Peer to Peer Lending Made Easy

by Simon Cunningham

HELPING YOU EARN SOLID, SMART RETURNS
IN P2P LENDING

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Dedicated to **Peter Renton** of Lend Academy

// Disclaimer

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Part 1 – Introduction

Welcome to the fascinating world of peer to peer lending. In just seven short years, this new avenue of lending has exploded in popularity and growth, yet there exist very few guides to help people get started. Interested people like myself were forced to learn about it through the time-consuming process of piecing together online articles.

I wrote this eBook to consolidate an overall introduction to peer to peer lending, doing my best to compile a guide that is both clear and well researched. I hope you enjoy reading this as much as I enjoyed writing it.

Peer to peer lending is not a means to getting rich quickly. If that is privately your motivation, you may be disappointed. However, if you are earnest about achieving consistent, lucrative returns in a way that also helps people who need a loan, I think you will find yourself in good company.

My hope is that this eBook succeeds in doing two things. First, I hope it demonstrates how simple it is to open a lender account and set up some basic filters that make it possible to obtain a return of over 5%. In the context of today's lackluster investment options, having this level of consistent returns is a much-needed breath of fresh air. For those of you who want to go further and devote a little more time, you can become skilled with filtering loans to achieve a realistic return of 8-9% or more.

My second goal for this eBook is deeper: I hope it surprises and *inspires* you. As you will read in the following pages, I think peer to peer lending is the greatest thing since sliced bread. My goal is that, by the end of reading this eBook, you would be as thrilled as I am about the health and opportunity that exists within a future that involves peer to peer lending.

Cheers,

Simon Cunningham
Founder, LendingMemo.com

> **Helpful Hint: Pace Yourself**
>
> At first, peer to peer lending can be difficult to understand. But I believe that if you go slow and try to grasp these platforms at your own speed, you will discover that the learning curve is quite mild. Try and remember that the best learning always happens within real world experiences. Only reading information on the web (including this eBook) would be a poor substitute for simply opening an account and exploring it firsthand.

Part 2 – A Brief History of Lending

Everybody needs loans. When my mom and dad got married and moved to my childhood home in Michigan, they were no exception. With three children, they needed a house with two bedrooms, a living room, a dining room, and *space* – a house that was large enough for their young family. And despite my father having a decent paying job, there was no way he could have fully paid for our house in cash, so he got a loan from the bank. This large-enough home went hand-in-glove with my parent's upbringing of us kids, and is partially responsible for my health as an individual today.

I grew up under that mortgage, that loan, experiencing childhood and adolescence through it, eventually leaving to attend college through a student loan. In a sense, I arrived where I am today because of lending.

> While there is less how-to information in this section on lending history, I believe telling it adds weight to what we are trying to do, which is to herald peer to peer lending as a healthier future of connection between those of us with resources to lend and those of us who need to borrow.

The reality is, most all of us are. Both families and nations have all needed loans at one point or another. The United States borrowed money from France and Holland to fund the Revolutionary War, and continues to borrow and lend money to other nations to this day. Lending has been a common element of every great civilization, from the Babylonians to the British. Getting a loan has allowed people a piece of much needed security in this chaotic world.

It is probably no different for you, the reader of this ebook. Without streams of credit, many of us today would not have had a stable childhood home or the ability to attend college.

In the last few decades, these streams of credit have become increasingly controlled by a middleman – the enormous paper-laden corporate intermediary that is the American banking sector. Sometimes the existence of this middleman has been a good thing, providing great oversight in the places where we entrust our money. But lately, things have gotten harder. The stock market has been up and down like a ship on stormy seas –tumultuous and unnerving. Interest rates for savings accounts have fallen to almost negligible levels. Even our ability to get a fair loan when we need one, almost a basic societal function, has become more difficult in the past few years, even for people with a good credit history and consistent employment.

Thankfully, this is changing. Technology is making the world more connected than ever. With the arrival of the internet, it is suddenly possible for us to interact in new, convenient ways that no

longer require these bulky intermediaries. The web is a medium of liberation that causes barriers, particularly Wall Street middlemen, to fall down.

As an example of how the internet and technology have broken down these intermediaries, consider how the widespread availability of digital media has changed the music industry. All of a sudden a musician did not need a label (a middleman) like Sony or Columbia to become successful; they only needed a decent studio, public exposure, and plenty of talent (like the Seattle-based rapper Macklemore on the right). People no longer needed to get in a car to go purchase music; they could download their favorite artist's newest album within minutes of it being released online.

Big changes accompanied this arrival of digital music. First, since there was suddenly so much music available, the price of an album went way down. Second, the record companies lost a lot of money and are still struggling today. Finally, the listening experience of everybody nationwide improved. No longer were people forced to choose from one of three radio stations or browse a collection of thirty CDs in the new-release section of their local music store. Instead, everybody had access to their particular style of music. Genres of music that were previously limited to only a few musicians (or did not exist at all) suddenly had a larger chorus of artists to choose from.

