4thWay's Top 8 P2P IFISA Picks

By Neil Faulkner, Head of Research

Introduction

About me

Hi, Neil here.

After starting off in insurance and law, I had a long stint as a financial and investment journalist, and as a media spokesperson for the investing website The Motley Fool.

Prior to the public launch of 4thWay, I spent a year full-time just interviewing CEOs and credit specialists at peer-to-peer lending sites and researching this space.

Since 2014 I have worked alongside specialists at 4thWay from the fields of banking, debt and fund management.

After what by now must be thousands of hours of research and interviews, I've become one of the foremost authorities on peer-to-peer lending. I have been in the P2P Finance News "Power 50" list every year since it launched.

I believe I'm the most quoted independent commentator on the industry in the UK's national media, and I've been consulted by the FCA, financial advisor groups and industry CEOs on important industry topics.

I continue to hone my knowledge with daily research, being led by data and supported by highly talented and experienced colleagues.

Where to start if you're a beginner?

If you're new to peer-to-peer lending and IFISA lending, you need to get some basic knowledge first. I suggest beginners start by reading 4thWay's core guides before taking on my IFISA picks.

What does a "top peer-to-peer IFISA investment" look like?

To different people, the "best" or "top" investments are not the same.

Some lenders might want the IFISA to be easy to use. Others might want low risk. Others still are only interested if they can pick individual loans with high interest rates for themselves.

What I want in an IFISA provider is:

- The IFISA needs to be peer-to-peer. Direct lending between borrowers and lenders removes the risk that your money might be used to pay the investment provider's own debts.
- The risk-reward balance needs to be such that 4thWay calculates - using internationally recognised methodology - that most lenders are likely to continue to make positive returns even during a severe recession and property crash comparable to that of 2008.
- There needs to be an excellent risk-reward balance with what I believe to be a high chance of having satisfactory results over the next three or more years, almost regardless of market conditions, and likely to contribute to positive returns when included in a wider portfolio ofIFISAs and P2P lending accounts. This means that both higher and low-risk IFISA accounts can make it into my list, provided the interest rates on offer are suitable.
- It needs to have provided enough information that I believe I can confidently make a solid assessment of it, my gut supports that assessment and, if I have any doubts at all, the answer is "No".
- The rewards of the *very lowest-risk* IFISAs, at a minimum, need to be one to two percentage points higher than cash ISAs offered by well known UK high-street banks or by any of the building societies. Lenders should also usually be passed the bulk of the rewards, rather than it being kept by the IFISA provider through hidden costs.
- I must have seen no large and overt signs that the provider could well be going out of business any time soon, nor of gross business incompetence that would lead to such an event.
- I don't shut out small IFISA providers completely, but the more variable the quality of the loans and the less certain I am about the key decision makers or their processes, the more history I need to see.

I also pay close attention to 4thWay's 10 P2P Investing Principles.

It's not necessary to offer lenders an early exit

Two items I don't care about - but which you might do - are:

- Early repayment: the ability to get all or most of my money back swiftly and before the borrower has repaid.
- Timely repayment: the need for almost zero loans to fall late or to have a reserve fund that enables timely repayment even of loans that fall late.

Early repayment

The natural life of these investments is usually the length of the loans. You can't expect to beat nature all the time. Banks and non-bank lenders don't try to do so, and so nor should lenders expect it will always be possible to do so. Indeed, rapid trading has not proven to be a sensible strategy for the stock market or bonds. And presumably for other investments too.

Therefore, the ability to exit loans early - before the borrower repays - does not make my list of requirements for a top IFISA pick. I believe you either commit to lend to these borrowers until they repay or you keep your money in savings.

Much of the money will be repaid to you naturally within 18 months anyway, when you choose to stop re-lending the proceeds.

Timely repayment

I'm not worried about having a fair proportion of loans go bad for months or even years, provided:

a) It's normal for that type of lending.
b) I have a solid expectation that much of the bad debt will ultimately be recovered.
c) The interest rates are high enough.

That sort of interest rate/bad-debt profile can happen a lot in some types of secured lending.

If that profile bothers you, you can restrict your lending to the types of loans that tend to go more smoothly - and there's enough choice out there for you, including many in my top 10 below.

You still need to spread your money around

Peer-to-peer lending, like bank lending, is very stable compared to, say, the stock market, where big falls and gains are typical. Indeed, most lenders have made stable, positive returns every year in the UK since peer-to-peer lending started in 2005.

But I can make no guarantees about any individual IFISA provider I mention here, or the basket of loans that you personally lend in at any one of them.

It's healthy if you see IFISA lending in the bigger context of your overall portfolio of P2P lending accounts and IFISA accounts, and all the loans you hold in them. In other words, no-one should be surprised to experience some disappointments.

Which is why you take your time to spread your money across at least 6-12 P2P lending and IFISA platforms, and many hundreds or thousands of loans. Then focus your attention on your *overall* rate of return.

What the asterisk (*) means

If you see an asterisk (*) next to the name of a peer-to-peer lending provider below, that means that 4thWay makes money if you click through a link to them and start lending. This doesn't influence my opinions. Indeed, I take something of a masochistic pleasure in the fact I repeatedly get away with bad-mouthing our paying customers.

But more than that I take great pleasure and pride in personally providing highly trustworthy research, which I happily put my name to. Read How 4thWay Makes Money Fairly With Your Help.

How I’ve ordered my top picks

4thWay’s comparison page lists P2P IFISAs starting with the highest 4thWay PLUS Ratings first. Those ratings are a calculated score balancing the risk of bad debts in a severe recession versus the interest rates.

1. To shake things up a bit and encourage you to look at other options, I’ve ordered my list of IFISAs today primarily based on whether it’s *super* easy to use, and whether it’s widely available for the average lender. These are at the top of my list.
2. In a tie-break between all the easy to use IFISAs, I order the list by highest interest rate first.

