exit fees.

**Longer-term lending products appear to offer better risk-adjusted returns**

4thWay stress tests what could go wrong in a major recession and property crash, using a more conservative form of the international Basel standards that the banks are required to use to test their loans (2).

These tests show that while most of the major P2P lending sites pay sufficient interest on their easy-access products, their ability to withstand losses is not quite as fantastic as for higher-paying, long-term accounts.

While the loans usually have the same risk profiles across the easy access and non-easy access lending products, the interest rates are lower for easy access. Therefore those using easy-access P2P lending accounts have less interest cover if reserve funds are depleted and bad debts eat into their overall gains.

This has led to some easy-access accounts having slightly lower 4thWay PLUS Ratings, which represents our calculated measure of the risks and rewards (3).

**Some free easy-access accounts have no features to enable swifter access**

To get your money back in P2P lending, lenders sell their loans to other lenders who are looking to lend. Typically, the P2P lending platform arranges all this on behalf of the lenders.

Lenders are therefore reliant on other lenders to leave. However, some P2P sites make it easier to leave earlier if you use their easy-access accounts rather than their other accounts.

RateSetter’s Rolling Market Account and Assetz Capital’s Quick Access Account are easy-access accounts that are funded with extra cash that can be used to pay back lenders who want to leave early. As a result, lenders using either account have so far typically received their money back instantly (3).

Zopa does not advertise a similar cash pile to aid early exit. However it does offer a different feature: those leaving its Zopa Access account are prioritised to get out ahead of those who want to leave Zopa’s other lending products.

Landbay’s easy-access account has demonstrated no features specially designed to enable swifter withdrawal. It does not advertise a cash pile to aid exit from its Tracker Account and, unlike Zopa, it cannot easily prioritise an early exit here over its other lending products, because its other products offer different kinds of loans, i.e. they are not interchangeable.

**Early access is not guaranteed**

Unlike savings accounts, P2P lending sites cannot guarantee that you will be able to get your money back early.

During times of crisis, such as recessions, bad debts will rise and some lenders will worry or even panic about lending and investing. It will become more difficult for lenders to exit any type of account as swiftly as they want if lots of lenders then look to sell their loans and new lenders are too scared to buy them.

At these times even those with easy-access accounts might struggle to leave as swiftly as they would like. Lenders in longer-term accounts might appreciate that, while they are unable to exit speedily, they are continuing to earn considerably more interest, which gives them an extra layer of protection against losses.

Neil Faulkner, co-founder and managing director of 4thWay®, comments: *“Up until now, for the most part, lenders have had no difficulty leaving within minutes or at most days of requesting early access, regardless of whether they were using longer-term lending accounts or accounts billed as easy access.*

*“Most of the major peer-to-peer sites currently have excellent controls, teams and processes and, so long as they continue to have high standards, I expect that the vast majority of lenders who are unable to exit immediately during a severe crisis will not lose money - regardless of the type of accounts they are lending through.*

*“That said, bear in mind that with the accounts marketed as easy access, you are usually accepting a lower interest rate in return for free access, but swift access is still not guaranteed. In addition, you are usually earning a lower interest rate on the same underlying loans, meaning you’re not usually in safer loans.*

*“Paradoxically, then, the accounts paying the higher rates might in some cases turn out to be lower risk.*

*“Lenders should therefore consider longer-term accounts over easy access, with a view to paying the modest early-exit fees if they want to leave early.*

*“Lenders should also note that they usually get repaid some of their loans every month, and that if they stop re-lending their repayments, they can generally expect to have around half their money back within 18 months, with no exit fees.*

*“The best defence against recessions and losses is to not lend at all until you are very confident in what you’re doing, so that you do not panic during a crisis, even if bad debts are rising.”*

**-ENDS-**

**NOTES TO EDITORS**

1. Based on the four major P2P lending sites with reserve funds that provide sufficient statistics and data to 4thWay to be rated: Assetz Capital, Landbay, RateSetter and Zopa.
2. Read about how 4thWay stress tests P2P lending sites and calculate the PLUS Ratings [here](https://www.4thway.co.uk/about-the-4thway-risk-ratings/).
3. Half the rated platforms’ ratings slip slightly on their easy-access accounts, as shown in this table:

|  |  |  |
| --- | --- | --- |
| **P2P lending platform** | **Rating on easy-access account** | **Rating on longest-term account** |
| Assetz Capital | C:\Users\User\Downloads\Five PLUSes.png | C:\Users\User\Downloads\Five PLUSes.png |
| Landbay | C:\Users\User\Downloads\Five PLUSes.png | C:\Users\User\Downloads\Five PLUSes.png |
| RateSetter | C:\Users\User\Downloads\Four PLUSes.png | C:\Users\User\Downloads\Five PLUSes.png |
| Zopa | C:\Users\User\Downloads\Four PLUSes.png | C:\Users\User\Downloads\Five PLUSes.png |

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**About 4thWay® – P2P Lending Research Approved By Your Peers**

4thWay® is an independent ratings agency for the peer-to-peer lending market that helps investors make comparing the many risks and aspects of lending through each P2P lending company easier. We uniquely have the full range of skills to research opportunities in this sector, and provide unbiased P2P lending comparisons, calculated ratings, detailed company insight reports, as well as exclusive lending tips, all available at [4thWay.co.uk](http://www.4thway.co.uk/)

Our mission is to be the most trustworthy source of information for P2P investors in the UK - which is why we hold ourselves accountable to our users, who govern us through a *Panel of Peers*, ensuring we always stay focused on individual lenders interests in this thriving market.