This is the digital age: prices drop, middlemen collapse, and the overall quality goes up.

The Peer to Peer Lending Revolution

Just as how the evolution of the internet and technology has created a shift in the music industry, a parallel shift is happening to the credit industry, **one of the largest sectors of the global economy**. Can you imagine the transition that is coming? Where people were previously dependent upon banks for lines of credit like mortgages and business loans, we are now seeing this intermediary getting sidestepped at a grassroots level. This is the beauty of peer to peer lending. Using a website like LendingClub.com, a lender in urban Seattle can directly issue a business loan for a new brewery in suburban Charleston, and do it with confidence that they will receive a solid return.

The element of change that is enabling this shift is the *proximity* between the two parties. In our example of changes to the music industry, the ability of musicians to digitally produce their content means that buyers can purchase a new album directly through the musician's website.

Both the musician and the listener become better connected and are more closely situated to communicate their needs and ideas.

In the context of peer to peer lending, this change in proximity is a tremendous shift in the way we feel connected to our money. Where before individuals with excess cash grew it through investing, we are arriving at a future where it will happen through *lending*. The difference between investing and lending is *intimacy*, the quality of being closer. Typical investing options like mutual funds psychologically remove the investor from their cash, entrusting it to a faceless institution. On the other hand, the practice of peer to peer lending keeps the lender more closely connected to his money by depositing it into the hands of real people. With this intimacy arrives a fresh kind of health: greater respect for the credit we offer, higher transparency and less abuse in the system, lower volatility (fewer crashes), and a deeper sense of commitment by borrowers during repayment.

How good does this change sound in the face of the 2008 banking scandals? How much does the average person, racked with feelings of mistrust towards traditional avenues of saving for retirement, need to hear this?

Two American Platforms: Prosper & Lending Club

If you are intrigued by the idea of peer to peer lending, you will be interested to hear about its current success. Borrowers with a decent credit are getting low-interest loans, and lenders with excess cash are getting great returns. But the road to a consistent system of peer to peer lending has not been easy, as seen in the following paragraph.

The very first American platform for peer to peer lending, Prosper.com, launched in 2006, and experienced some quick hardship. Its first approach was poorly conceived and resulted in a lot of people getting loans who should have been denied one. Prosper lost money for the majority of its lenders and temporarily shut down in 2008. The second platform, LendingClub.com, launched in 2007 but soon experienced its own initial struggles. However, by 2009, both Prosper and Lending Club had emerged with new oversight by the US Securities and Exchange Commission (SEC), launching platforms that really worked. These sites are still going strong today.

After just a few years, both Lending Club and Prosper had hit their stride and are growing in size at remarkable rates (see chart on the next page). For example, in November of 2012 Lending Club alone crossed $1 billion in total issued loans. Just eight months later in July 2013, it crossed $2 billion. When did Lending Club cross $3 billion in issued loans? That *same year* in December. If you are interested in hearing the entire backstory of Lending Club's success, I suggest you pick up the readable Lending Club Story, a book written by Lend Academy's Peter Renton.
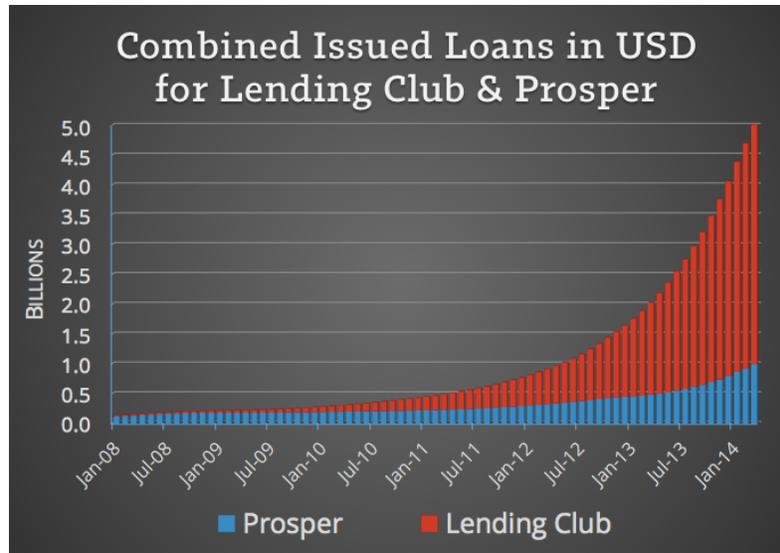
Also seen in the chart above, Prosper has been on an equally impressive roll, crossing their first billion in issued loans during the month of April, 2014.

Lending Club and Prosper's combined success is a testament to the growing interest within our country for new avenues of investment that are outside the norm.