My top 8 list: contents

There are choices for all budgets, so I've put the minimum lending amount next to the name of each tip for ease of reference:

My top picks - listed with highest expected interest rates first	**Minimum lending amount**	**Favoured lending account/loans especially *easy* & *suitable* for beginners?**
CrowdProperty IFISA: an excellent record on development lending	£500 per loan; £50 per loan when using auto-lend	Yes (when using auto-lend)
Lending Works Growth IFISA: my favourite personal loans P2P lending site	£100 effectively spread across thousands of loans	Yes
Loanpad Premium IFISA: loans are for less than half the property value & partner lenders lose first 33%	£10 automatically spread across all live loans	Yes
Octopus Choice IFISA: born from a highly organised & much more established lender	£10 spread across at least 10 loans	Yes
RateSetter Max IFISA: a powerful machine that learns fast, led by a thoughtful CEO	£10 effectively spread across hundreds of thousands of loans	Yes
CapitalRise IFISA: the highest-paying pick that offers an IFISA, paying 9%	£1,000 per loan	No
Assetz Capital Manual Lending IFISA: specific loans offer attractive interest rates & there's quite a lot of choice	£1	No
HNW Lending IFISA: often has some extraordinarily low LTVs on individual asset loans	£5,000 per loan, or if you use auto-lend it's usually split across at least 15 loans	No
Propend Tranche A Lending: its best loans offer attractive interest rates with great property security receiving rent	£1,000 per loan	No

P2P lending pick: CrowdProperty

An excellent record on development lending combined with strict, professional and rigorous risk assessment, loan approval, loan-monitoring, and bad-debt recovery processes.

Lending account or loans I favour

All CrowdProperty's loans, which pay either 7% or 8% interest to lenders. The optional auto-lend is useful provided you cap the amount that will be lent in any one loan.

Description of what it does

CrowdProperty mostly does loans to property developers, and sometimes short-term (bridging) loans. All the loans pay your money back plus all the interest at the end of the loan.

CrowdProperty keeps it very simple. It does first-charge lending only, meaning CrowdProperty lenders always get repaid first in the event the project fails and the site/property needs to be repossessed and sold.

All developments must already have the required planning permission, reducing the risks.

With manual lending you need to lend at least £500 per loan. With auto-lend, you lend at least £500, but you can choose to lend as little as £50 per loan. You can use both manual and auto-lend simultaneously.

What I like

I like its focus entirely on development lending, where it has real, deep expertise and a large network of experienced developers to pick from.

To go with its two interest rates of 7% and 8%, it has just two tiers of borrower. One of the tiers is borrowers who offer the highest-quality development and bridging loans.

The other tier is even better: it's for borrowers with all of that *plus* even more experience in a large number of developments.

This is unusual in that at other development lenders the quality of a development loan - and the interest rates paid - usually vary a great deal. Strict criteria and focus says something as much about the founders' character as about achieving simplicity for lenders.

I believe CrowdProperty is deeply committed to these standards and will stick with them.

The interest rates of 8% per loan might on the surface seem low compared to some other P2P lending websites that offer individual selection of development loans, but in reality they are attractive for these particular prime development loans.

I strongly expect the average lender using CrowdProperty to earn more interest after bad debts than those doing higher interest-rate bridging and development P2P lending.

CrowdProperty has an excellent record for this kind of lending already and I feel strongly that its future performance will be highly satisfactory. Just a handful of loans have ever fallen very late when the projects did not go as planned. But CrowdProperty's team and the property developers got those projects completed. And the loans recovered in a rapid and manifestly professional way.

No lenders have lost any money, a third of loans have been repaid. No outstanding loans are even a bit late at present, which is unusual for development lending, where projects often get a little out of control. The record supports the standards CrowdProperty has convincingly described to me and my colleagues.

Experience in both lending and development is impressive, and the huge commitment to both qualitative and quantitative measures of risk, loan applications and projects is unusual for these loans - and attractive.

The amount lent is capped at 70% of the initial, starting valuation of the development site, which is fantastically good compared to most development lending.

CrowdProperty only lends when the developer's profit is expected to be at least 25% of the development costs. This is a very high standard not usually matched elsewhere.

I put my trust in the key decision makers at CrowdProperty.

What I don't like

CrowdProperty is putting standards over growth. Yes, that's fantastic - but there is a downside to that, which is that it's meant fewer loans. Usually a handful a month.

That said, with a bit of patience you'll grow a diversified selection of loans through CrowdProperty.

Visit CrowdProperty **or** read the 4thWay CrowdProperty Review for **more stats and information**. Also, check it out in our comparison tables.

> If using auto-lend, you could put less money in to begin with and top it up after some of it has been lent out. This ensures that your money is not sitting in CrowdProperty's investor account for several months without earning interest.

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P2P lending pick: Lending Works

My favourite personal loans P2P lending site with great interest rates, risk control and spread across lots of loans.

Lending account or loans I favour

The Lending Works Growth Lending Account*. At 5.4% interest, the lending rate is higher than Lending Works' Flexible Lending Account, but without higher risks.

This account is also available in an IFISA at no extra cost.

Description of what it does

Lending Works arranges loans with creditworthy individuals. The loans last up to five years, with a substantial share of prime borrowers.

You receive both interest and some of your loan back every month. You're generally expected to use Lending Works' automation feature to lend on a regular basis, which lowers your risks further.

How Lending Works shares bad debts between lenders

Lending Works* has a large liquidity fund called the Lending Works Shield.

Borrower payments are easily diverted into the Shield every day to cover any bad debts that occur.

Lending Works forecasts how much will be needed in the Shield, so that expected bad debts are covered by it. The Shield also takes the edge off in a recession.

If more money has been required by Lending Works' liquidity fund than expected, thousands of lenders will share the load by having their interest rates reduced.

You can read more about how it works here.

What I like

Lending Works has a great track record since 2014 for this kind of lending. Bad debts have easily been covered by a combination of the Lending Works Shield and interest earned by lenders. No lenders have come close to suffering losses.

The personal loans game is very much about being led by high-quality data, and constantly improving borrower assessments as your pile of data on them grows.

Lending Works* convinces me that it has been learning from its history of over 12,000 paid off loans, so that it can price interest rates and payments to Shield better.

It's a nice and simple decision really to put this P2P lending site in my mix, because we need to spread our money across lots of different types of loans if we really want to hedge our risks, and Lending Works appeals to me as the pure personal loans offering with the best risk-reward balance.

I like P2P lending sites that stick to one thing and just try to get better and better at it. It also makes it easier to analyse and to trust the signals we're getting.

Its powerful liquidity fund is a good thing, but really it's the auto-diversification across a huge number of borrowers that is an extremely useful feature for reducing the risks. This should not be underestimated.

You can dramatically lower your risks further by lending fixed amounts every month, regardless of how the economy and borrowers are doing, and commit to lend until all the loans have been fully repaid. This ensures you even out any blips - not that they would be anything like the stock-market rollercoaster anyway.

What I don't like

Lending Works* let lenders down a little recently, with substantial reductions to the interest they are earning on existing loans. This setback occurred due to a many-year's delay in noticing or acknowledging that bad debts would be higher than they expected.

