

**PRESS RELEASE**

**\*\*\* Tuesday 15th February 2018 \*\*\***

**Most P2P investors have made a profit**

**Diversification is the secret to successful P2P lending**

**Lending to 100 borrowers or more reduces risk over 100-fold**

More than two-hundred thousand (238,000) P2P lending investment accounts in the UK have been opened with five of the top P2P lending platforms since they launched. According to the platforms and calculations made by peer-to-peer ratings agency 4thWay (1), almost all of those accounts will have made profits for lenders if they have lent to at least 100 borrowers for two years.

P2P lending generally favours lending in prime buy-to-let mortgages with less than 70% LTV. While definitions of “prime” vary, in good market conditions, the chances of investors losing most of their money here typically fall well below 1% when lending to one individual.

In contrast, investors lending to either a single prime borrower for a personal loan or to one super-prime business borrower could see the odds of losing most of their money rise to 3%.

However, when lending to 100 prime individuals or super-prime business borrowers, the risk of losing 10% or more of their total loans are no more than 0.1% - and even better for prime BTL mortgages. This is assuming investors do not sell their loans and instead hold them until the borrowers fully pay them off.

Odds of losing money rise in a severe recession and can be 10 times higher in some cases when lending to just one borrower(2), but when lending to 100 top borrowers investors can still expect just a 0.1% chance of losing 20% or more of their original money.

In addition, all the losses on bad loans are either partly or completely offset by interest earned over the years on good loans, and by any additional protection in place, such as reserve funds to cover expected bad debts. Re-lending in the years prior to and after the recession further lowers the risk.

There are dozens of P2P lending platforms, offering investors a lot of choice for all risk appetites. Not all of them offer lending products which are exclusively focused on prime or super-prime borrowers, instead going down the chain to near-prime or even sub-prime and near-junk, or offering loans that can be more volatile.

If investors get involved in some of the riskier types of property development lending, for example, they could see double digit losses, before interest earned, even if they have diversified across lots of loans.

Platforms also have varying talent in-house and tools for selecting borrowers and setting interest rates to cover the risks.

**The big five**

* No-one lending through RateSetter has lost money.
* Those diversifying properly for at least a year at Funding Circle have not lost money.
* During the Great Recession, the only losers at Zopa were a handful of higher-rate taxpayers who made tax losses due to an unfortunate tax loophole that has now been closed by the Government.
* Five of the biggest P2P lending sites (Zopa, Funding Circle, RateSetter, Assetz Capital and FundingSecure) combined have done around 80% of all lending in the UK, which now totals over £10 billion, excluding invoice lending.
* These five have collectively paid out over £600 million in interest versus under £200 million in bad debts.
* Of those bad debts, approximately half of it has been paid for by bad-debt funds.
* In addition, tens of millions of pounds of the remaining bad debt is also highly likely to be recovered, either because of high-quality security behind the loans, or advanced and proven debt-collection practices.

**Small platforms**

This success story is not limited to the larger P2P lending platforms. A lot of smaller platforms, totalling hundreds of millions in lending, have seen even lower bad debts with attractive interest rates. These include the likes of CapitalStackers, Lending Works, ArchOver, Relendex, Proplend, Landbay and MoneyThing.

**Why some lenders have made losses**

There are hundreds of thousands of lenders who have been getting satisfactory returns. Looking back at the rare individual stories of individuals losing money, it almost invariably comes back to one of two reasons.

The first is lack of diversification. If a bank were to lend all its deposits to just a few large borrowers, the directors would probably go to jail for their recklessness. Yet some individual lenders hardly spread their money around at all, and they do not spread their money across a wide range of different types of loans and across many P2P lending platforms.

The other reason is short-termism. A normal default curve in business lending, for example, sees some bad debts occur quite early in your portfolio of loans. Yet bad debts just occur once, while lenders continue to earn interest on the good loans every month. In addition, some of those bad debts will be recovered.

Neil Faulkner, Co-founder and Managing Director of 4thWay®, comments: “*Lending money to creditworthy business, personal and property borrowers in straightforward loans is an asset class that can be just as stable and reliable for individual investors as it has been for institutional money lenders since at least the invention of credit scores.”*

*“This is not to say that lenders will only lose money by not diversifying. There will be times when some lenders will do worse despite doing so, especially where they choose to take higher risks. But not all investors are taking simple steps to diversify and this is something that the platforms themselves have to take more responsibility for. Information about minimum loans should be made clearer so investors can work out for themselves where to spread their money.”*

**-ENDS-**

**Notes to Editors**

1. Data from 4thWay and the P2P lending platforms from 01/10/2017 to 31/01/2018.
2. Based on international (Basel) banking tests set to a 1-in-100-year recession event, conducted by 4thWay and assuming distressed property sale prices 55% below valuations. Also based on a variety of real-life money-lending results during recessions. For example, under 1% of prime BTL mortgages resulted in repossessions during the Great Recession, according to Landbay; and UK and US personal loans and US credit cards made a profit for lenders every year without exception over 16-20 years that include the Great Recession and other downturns, according to Liberum.

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

4thWay® is an independent research agency for the peer-to-peer lending market that helps investors make comparing the many risks of lending through each P2P lending company easier. We have a unique approach to researching opportunities in this sector, and provide unbiased P2P lending comparisons, calculated risk 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 online community of 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.