Part 3 – Peer to Peer Lending: How Does It Work?

I find peer to peer lending really refreshing. Where else can you take your extra savings, help people with it, and get a great return in the process? Everybody wins (except the banks). However, peer to peer lending can be a little confusing to learn, especially at the beginning.

To introduce peer to peer lending to people who are just starting out, we begin in the following section with a very basic overview. We will add lots of detail to this framework in later sections. Let's get started.

The idea of peer to peer lending is simple, beautiful even. Someone needs a loan, so they approach a **platform** like Lending Club or Prosper. In order to be considered for a loan, potential borrowers have to submit some private information, such as their social security number (to run a credit report) and employment status. Any false information or bad credit history and an application is denied. If a borrower's application does get accepted, the requested loan is added to the platform's list of requested loans. The borrower then has two weeks for lenders

> ### Key Term: Platform
>
> We will be using this word to refer to the *websites* that facilitate peer to peer lending. There are two major peer to peer platforms in the USA: Lending Club and Prosper.

throughout the country to take a look at the loan request and decide whether to invest. If their requested loan gets enough funding from investors within two weeks, it is issued. The borrower then makes monthly payments on this loan until it is repaid, and the lender collects these payments minus a small fee to the platform.

As a potential lender, you are the person who goes onto the platform to invest in these requested loans. To do this, you go to the LendingClub or Prosper websites and submit an application to become a lender. (Note: Some states do not allow peer to peer lending, so check the box on the next page to see if your state is listed.) After you open an account with a platform and transfer some funds into it, you can begin browsing the platform's long list of available loans. This task of choosing loans out of the hundreds or thousands that are available for investment is where new investors can get confused. **After all, how can you tell which loans are the best ones?**

The short answer is that nobody knows. Every loan on that platform has the small chance it could **default** (not be repaid), because every loan has a flesh-and-blood human being behind it – a person whose life is complicated and full of the unexpected. But as you begin to learn about loans, research loan history, and examine the currently available loans, you will be able to determine the best loans for your particular investing strategy.

Thankfully, there is only a small chance that any loan can default. This is because **Lending Club and Prosper underwrite all their loans**, which means that the borrowers who apply for these loans have passed a rigorous credit check. In this way, every loan available to us is *already* "quality".

Lending Club and Prosper have made it easier to separate the loans you prefer by setting up **filters** (also called saved searches). As a result, selecting the better loans can be quick and repetitive as you become more familiar with the process. Most successful lenders only need to log in for a few minutes per week. However, nobody started out this way, including myself. I had to take time to become familiar with the platforms and understand which loans were the wisest investments. But with a bit of work on the front end, things fell into place.

The best advice I can give you in this starting place is to go slow, be curious, and enjoy it. Learn it for yourself. One of the best things about peer to peer lending is how little money you need to try it out: just $25. You will not be diversified with only one loan, but you should get a decent feel for the how websites work.

Once you have established a rhythm, it is simple to just maintain this habit a few minutes every week. You just (1) go to your account to see if it has any available cash, (2) filter the platform for quality loans, and (3) choose a few to fund. Pretty simple. People get access to a needed loan and you get a great return on your investment. In the next section, we will start to fill in this general picture with a closer look at the lending process, so let's keep going. You are *already* on your way to becoming a peer to peer lender.

Prosper only available in:

Alaska, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, Montana, Nevada, New Hampshire, New York, Oregon, Rhode Island, South Carolina, South Dakota, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming.

Lending Club only available in:

California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Idaho, Illinois, Kentucky, Louisiana, Maine, Minnesota, Mississippi, Montana, Nevada, New Hampshire, New York, Rhode Island, South Dakota, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

$2,000 Minimum Investment

To make a trial investment in Lending Club, you will need to start with $2,000 minimum. This allows you to diversify in 80 $25 **A-grade** notes. To invest across the entire platform, you need at least $5000+, which will allow you to pick up 200+ $25 notes across grades A-G. Diversified accounts are not guaranteed successes, but historically 99% of them have positive returns. Read this.

Part 4 – Peer to Peer Lending: Step by Step

Step by step, peer to peer lending happens like this:

1. **Log in and examine your account**

2. **Filter the platform's available loans**

3. **Invest in choice notes**

4. **Receive loan repayments over time**

5. **Reinvest these returns into more notes**

Let's break down and expand each of these steps using examples from Lending Club's platform:

> **Return on Investment (ROI)**
>
> This is the rate you are earning per year on your account, like a savings account rate. Platforms call this your Net Annualized Return (**NAR**). Great tools like NickelSteamroller's Portfolio Analyzer can give you a better breakdown of this rate.

1. Log into your account: First, go to the LendingClub.com or Prosper.com website (open an account if you have not done so). Upon logging onto the platform, you will see the home screen of your account. Of course, Prosper and Lending Club have different terminology for this page (and near everything else), but it's basically the same for both. Lending Club calls this your Account Summary page; Prosper calls it your Account Overview.