While it's taken all the steps it needs to for future loans - including charging borrowers more and diverting a lot more money to its liquidity fund - it's going to take quite a while for it to fully recover its reputation.

Visit Lending Works* **or** read the 4thWay Lending Works Review for **more stats and information**. Also, check it out in our comparison tables.

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P2P lending pick: Loanpad

100% of the loans are for less than half the property valuations and partner lenders take first loss of 33%.

Lending account or loans I favour

I like the Loanpad Premium IFISA*, which pays 5% interest. Your money is spread automatically across all outstanding loans.

Description of what it does

Loanpad is a bridging and development lending peer-to-peer lending provider. Your loans are repaid over six to 18 months.

What I like

Loanpad* partners with experienced lending firms that take the riskiest slice of every loan. Its first partner lends in all the Loanpad loans, averaging around 33% of the loan. The partner will be the first to lose their money.

Individual Loanpad lenders are in a super safe space. Unlike all other property P2P platforms, it's not just some loans that are in that sweet spot, but all Loanpad loans. This makes it very easy to evaluate.

The biggest loan is for 46% of the starting property valuation. That's the initial value, not the hoped-for sale price on completing a development. The smallest loan is for a remarkable 23%.

I find it plausible that Loanpad* will be able to comfortably maintain these loan standards for quite a long while, as it has a supply of loans that gives it a lot of room to grow.

The interest rate of 5% is fantastic for a basket of automatically diversified loans that all meet this high standard. It's hard to imagine how lenders can lose money under almost any circumstances.

Loanpad's CEO seems well placed to assess partner lending firms, having worked with many of them as a property lawyer for a long time. He also has some experience heading up a bridging lender himself.

I like that you auto-spread across all loans when lending as little as £10.

What I don't like

While it is interesting to have a property peer-to-peer lending website that focuses on assessing partner lenders and leaving them the risky loan parts, it would be nice if Loanpad also had much deeper and broader skills in assessing loans for itself. That would simply be the icing on the cake when combined with its extremely high-quality loans.

Visit Loanpad* **or** read the 4thWay Loanpad Review for **more stats and information**. Also, check it out in our comparison tables.

Don't forget that both the interest rates and the risk profile of a P2P or IFISA provider can change, so you need to monitor it - perhaps with the help of a ratings and research agency called 4thWay.

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P2P lending pick: Octopus Choice

Born from a highly organised and much more established lender with an impeccable record and great financial strength.

Lending account or loans I favour

Octopus Choice has one IFISA, which automatically spreads your money across at least ten property loans.

Octopus Choice lends 5% of its own money in every loan. It takes the first loss on any loan that goes bad and is not fully recovered after a forced sale of the property.

The account is projected to pay 4% or slightly more after bad debts.

Description of what it does

Octopus Choice does buy-to-let, bridging, bridge-to-let, and commercial property loans.

The buy-to-let mortgages are to landlords that already have tenants in their properties. Buy-to-let mortgages make up the bulk of the loans through Octopus Choice.

Bridging loans are short-term loans to property borrowers.

Bridge-to-let is when a borrower, in this case usually a landlord with four or more properties, is offered a loan before the property has become fully tenanted.

Commercial property is when properties like offices and shop buildings are being let out to occupying businesses.

What I like

I like the possibly unique risk position of Octopus Choice's loans.

The buy-to-let mortgages are not always the absolute bog-standard, lowest-risk, 25-year mortgages that landlords with steady property portfolios get through any old high-street bank.

They are instead mostly shorter-term mortgages of two to five years, and the landlords are not necessarily borrowing entirely for the regular reasons that "normal" buy-to-let landlords borrow for. We can therefore expect the number of loans to suffer problems will be a tick higher than you see on the prime high-street - which is incredibly low.

To more than compensate for that slight uptick in risk, the borrower interest rates on Octopus Choice's buy-to-let mortgages are also a few percentage points higher. While the amount lenders receive is not much higher than you'd expect from the primest lending, Octopus Choice contributes by lending 5% of its own money in every loan and taking the first loss. This is an effective way to lower your risks. On average, Octopus is lending around £35,000 per loan.

Including the first loss, lenders are lending around 57% of the property valuation in these loans, on average, which gives excellent protection against losses for these high-quality, near prime loans. On almost all loans, any losses should be very well contained.

Octopus Choice's bridging loans make an interesting contrast with its buy-to-let mortgages.

These sort of temporary property loans often come with few borrower checks, while also knowingly allowing borrowers to temporarily overextend themselves beyond what is usually sensible. They often come with a very high risk of lots of the loans going bad or of major delays in repayment, as you might have experienced for yourself at other P2P lending sites.

Not with Octopus Choice.

Octopus Choice is part of a much larger and experienced lending business that has decided to keep all somewhat riskier lending for itself and only put the safer loans on its P2P lending and IFISA platform. So Octopus is focusing on the lower-risk end of the bridging-loan market, where the borrowers, and their plans to pay off the loan at the end, are especially stable.

The interest rates on its bridging loans reflect this, being quite a fair bit lower than you often see for such loans. But the borrower rates, averaging around 7%-8%, seem perfectly appropriate.

Intensive processes to assess loans clearly lower the risk of selecting bad loans across Octopus' wider business group. The first loss applies to the bridging loans too, and with the information we have so far it is likely that the first loss will prove itself useful with these loans.

Just 22 out of 661 loans have needed to be pushed to the lawyers to collect as bad debts and no lender has lost money on any of them. This is well within the range I would expect for the type and quality of loans Octopus is approving.

I've met three of the top decision makers personally, which is one to two people more than I usually get to meet, as well as one of the regional loan managers, and my spidey sense did not tingle. (Marvel don't sue me.) On the contrary. Its people and lending processes are as professional as they come, culminating in a hierarchy of four people who individually have to approve each loan.

On a daily basis, Octopus Choice rebalances the loans you are lending in to ensure you're always spread across at least ten loans. Ten is not sufficient, but in practice lenders are usually spread across a great many more loans than that. On average, lenders are spread across 130 loans after two years of lending.

You can also take diversification matters into your own hands by staggering your lending, or by lending for longer.

Without great diversification like this, the 4% lender rate would become less attractive, as there would be a higher risk of bad luck.

What I don't like

Although the lower rates are offset with excellent risk controls, I find the lender rates on bridging loans a little bit disappointing, as they are only a tick higher than on the buy-to-let loans.

Octopus Choice doesn't provide 4thWay with regular, detailed data, making it impossible for us to check its published figures. It also means that some of the figures I've used above are now getting quite out-of-date.

Visit Octopus Choice **or** read the 4thWay Octopus Choice Review for **more stats and information**. Also, check it out in our comparison tables.

Please take the time to read 4thWay's 10 Core P2P Lending Guides too, if you haven't done so already.

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P2P lending pick: RateSetter

A powerful machine that learns fast, led by a thoughtful CEO, RateSetter arranges seven different types of loans to individuals, businesses and property developers.

Lending account or loans I favour

The RateSetter Max Account*. This currently pays 4% interest, which is more than RateSetter's other, shorter-term accounts, but without higher risk, so the risk-reward balance is best with this account.

Description of what it does

4thWay broadly puts RateSetter's loans into three categories and seven sub-categories:

Personal loans

- Bog-standard personal loans.
- Car hire-purchase loans to individuals.
- Loans individual borrowers take out to buy mobile phones.
- Loans to fund the legal cost of people's divorces.

Business loans

- Small business loans (nominally secured).
- Business asset-purchase and hire-purchase loans.

Property loans

- Property development loans.

RateSetter* has a solidly sized reserve fund that would take the edge off any recession.

In the event that bad debts will consume the reserve fund, RateSetter spreads your risks across all its outstanding loans: tens of thousands of them, by reducing all lenders' interest rates and paying the difference into the reserve fund.

What I like

RateSetter has proved adept at moving into different types of loans and has swiftly shut down any loan types where its trials have not been successful. It mostly does smaller loans that require a focus on data and learning, which it does well.

I really like that it is also quick to admit mistakes - especially internally - and make changes to its lending or loan-monitoring policies to prevent such mistakes happening again. This doesn't go without saying; some P2P lending sites refuse to accept blame or learn from their errors. Dreadful.

It has a very long, good track record since 2010, paying lenders in its highest-paying account just shy of 6% over the period. It currently pays 4% in its highest-paying account, the Max account, which is still absolutely satisfactory for RateSetter's record and the mix of loans on offer.

RateSetter* accepts just one-in-five personal-loan applications. That is comparable to high-street banks, which have not lost money on such loans in any year for the past 20 years or more.

Development loans are typically for 65% of the future expected sale price, which is a good level. Surprisingly for a multi-purpose P2P lending site, its record in the difficult development lending market is exceptional. There has just been one bad debt so far, after lending to hundreds of different property developers, and most of the loans have been fully repaid.

The reserve fund and auto-diversification across all loans is an extremely powerful combo to reduce risks.

Since the risk is pooled, but not the interest rates, those earning higher rates benefit from diversification without taking a hit on their interest rates. In other words, contrary to intuition, the Max account probably has a lower risk of losses than the other accounts, which pay lower interest rates.

RateSetter* says its spread across many different types of loans as a benefit for lenders. Generally, I prefer P2P lending and IFISA providers to focus hard on one thing and then I diversify my money by spreading across them. But I am not against having one competent, multi-purpose P2P lending site in my mix. RateSetter is that one.

What I don't like

While RateSetter provides a huge amount of access and data, I would like to see that RateSetter opens up with more details about any security offered to lenders. In particular, with its lending to business borrowers, it does what it calls secured lending, but we have no details about how secure those loans really are, as in how valuable are the property or assets backing those loans and how are they valued.

When a P2P lending site is not willing to provide the security valuations and more details about security, 4thWay's experts treat the loans as if they are unsecured for analysis purposes. (On that basis, it still does well.)

RateSetter* has determinedly stuck to the idea that lenders set their own interest rates and it has told 4thWay that it has no minimum floor. In my view, it's setting itself up to disappoint lenders at some future point, when rates fall too low at the same time as a significant recession occurs.

I already find the lowest-paying account, the Access account, doesn't provide a rate that is attractive enough over the best savings accounts and barely enough over cash ISAs. So watch the rates.

Visit RateSetter* **or** read the 4thWay RateSetter Review for **more stats and information**. Also, check it out in our comparison tables.

You can dramatically lower P2P and IFISA lending risks further by lending fixed amounts every month, regardless of how the economy and borrowers are doing, and commit to lend until all the loans have been fully repaid. This ensures you even out any blips – not that they would be anything like the stock market rollercoaster anyway.

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P2P lending pick: Capitalrise

The highest-paying pick, paying 9% interest or more.

Before reading on...

You need to know that Capitalrise has now restricted lending to three categories of investor.

If you are an "ordinary" small investor then you can no longer lend. CapitalRise is the only IFISA provider in my list that completely excludes ordinary lenders.

The categories of lender it accepts are:

- You have a "high net worth", meaning your income is £100,000 or you have cash and other assets worth at least £250,000, excluding your own home.
- You are a sophisticated investor, meaning you invested in an unlisted company in the past year (e.g. through crowdfunding websites) or you have been a professional investor in the past two years.
- You are a professional investor now, meaning you invest on behalf of a company, and the company's main activity is to invest.

Lending account or loans I favour

You choose loans yourself.

I favour lending in all CapitalRise bridging loans.

I also favour lending in the second or even later tranche of every development loan. In other words, when a borrower is going to borrow money in tranches, lend your money in a later round.

This is because the interest rate is the same on later tranches as the first one, but it comes after some of the bigger uncertainties in the project will already be cleared up. In particular, I you could see that the groundworks have progressed, since it's only after these have begun that the developers can be certain that ground is as easy to build on as the surveyor has estimated.

I prefer not to lend in more than one tranche of any development-project loan.

Average lending rates on the above loans have been 9.31%.

I don't do any lending in CapitalRise equity loans, which are not pure lending.

For CapitalRise's junior loans - its mezzanine loans - I prefer lending when the total loans - that's all tranches and loans from other senior lenders combined - are for *less* than 70% of the expected sale price.

When lending in CapitalRise's junior loans, make sure you add up both the total lent in your loans as well as the total lent by the senior lenders before you. Compare the total to the property valuation and make sure that it's nicely in your favour. The majority of CapitalRise loans fit in my <70% limit versus the expected sale price.

Description of what it does

CapitalRise focuses entirely on grand properties in London or wealthy suburban towns.

It offers property development loans and short-term property (bridging) loans. It includes both first-charge and second-charge lending.

You get your money back at the end of the loan. Usually, the interest is all paid to you at the end of the loan too.

What I like

Most property IFISA providers scramble defensively to say that they try to diversify away from prime central London properties.

In this rush away from it, there has been a surprising vacuum for a competent party to focus exclusively on loans in this powerful niche. CapitalRise plants itself firmly in this spot and I think there's a good argument for lenders who have an appetite for a bit more risk and reward to include some of it in their overall lending portfolio.