2. Examine your account: On your account page many important numbers will be listed. The main three are: (1) your current **return on investment (ROI)**, (2) a dollar amount for the **account value** you have invested on the platform, and (3) a dollar amount for how much **available cash** you have to invest. Both Prosper and Lending Club have these three important numbers.
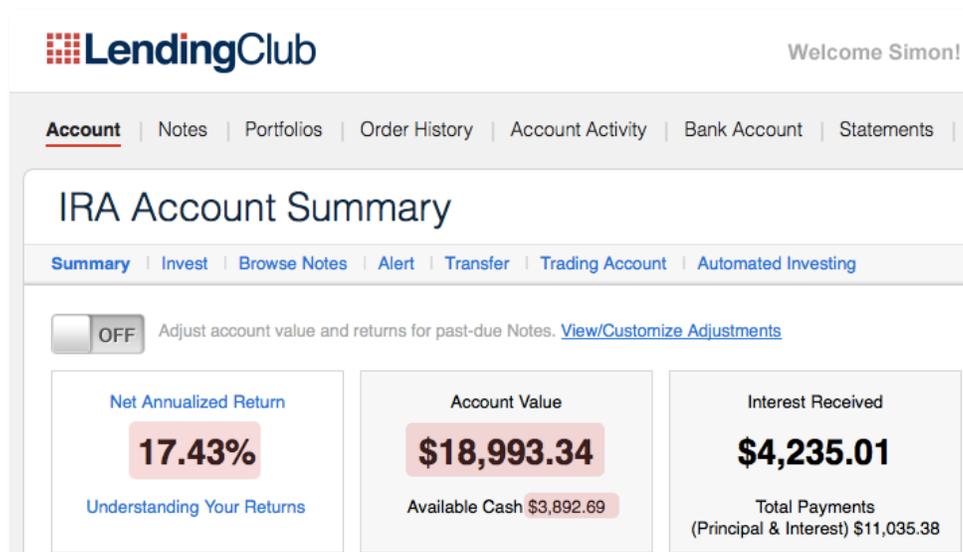
Lending Club's "Account Summary" page (with these three numbers circled)

3. Browse available loans: After you examine your account, it is time to begin lending. Click on the link that says Browse Notes. The platform will bring up hundreds of available loans for lending. This is where beginners can get overwhelmed. A lot of unfamiliar terminology is presented on the Browse Notes page: interest rates, loan titles, percentage bars and different colored boxes. To help, the descriptions spread throughout this eBook should make these terms much easier to understand.

Lending Club's 'Browse Notes' screen (in the upper-right you see there were 959 loans were available)

4. Filter results: From the Browse page, you can use a "saved filter" (Lending Club) or "saved search" (Prosper) to filter out the best available loans, often leaving a much smaller list from the original hundreds. **The task of filtering available loans is probably the most complicated part of peer to peer lending**, and is introduced in Part 5 of this eBook.

5. Examine a loan: Once your filter has slimmed down the large pool of available loans into a smaller higher-quality list, you can begin the much simpler task of

> **All the Loans Have Passed Platform Inspection**
> We emphasize filtering in this ebook. But it is worth repeating that *all* the loans on Lending Club & Prosper have passed underwriting standards and are thus trustworthy investments.

choosing some loans to invest in, weeding out other loans that satisfied your filter criteria but don't meet your standards. For instance, a typical Lending Club filter I use requires borrowers to have been employed at least six years. Interestingly enough, this filter sometimes gave me a loan that shows a person's job title as N/A (not available), meaning they did not fill it out. Basically, the borrower says they have six years of employment, but refuse to state what they do. I would skip this loan, as plenty of other loans exist that actually do state their job titles.

6. Invest in a note: Now comes the big moment. If you find a loan that survives your filters <u>and</u> meets your follow-up inspection, you can fund a small portion of the loan, called a **note**. It is suggested you do not invest more than $25 per loan because you want to place your investment pool in as many loans as possible. This is called *diversifying*. **A truly diversified account has at least 200 equally-weighted notes**. So if you are investing more than $10,000 then you could invest using $50 notes, $15,000 with $75 notes, and so on.

Key Term: Note
Instead of finding someone to fund the entire loan, peer to peer platforms allow for hundreds of lenders to each buy a note, or a smaller portion of the entire loan. Some loans as large as $35,000 are funded this way by hundreds of lenders.

7. Receive payments: After investing, you will not receive loan repayments very quickly. The loan first has to get full investor funding, then final platform approval, and finally the borrower is given 30 days before the first payment is due. If the loan is not funded or fails its review, the money you have invested will be redeposited into your account. However, if the loan is successfully issued, you will receive monthly repayments until the loan is completely paid off. Loans either carry a 36 month (three year) or 60 month (five year) **term**.