CapitalRise is one of the more exciting and promising opportunities to show up in the past few years in terms of the high potential rewards and the balance of risk.

CapitalRise loans have surprisingly good vital statistics:

- Even where the total loan is greater than the starting valuation of the site, it has only exceeded 70% of the expected sale price a small number of times. This is as good a limit as you can expect to find in development lending.
- The loans have so far covered 73% of the entire cost of the development, on average. (That figure is a little out-of-date now, as it was taken at the start of winter 2019. But it's still nicely indicative.) Developers need other means or skin in the game to cover the difference.
- 4thWay estimates that the expected profit for developers most likely exceeds 25% of the loan costs. This gives developers - and therefore lenders - an excellent margin of safety.
- For these loans, the average lending rate is highly attractive.

- Borrowers all have to have a strong track record in developments and CapitalRise visits their past work, while reviewing the finances of those projects.

CapitalRise does a good proportion of senior loans, meaning that you'll get your money back, plus interest, before banks or anyone else that is lending to the same developer. That's in the event the development suffers problems. Therefore, if you want to contain your risks further, you might choose to do so by lending in the last tranche of senior loans only.

The average interest rates on senior loans drops down just a tick to 8.63%, on average.

I like that CapitalRise puts great weight on both checking out the borrower as well as the property security. This is far from a given. Many property peer-to-peer lending platforms focus exclusively on the property valuations, which tends to lead to a high proportion of loans getting into trouble.

On top of that, CapitalRise is keen on quantitative risk measures, a theme that I like to see in property, because it's a rare but welcome bonus. When property lenders are also mathematically minded, are usually considerably lower.

CapitalRise's standards for approving loans are high and it has been maintaining them even as its lending has sped up.

The key decision maker has said that he has successfully completed over 100 developments and the record so far and depth of its processes speak well for this P2P lending company.

Interest rates seem to me to be appropriate for this kind of lending, especially the second-charge loans, and yet due to CapitalRise's processes and standards, I think most lenders are going to be very satisfied with the money they earn.

A tip to lower your risks even further at CapitalRise

At the start of a development project, there are more risks ahead of it. You might therefore expect to be paid a higher lending rate if you lend before the groundworks have been laid in the first tranche of a multi-tranche loan.

However, CapitalRise pays the same lending rates to lenders whether you start lending in the first tranche of a loan - at the start of a development - or if you lend in one of the later planned tranches.

This means that you can substantially lower your risks without lowering your rewards by choosing to lend in the last tranche only. That's when you will already be able to see that the developer has completed tricky aspects of the development on time and on budget.

CapitalRise has not had any bad debts and has no problem loans, even as two-thirds of the total lent has already been repaid. That's a very reassuring start that matches my expectations...

What I don’t like

...That said, it’s still fairly early days. The total money actually disbursed to borrowers is just £43 million and it has funded just 20 unique projects.

An average of just 1-2 unique property projects per month are funded through CapitalRise. It will take you months to build up your portfolio if you choose to rely solely on CapitalRise for prime London development lending. (That said, it’s essential to spread your money across lots of providers anyway.)

CapitalRise is not affordable for a lot of lenders, because you need to lend at least £1,000 in each loan.

Finally, if you’re quite new to peer-to-peer lending, you can be forgiven for finding it difficult to follow my account of CapitalRise. Development lending, especially mezzanine, is not a simple kind of lending.

Visit CapitalRise **or** read the 4thWay CapitalRise Review for **more stats and information**. Also, check it out in our comparison tables.

Did you know you can lend across many IFISAs in just one year? You may have heard you can open just one IFISA per year, but that’s not quite true: you can spread across many IFISAs almost right away!

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P2P lending pick: Assetz Capital

Specific loans offer attractive interest rates and there's quite a lot of choice.

Lending account or loans I favour

The Assetz Capital Manual Lending IFISA*.

I favour self-selecting development loans and loans against rental/investment properties. I select the loans using these criteria:

Development and refurbishment loans

- With a first charge.
- With a total loan of no more than 65% of the hoped-for sale price of the development (the gross development value).

At Assetz Capital*, the above criteria don't lower the risk of selecting loans that go bad. But it increases the chances that the bad debt will be recovered.

By selecting only these development loans, the average interest rate only falls by 0.05% to 7.61%, before bad debts.

Loans to residential or commercial landlords (rental/investment properties)

- With a first charge.
- With a loan-to-value below 65%.

This lowers the risk of selecting loans that ultimately turn bad by about one-third, it increases the chances of being able to recover bad debt by about one-third, and it roughly halves the amount of debt that Assetz Capital believes will turn bad.

By selecting only these loans, the average interest rate only falls by 0.1% to 6.5%.

- Alternatively, the loans to residential or commercial landlords can be for as much as 75%, provided the properties are providing a particularly attractive and reliable income stream.

I also prefer to choose loans with high-quality recent valuations and straightforward property security only. So nothing complicated.

I favour spreading my money thinly between all possible loans with those above strict, but broad brush criteria, rather than attempting to pick the best ones from among them. Safety first!

Description of what it does

Assetz Capital* loans are to either landlords that own residential or commercial property, property developers, or small businesses.

All loans, including the small business loans, are secured on real property (real estate).

The loans have a wide range of terms, from five months to five years. They are typically interest-only loans, with the full loan paid at the end, but there are also a lot of loans where both some of your money and interest is paid regularly.

Some loans blend the two, starting off as interest only before switching to repayment loans.

Assetz Capital* has a variety of different automated lending accounts and one manual lending account. The automated lending accounts come with small reserve funds. The manual account pays substantially higher rates instead, and you can reduce risks by selecting lower-risk loans.

Assetz Capital does loans that tend to have a good proportion that suffer issues before being recovered. Thus, you might need to commit to re-lend your money as it comes in for several years in order to reduce the risks and get a satisfactory result in the medium term.

What I like

I like a good proportion of the loans that Assetz Capital* approves. Certainly they have enough loans with good security to make it worth browsing through them regularly with broad brush criteria.

That's why I prefer the Manual Lending Account rather than any of its automated lending accounts.

I also prefer this lending account over the others because of its transparency - especially to 4thWay. We receive Assetz Capital's complete historical loan book, updated every month.

With the manual account, you can be certain that you never put too much of your money into any one loan, and you can offset the lack of reserve fund through good selection and by earning higher interest rates.

With the sorts of loans I prefer to pick, they have historically earned 7.0% interest per year before bad debts, which is appropriate for the risks, if you take the time to spread your money *in equal amounts* across lots of loans.