8. Reinvest those returns: Once money from your invested loans starts flowing back into your account, you should reinvest this money into the platform (or withdraw it). If you let these funds lie dormant, they do not earn interest. It's important to set up a routine where you log in and reinvest your available funds on some sort of schedule. Those with smaller accounts may only need to log in every month, but those with larger accounts may need to check in more regularly.

Huge Timesaver: Both Lending Club & Prosper Have <u>Automated</u> Investing

If you save a filter, you can then arrange to have newly available funds automatically invested in loans that match this filter.

Some dislike peer to peer lending since it is not a totally passive investment. A small amount of continual effort is

required of us. But I feel the work is quite manageable, only a few minutes per login once the process is familiar.

If you get tired of manually investing, you can set up Lending Club or Prosper to reinvest *automatically*. Both platforms have a feature where you can set up the platform to automatically invest excess cash into more notes, even with a filter. On Prosper, this feature is called **Automated Quick Invest**. On Lending Club, it is called **Automated Investing**.

Many new investors begin by investing in notes manually. However, most eventually switch to an automated option, either using a platform's or a third-party site like LendingRobot.com.

> ### <u>Most Important</u>: Diversify
> Some of the horror stories we hear in peer to peer lending come from people who invested huge sums of money in just a few "good" loans. This is very risky. If just one of their borrowers defaults, it's a huge blow to their total return. Do the opposite. By only investing smaller amounts in 200+ equally weighted notes, you can minimize the damage when a default eventually happens (which it will).

Managing Your Account Over Time

Once you begin peer to peer lending, you will need to maintain your account. One way to do this is through the Notes page. You can get there (in both Lending Club and Prosper) by clicking on the Notes link at the top of your account home screen. Once there, you will see that each of these notes have been given an individual status.

An example of Lending Club's "My Notes" page

Issued notes are classified into five categories:

- *Issued* – An approved loan that has not yet received its first payment
- *Current* – A healthy loan being paid back on time
- *Late (In Grace Period)* – A loan that is behind on its payments
- *Default (Charged-Off)* – A failed loan that will not be repaid
- *Fully Paid* – A loan that has been completely paid back in full

A healthy loan will move through three stages: from Issued to Current, and finally to Fully Paid.

Borrowers Who Are Late or Default

Sometimes, however, a borrower will be **late** in repaying their loan. Late loans will first be given a Grace Period to fix themselves, after which they receive a Late status. When a loan goes late, there is usually little reason to worry. Almost all late loans are just borrowers having a temporary problem. For instance, if a borrower switches banks and forgets to tell this to Lending Club or Prosper, their next payment may fail and their loan might become late. The platform then contacts the borrower about the problem. Late loans often recover their payments within a few weeks.

Unfortunately, a small number of these late borrowers do not resume their payments, but **default** on their loans, which means they will not be paying their loan back. This is the worst part of peer to peer lending, because it means you lose the funds you invested. While almost all investors are likely to experience a loan defaulting eventually, it can still be shocking the first time it happens. The best thing to do is to take a moment to look at all the loans in your account that *are* being paid back on time. If you are diversified in a lot of different notes, the negative impact of a default will be quite small.

If you find that a number of your notes have defaulted or gone late, this can sometimes be quite helpful. Take a moment to examine their original descriptions side by side and see if they have any similarities. This could inform a change to the way you invest. A common factor among your defaulted loans might reveal a problematic filter to fix.

Conclusion

Hopefully by now you understand the basics of peer to peer lending. But we still have not answered a very important question: out of the hundreds or thousands of available loans, **which should you invest in?** This is a job for filters, the focus of the second half of this eBook.

Part 5 – Adding Filters in Peer to Peer Lending

Lending Club and Prosper both give you the ability to filter their available loans. The quality of your filter can affect whether your notes become healthy or unhealthy over time. Lenders with good filters seem less likely to experience defaults and more likely to have thriving consistent returns. **A good filter can be really helpful**. So what is the recipe for a good filter? To answer that question, let's take a minute to look at a basic element of investing in general, particularly the idea of **risk**.

> **"Filter" vs. "Search"**
> In this eBook we will follow Lending Club's lead and use the word *filter*. Prosper's site uses the word *search*, but they mean the same thing.

Good Risk and Bad Risk

Anytime you loan money, you are going to be weighing risk. If a friend asks to borrow $500, we first consider the *person* who is asking. What if you know your friend to be bad with money, always behind on his rent, can't hold down a job, and never chips in money for beer? Most of us would not loan him $500 (or at least just call it a gift), knowing that the chance (risk) that he would not repay this loan would be quite high.

If we minimize our risks in life, we decrease the chances that something bad will happen. This is why people buckle their seat belts or have first dates in public places. Being considerate of risk makes life more stable and enjoyable.