For lenders who do that, bad debts are currently at 3.6% (excluding fresh new loans just started in the past 15 months). Assetz Capital expects to recover more than 80% of those bad debts. Even if we're more conservative, we can expect at least half of the outstanding bad debt to be recovered - although some more of those loans will also go bad in future, counterbalancing that a little bit.

Remember the bad debts only happen once, but interest on good loans is paid out for years. So the good stuff - the interest - is ongoing in a batch of loans, and the bad stuff - the bad debts - just happens once. On these loans, the balance is good.

I like that it's possible to sell specific loans early to greatly reduce risks.

With all the loans I favour selecting, it typically takes quite some time before they turn bad. For example, at present the most recently approved loan that has turned bad was approved 17 months ago. All newer loans are still doing fine.

This tells us that, to lower risks further, you could lend at the start of the first loan to a borrower against a specific property (i.e. not in later tranches of the same loan), and try to sell your loan parts 12 months or so later.

I like that Assetz Capital* allows you to pick your own loans and that you have a lot of choice, because a decent-sized minority of lenders really like being able to do that.

And I like that you don't need a lot of money to be able to spread across enough of these loans. It's not easy to find property peer-to-peer lending platforms that do these loans that are so affordable for the small investor.

What I don't like

Manual selection of loans of this kind is not for everyone. You need to be a very dedicated investor.

When choosing loans for yourself, lending in lots of loans means it takes time, set aside regularly, to review individual loans and put a small proportion of the money you set aside for Assetz Capital into them.

Over the course of a year, you should be spread across many dozens or even 100 loans, but you'll need to maintain your look out for loans as and when borrowers repay you.

I expect that results will vary widely for some investors - in particular the ones who don't take the trouble to spread their money around as many loans as possible. With the sometimes high number of loans that go bad in this kind of lending, it's absolutely critical that you spread your money widely to reduce the risks.

When these sorts of loans turn bad, they can take months or years to resolve. If you can't handle that, the Manual Lending Account is not for you.

Assetz Capital has focused on the quality of the security over the quality of the borrower. I usually prefer IFISA and P2P lending websites that are intensely interested in both the borrower and security, which reduces the risk of loans going bad.

Indeed, it's possible to earn similar interest rates on secured loans elsewhere - as shown in this very research piece you're reading now - where the overall loan quality is such that loans don't usually turn bad in the first place.

Overall, my estimate is that Assetz Capital is not single-mindedly focused on loan quality. It gives the impression of being at least as driven by rapid growth as it is by disciplined loan selection. Often, the two are in conflict, as a drive for growth can lead to lower standards, so it's something to keep an eye on.

Assetz Capital* has also had a new key loan decision maker for quite a while now. Unfortunately, due to an error of my own in scheduling, I've not managed to make contact with him to grill him yet. And it's not until either I or one of my colleagues have done that before we then go on to do any background checks on him. So this means I'm missing what could be useful clues as to the future of Assetz Capital's loan performance.

Assetz Capital provides 4thWay with the detailed status of every individual loan it's ever approved. However, I don't like the lack of clear information about how much money and how much bad debt is in every lending account it has ever offered lenders (some of which are closed to new investment). And in the case of the automated lending accounts, it would be useful to have more details on the reserve funds. I believe it's possible to pull the wool over people's eyes by not providing clear, detailed information on these areas.

Reserve funds are not guarantees of protection. All 4thWay's experts expect that most reserve funds will be completely depleted in a severe recession or property crash, or they will otherwise need to be topped up by lenders through a cut of your earnings being diverted towards them.

You need to be confident the interest rate you earn will be high enough to mop up any excess losses in a wide portfolio of loans. Far more important than a reserve fund is high standards in selecting borrowers and setting interest rates.

I don't like that Assetz Capital makes "versions" of its lending accounts that have reserve funds. This means that it periodically closes a lending account to new investment - and the account disappears from view. Assetz sometimes opens a new version of the same account for new investors, or it starts a brand new lending account altogether.

When versions disappear, it makes it harder to track how the lending accounts have continued to perform for the lenders who remained in it. It reduces accountability. It unfortunately reminds me of high-street banks' versioning of accounts in order to bury the fact that its existing savers - its most loyal ones - are getting a bad deal. What's more, peer-to-peer lending platforms have generally gone the other way, heading towards greater pooling of loans, which makes both logical and intuitive sense to me.

Visit Assetz Capital* **or** read the 4thWay Assetz Capital Review for **more stats and information**. Also, check it out in our comparison tables.

Most lenders are seriously asking for trouble by lending through just one or two P2P lending websites or IFISAs. Take the time to build up a basket of 6-12 that offer a variety of different types of loans to *hugely* reduce the risks.

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P2P lending pick: HNW Lending

Often has some extraordinarily low LTVs on individual asset loans, with good recovery of bad debts.

Lending account or loans I favour

HNW Lending* has a good auto-lend feature, although taking the time to pick from several dozen available loans for yourself can also be worth the effort.

If choosing loans, I like any of the following types of loans:

- First-charge, real property (real estate) loans on UK property with a loan-to-value below 60%, *or*;
- Second-charge real property loans, or any other kind of loans (e.g. loans secured against fancy cars) where the loan-to-value is below 50%.

I also avoid lending twice to the same borrower at the same time, although that is doable if you have a high number of other loans.

These loans typically pay 6% to 10% interest.

Description of what it does

HNW Lending offers what's called asset-backed lending, which means loans secured on property or physical things of value.

Mostly these are loans to individuals secured on one or more properties, but they are also secured against luxury cars, yachts, works of art, and other valuable items.

Unusually, HNW Lending sometimes allows borrowers to use overseas property as security.

All the borrowers have a lot of assets, but not necessarily much cash at the time they borrow from you.

You receive interest either monthly, quarterly or at the end of the loan term, when the loan is repaid.

The founders lend over £3 million through HNW Lending* themselves and they promise to take the first loss on most loans. HNW Lending shows how much its founders are currently lending as first loss in each loan when you sign up and look at its list of outstanding loans.

Auto-lend spreads your money across 15 loans if they're available and, in any event, it will ensure no more than 10% of your money is in any loan.

All loans with auto-lend have first loss, so your money is allocated to the same loans where the founders are lending.

Auto-lend has one small advantage over selecting loans manually: HNW Lending will try to cover any bad debts using the loans from borrower fees. It won't commit to a figure, but suggests it will probably pay bad debts up to approximately 1% of the outstanding loans.

That's not as solid as a proper reserve fund, because there's no legal promise to pay any specific amount of loss. And there's no pot of money that's legally segregated and set aside for the purpose of paying bad debts. Still, it should be of some use to some investors at some point.