This is not to say that risk is always a bad thing. Sometimes, risky things are how anything amazing happens at all. I have a friend, a chef, who started a restaurant with a $200,000 investment from her parents. Her parents took on a lot of risk loaning her this money. There was a good chance her eatery would fail, as many restaurants do. However, by this point in her career my friend had already succeeded at a few businesses, proving to her parents that she was a skilled chef. Plus, she was their daughter and they trusted her. When she told them she had an awesome business idea, they believed her. My friend now owns one of the more famous gourmet restaurants in the Pacific Northwest.

In life, nothing is certain, but some things are surer than others. As we live our lives, we learn where the world is consistent. We slowly become aware of which foods our spouse enjoys or which friends we can count on for help. This habit of filtering is a basic element of life, of investing, and a major part of peer to peer lending.

Risk by the Numbers

While it's possible to casually reduce normal everyday risk, imagine if you had to engage thousands of instances of risk at once. Things would become very difficult. And what if we tried to grapple something really complicated, like evaluating the financial stability of thousands of people? We would have to examine their thousand bank statements and spending habits. We would have to come with them to their thousand of places of work and see if they were good employees. The process would take so long that nothing would ever get accomplished.

Thankfully, we can look at things through numbers. Doing this makes evaluating groups much simpler. First, we can approach a hazy thing like "financial responsibility", and make it numeric. We can move from a complicated question like "How financially responsible is Simon?" to a simple number like a credit score (780) that provides a quick answer. With numbers, evaluating someone's risk becomes a much quicker process.

Once we can describe people numerically, we can then place them in large groups and run statistics to organize those numbers. Now, not only do we have a measurement like a credit score for an individual borrower, but we can also do some basic statistics to see that *people with similar credit scores act in similar ways*.

All Peer to Peer Lending Data is OPEN!

Using some simple statistics can be a key to greater returns within peer to peer lending. This is only possible because the platforms are wonderfully transparent. Both Lending Club and Prosper have given us access to massive spreadsheets that contain all the borrowers and loans in the history of peer to peer lending – both the good and the bad. Little is hidden from us. This history contains tons of information, including the credit score of all their borrowers, and information on how timely these borrowers paid back (or failed to pay back) their loans.

Good and Bad Risk in Peer to Peer Lending

Conveniently, websites like NickelSteamroller.com have tools we can use to analyze borrower history and get a picture of which loans might perform best. These online tools are excellent at evaluating degrees of risk within peer to peer lending. They help with identifying **bad risk** that we want to avoid, such as avoiding borrowers who might default. They also are great for identifying **good risk**, such as high-quality low-grade loans that often have interest rates over 15%.

These two kinds of risk, good and bad, are the two sides of using filters. Let's take some time to look at this filtering in greater detail, doing an exercise to demonstrate each type of risk using some free and easy to use statistical websites.

Filter Goal #1 – Reducing Defaults (Avoiding Bad Risk)

The first (and most important) goal of filters is to reduce the risk of borrowers taking our money and not paying it back. Consider this analogy from the dating world:

Dating Truth-tellers

Imagine you are a single person looking to get married. When you meet potential partners, you always take time to examine their character. You ask basic questions to assess compatibility, like "What is your favorite music?" First dates are often awkward because so much of it is just trading raw information that people have little time to enjoy each other.

But this process is really important. People who have a certain characteristics will often be better or worse to date or marry. For instance, people who routinely lie are generally not good spouses. Imagine all the habitual liars in the United States were put in one (very large) room, and all the habitual truth-tellers were put in another. By only dating people in the truth-teller room, you would probably find your relationships to be more fun and authentic.

The world of peer to peer lending isn't quite like dating, but we still need filters to increase the quality of what we're trying to find. We need to approach our huge pool of historical loans, discover the riskier factors in them (like figuring out that habitual liars are bad to date), and filter out the loans that have these qualities. So let's look at important factors in a borrower's **past, present, and future** that are important to consider.

Borrower Credit History (Past)

The main avenue people invest through is the stock market. If you log onto a financial website like the Wall Street Journal and type in a company's symbol (like GOOG for Google), the biggest graphic that pops up is a jagged line for how the stock's value has changed over the past day, month or year. This line is a glimpse at the company's **history**, and may be a clue for how the company will perform in the future.

Similarly, in peer to peer lending we examine credit history. When a borrower applies for a loan through Lending Club or Prosper, they have to enter in their social security number so that the platform can pull their credit file. This report shows how this borrower has acted in the past, and

may be a good picture of how they will behave in the future. For example, loans from borrowers with a past bankruptcy are often not good investments.
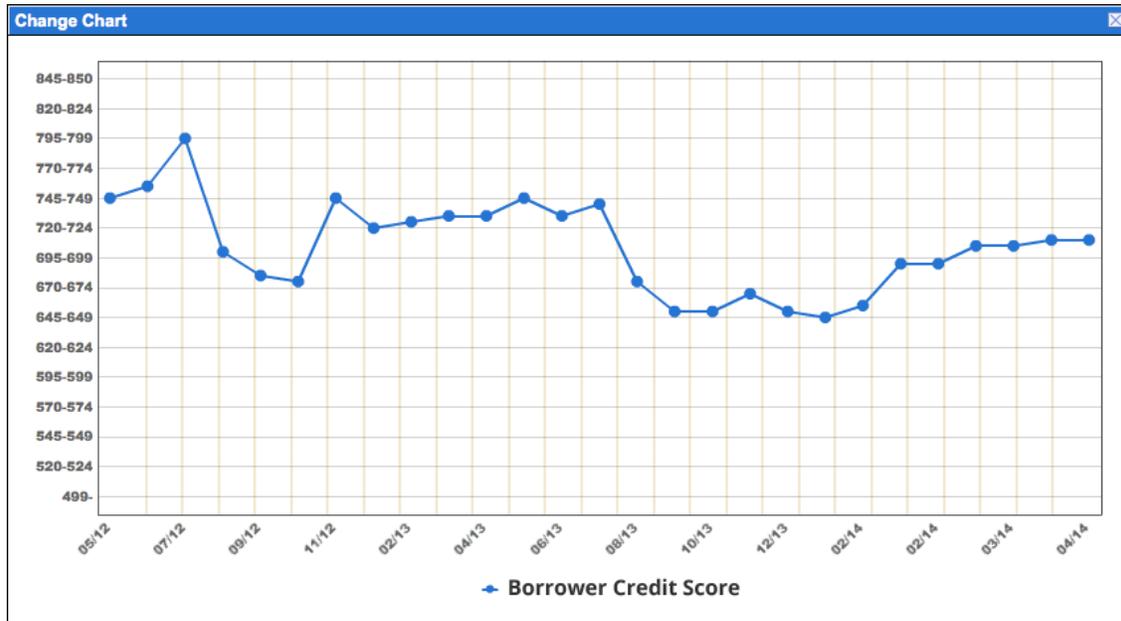
Example: A Borrower's Credit Score history off their Lending Club loan (the initial bump post-approval means the borrower likely used the loan to pay off a large amount of credit card debt)

Borrower's Current Situation (Present)

A borrower is asked some very pointed questions by Prosper or Lending Club about their current place in life: if they have a job, and if so, for how long, how much money they make each year, and if they own their home or rent. A borrower's current situation in life can help us determine if they will pay back the money we loan them. For instance, I have increased my return by only lending money to borrowers who are currently employed six years or more.

Loan Purpose (Future)

Borrowers are also asked by Lending Club and Prosper to state the **purpose** for their loan request. Similar to their credit history, their stated purpose for the loan is informative of the likelihood that they will pay it back. For instance, people who say their loan is for starting a business often have a higher than average rate of default, which makes sense. It's not unusual for new businesses to fail within the first two years. As a result, borrowers who experience financial stress like a failing business may be less likely to pay back their loan, so you may want to avoid business loans.

Filtering Exercise #1 – Avoiding Defaults

Now that we have highlighted the basics of evaluating bad risk in our borrowers, let's do some filtering exercises and see this in action (in this eBook we will be focusing on Lending Club). Using the website NickelSteamroller.com, let's insert two simple filters to watch our ROI adjust.

Step 1. Go to NickelSteamroller and click on the link that says Lending Club/Backtesting under the Analytics tab. Click the blue Filter button. Now you will see data from the 288,000 loans that have been issued on Lending Club's platform. If you look on the left bottom side, you can see how the return on investment (ROI) for all these loans combined is 9.87%. Not bad! This is way better than the savings rate of your local bank.

> **Important Note:**
> This return on investment (ROI) is calculated using every loan ever issued on Lending Club, even those just issued *last month*. Some of these newly issued loans will definitely default in the coming years. In short, the ROI we get using these tools is likely inflated, and only to be used as conjecture.

> The numbers used in this eBook are current as of May 2014. The data will have probably changed accordingly if a lot of time has passed since then.

Lending Club Back Tester tool @ Nickel Steamroller

We want to make this ROI go up! This is done by **filtering** these thousands of loans.

Step 2. Discover some simple filters: In the Lending Club Back Testing tool on Nickel Steamroller you will see a number of boxes further down the page. Scroll down until you see the following:

- **Inquiries in Last 6 Months**: Filtering a person's inquiries is perhaps the best filter we can use to avoid risk. These inquiries are the number of times the borrower has applied for credit within the past six months. If a borrower has multiple inquiries, there more likely to default, because they may have been rightly denied by somebody else and are shopping around for a loan.
- **Annual Income:** Filtering borrowers who have a larger yearly income can mean great returns for your account. Their cash flow means these borrowers are less likely to default.