Lenders using auto-lend benefit from the same interest rates as those lenders who select loans manually, so you're not paying for this additional modest protection.

What I like

I like that you can find a surprising number of extreme bargains, paying you 6% to 10% interest rates while taking security at as low as 10% LTV. That means extraordinarily low risk of losing money on quite a lot of loans. The average LTV has been around the 50% mark for some time.

HNW Lending* reacts immediately to problems, such as a borrower missing a payment. This is very important for this kind of lending, even though several competitors get this wrong and end up in trouble.

The number of loans that turn into actual problem debts is in line with similar lenders or perhaps even slightly lower. Potentially, this is aided by HNW Lending's focus on lending to wealthy people who are less likely to ultimately be unable to repay their debts. Secondly because it reacts very quickly to any signs of trouble.

It has so far done very well in recovering bad debt. Just £65,000 has been written off in five years. I currently expect its very high recovery rates to continue.

Data in November 2019 shows that there's around £7 million in outstanding bad debts that HNW Lending is in the process of recovering. It also has £8 million in late loans. Combined, that's about 18% of the £82 million loan book. This seems high, but it actually isn't for these sorts of loans.

The founders themselves say they have £464,000 in the loans that are currently bad debts and in recovery, which is very reassuring. They will take the first loss if any of the money on those loans is not recoverable.

The somewhat grumpy CEO and key decision maker is also available for lenders to call him personally to discuss HNW Lending* and individual loans in more detail, and he encourages this.

What I don't like

Analysing the loans is not easy. The HNW Lending website offers filters so that you can find loans that just have a first charge, but you need to read through the details to confirm that the filters are accurate.

For example, sometimes a borrower has two loans through HNW Lending based on the same security. In these cases, HNW Lending doesn't always remember to mark when an HNW Lending loan is junior to another loan.

You need to read all the information and supporting documents very carefully to understand what you're getting into on a specific loan, because HNW Lending is very flexible in approving loans.

For example, it might approve a loan based on a very old property valuation report if the borrower has a huge amount of other properties, or if HNW Lending believes the property is very clearly going to be worth far more than the loan, regardless of the valuation date.

HNW Lending* has a very high minimum lending amount of £5,000.

It takes a strong stomach to handle the high levels of loans that suffer delays or problems at some point. Typically around 15 or 20 out of every 100 loans are either late now or have turned bad at some point. During a recession, for these kinds of loans, you can expect a far higher number of loans to suffer problems. If you can't handle a long wait to see whether your bad loans are ultimately repaid to you, with interest on top, HNW Lending is not for you.

While HNW Lending is very quick to respond to our data queries and jump on the phone, I would like to see a little more perfectionism from them in ensuring the full data they report to 4thWay is error free.

Visit HNW Lending* **or** read the 4thWay HNW Lending Review for **more stats and information**. Also, check it out in our comparison tables.

I highly recommend you take the time to read all the information you get on lots of loans from a variety of different IFISA and P2P lending sites, so that you can better understand the specific risks there and choose better loans. But not at the expense of concentrating your money in too few loans!

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P2P lending pick: Proplend

Its best loans offer attractive interest rates with great property security receiving rent.

Lending account or loans I favour

I like to self-select a specific set of property loans at Proplend* that have all four of the following characteristics:

- "Tranche A" loans, which means the loan is for less than half of the property valuation (50% LTV or less).
- Loans that have never been renewed or rolled over, in order to reduce the risk of being caught out with a problem borrower that tries to kick the can down the road.
- The loans are based on residential or commercial properties that are already receiving more in rent than the monthly loan payments to Proplend's lenders.
- The loan is not connected to any other loans that I am already lending in, which usually means that it's not to the same borrower.

These loans have been paying lenders an average of 6.65% interest after Proplend's fees - a really fantastic reward for the risks involved.

For loans where I feel the rental income looks particularly safe, I also consider putting some money in tranche B or even tranche C, which come with higher interest rates.

While I prefer self-selecting specific loans with Proplend, lenders using the free "auto-lend" facility get to lend in new loans first. Using auto-lend greatly improves your chances of being able to take part in a loan.

So it's very sensible to temporarily switch on "auto-lend" just prior to an announced loan going live. You can set the maximum amount you want to lend in the loan at the same time.

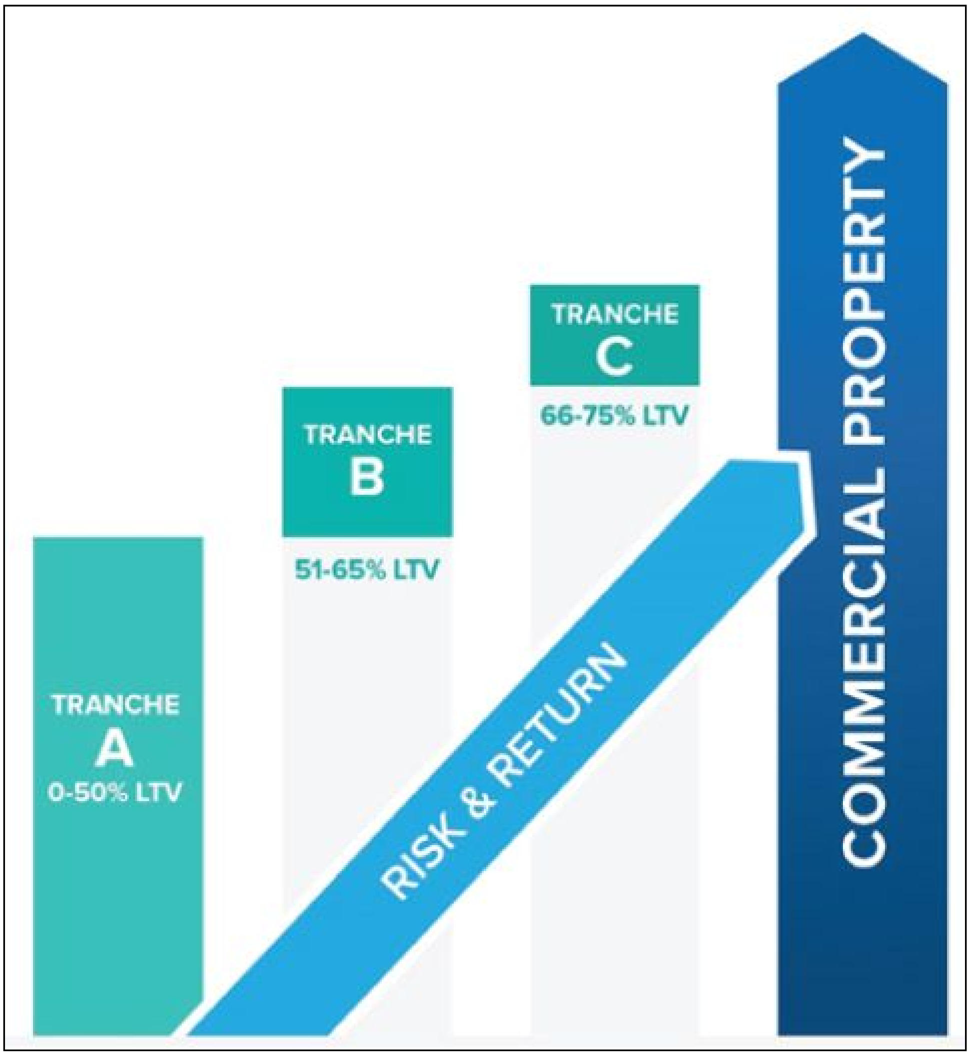
Switch auto-lend off again afterwards if you want to continue to decide for yourself which loans to lend in.

Description of what it does

Proplend* started off doing loans exactly as I describe in the above bullet list.

These loans pay interest on a monthly basis. You get your money back at the end of the loan.

Proplend also offers tranche B and C loans, which come with higher risks and higher interest rates. I've stolen an image from Proplend to help make the point:



I'll give you an example to explain that.

Let's say that the borrower fails to pay, so the property was to be forcibly sold at a cut price after sales costs that is 60% of the estimated value of the property.

Tranche A lenders get all their money back first. They make a full recovery.

Tranche B lenders get back just two-thirds of their money. Because they were lending a total of 15% of the expected value of the property, sitting above tranche A's 50%. The total is 65%, but the property sold for 60%. So 5% of tranche B lenders' 15% is lost. That's a whole third of their money lost.

Indeed, tranche B lenders would get back *less* than a third, because tranche A lenders also will have been paid their outstanding interest first.

Tranche C lenders, in my example, would lose all their money.

The higher the tranche, the more interest you will earn.

Proplend has also now branched out to offer short-term (bridging) property loans that can potentially be riskier. It needs to build a little bit more of a record on these.

Proplend effectively holds a deposit from the borrower by holding back several months' interest that was added to the loan. That doesn't hurt, but we need more time and data to see if that lowers the risks for lenders. It is, after all, funded by lenders' own money!

What I like

These loans are in a nice spot:

- They are not the lowest risk since they aren't necessarily the straightforward, prime buy-to-let (BTL) mortgages offered by many high-street banks. These loans are approved slightly more flexibly.
- And the loans are secured against different kinds of properties; not just residential properties but also office blocks, retail premises or even, in one case, a marina.
- The money received in rent versus the size of the monthly loan payments is not as high compared to prime BTL. In other words, a smaller drop in rent would mean the borrower is not receiving enough from its tenants to cover the monthly cost of the Proplend loan, at least temporarily.

But far from being negative points, these actually work out in our favour, as lenders, because it gives us a different opportunity - so long as the interest rates are right.

And for Proplend*, these loans currently pay higher interest rates than the risks demand. The lending interest rates after Proplend's fees are about double those that lenders can earn on prime buy-to-let, while the loans are a long way off double the risk.

The loans have fantastic security, in that the properties are valued at twice the size of the amount lent in tranche A loans. This also goes a long way to offsetting risks.

Notably, most borrowers are already receiving rent on their properties, rather than expecting to receive rent in the future. Typically the borrower is receiving rent of over 1.1 or 1.25 times the monthly loan payment.

This is smaller rental cover than you typically see in prime BTL. But that is at least partially offset by having a higher proportion of loans with more than one tenant, again lowering the risks.

Even allowing for some flexibility in how Proplend* approves loans, I like the straightforward criteria it uses for rental-property loans, which makes it harder for Proplend to go wrong when evaluating borrowers and properties, and controlling the risks.

I like that, apart from a small tweak, it hasn't weakened its lending criteria on its rental property loans over the years. If it was more mercenary, it could have chosen to do so.

Just a few loans have fallen late, but ultimately they have all recovered. There's just one peer-to-peer loan that has actually turned bad, yet Proplend is currently confident it will recover in full.

What I don't like

Proplend* is an unusual pick for me. Although recent hires have certainly given it a boost, it still hasn't got quite the experience that I'd ideally like to see.

My view of its small number of repeat loans - called "refinances" is currently to wait and see, because it will take some time for these loans to mature. Only then will we learn if borrowers are kicking problems down the road. But I avoid that by not lending in such loans.

It's a similar story with Proplend's property bridging loans. This is a new type of lending for them and I want more time to see its record.

Proplend does well in providing statistics and information to lenders (and a whole deal more data and access for meetings with me and my team). But it could perhaps make it a little clearer that valuing commercial property - on its commercial-property loans - is not quite as stable and reliable as valuing residential property.

I'll give a somewhat extreme example to show you what I mean about the potential risk in valuing commercial property. Say that a restaurant next to an industrial estate is paying solid rent to its landlord - the borrower - and so the borrower is able to easily meet monthly loan payments. But then the industrial estate closes down. There are now no people near working near the restaurant and therefore it has no customers. The restaurant will close and the landlord will struggle to sell the property for anything like the initial property valuation.

The majority of Proplend's loans meet my four selection criteria at the top of this Proplend tip and that means there's sufficient protection against the risks I've just described.

But Proplend's strict criteria means that it often doesn't have many loans available. Therefore you need to limit the amount you lend in Proplend until it grows some more. And that's not easy for many people: the minimum you can put into a loan is £1,000.

Visit Proplend* **or** read the 4thWay Proplend Review for **more stats and information**. Also, check it out in our comparison tables.

I personally wouldn't put more than 10%-15% of my money through any single P2P lending platform. I don't see the point in concentrating my risks when there are enough great choices out there to spread my money around.

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Get even more info

For even more statistics, opinion and information about all of the picks mentioned above, make sure you read the authoritative 4thWay reviews on them.

You could also check out nearly 100 statistics and facts about them in our detailed comparison pages: go to the compare page, select up to five checkboxes on the right-hand side of the lending accounts you like, and click Get more details at the top or bottom of the page.

The above are just my opinions and this is not advice tailored to your situation.

**4thWay receives commission when you click through links to Assetz Capital, HNW Lending, Lending Works, Proplend and RateSetter. I assure you it doesn't impact our independent views. How We Earn Money Fairly With Your Help.*

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