Inq Last 6mths	ROI ⇕	Avg Rate ⇕	Loss ⇕	Principal ⇕
<= 0	9.94%	13.57%	2.93%	$2,028,538,240.00
1	10.22%	15.00%	4.15%	$1,120,930,820.00
2	9.91%	15.76%	5.10%	$528,558,720.00
3	8.90%	16.35%	6.46%	$243,858,240.00
> 3	7.02%	16.44%	7.94%	$105,911,840.00

Annual Income	ROI ⇕	Avg Rate ⇕	Loss ⇕	Principal ⇕
<= 27996	6.31%	13.82%	6.19%	$80,822,464.00
> 27996 <= 33500	7.44%	13.88%	5.29%	$110,670,200.00
> 33500 <= 38000	8.15%	14.23%	5.03%	$145,399,984.00
> 38000 <= 41000	8.17%	14.33%	5.20%	$134,263,232.00
> 41000 <= 45000	8.89%	14.40%	4.62%	$201,777,280.00

*See how better borrowers have both **fewer** inquiries and **greater** incomes?*

Step 3. Insert some filters:

Let's filter Lending Club's history with this criteria. Go to the top of the page and insert '60000' in **Annual Income** the minimum (left) box. Then click the **Credit** tab to find the **Inq Last 6mnths** filter. Insert '0' (zero) in the maximum (right) box.

Annual Income	60000	7446395	Inq Last 6mths	0	0

Step 4. Hit that blue Filter button:

Now scroll down and click on the blue button that says 'Filter'. What happens when we trim down those 288,000 loans with these two simple filters? Our ROI goes up to 10.47%. As you can see, the 288,000 loans have also been trimmed to 76,000, meaning that fewer than a third of all the issued

loans in Lending Club's history are borrowers without a past inquiry and with a robust annual income. This is a good example to show how some loans are better than others.
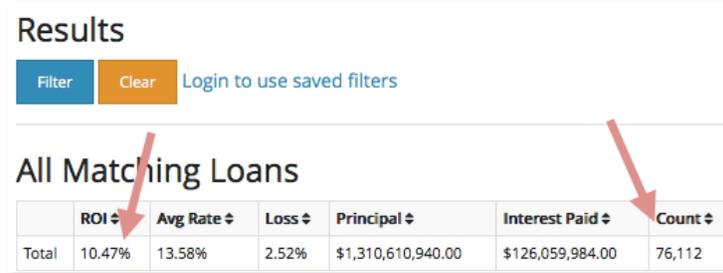
As you take time to learn to use these tools for yourself, you will begin to see the characteristics of default-prone borrowers. As a result, your filters will get better at avoiding the bad kind of risk, helping you to avoid defaults and receive a better return on your investment.

Filter Goal #2 – Choosing Lower-Grade Loans (Good Risk)

While avoiding bad risk might be the main reason we use filters, we also want to consider taking on some good risk – namely in the form of adding some lower grade loans. This is because adding some risk can be really rewarding!

Two Vacations

Let's look at an example. Imagine you begin to feel tired and decide to go on a vacation. Say you are at lunch with two friends and you share this news with them. They get excited, because each of them had been planning a vacation themselves. Each friend offers for you to join them, but each of their vacations is different.

One friend is going to spend a relaxing week in Florida at a nice hotel, doing some leisurely shopping in the mornings while hitting up the beach in the afternoon. It sounds great.

Your second friend has been researching for weeks about an adventurous trip to the mountains of New Zealand to find an endangered blue orchid that only flowers one weekend per year. The mountains can only be reached by traveling for three days through the jungle on horseback, a journey that requires you to navigate a rushing river, traverse an active volcano, and spend a night with a tribe of natives who are famous for singing in their sleep.

You have two choices here. A nice vacation in Florida would be easy, safe, and relaxing – which is what you need. But this vacation in New Zealand, while more dangerous, has the potential to

become a memory you would never forget. Some risk, it seems, can provide huge rewards, especially if (to go along with our story) you put in some solid research beforehand.

Good Risk in Peer to Peer Lending

In peer to peer lending, some of the loans are more like the first vacation, and some are more like the second. This is because these platforms offer loans to a variety of qualified borrowers, and some borrowers are safer than others. For the riskier loans (like 5-year vs. 3-year loans), Prosper and Lending Club give out a lower **loan grade** and a higher interest rate. The great thing is that lenders like you and me can make a great return from these loans. Anytime you see a peer to peer lender who is getting 9%+ returns, you can be sure they have some lower grade loans in their account.

> **Peer to Peer Loan Grades:**
> Prosper and Lending Club grade their loans in different ways. Lending Club rates their loans A (safest) to G (riskiest), with G grade loans offering about a 24% return. Prosper's system is slightly different. They categorize their loans from AA (safest) to HR (high risk).

If you go to your Account page on one of the platforms and click the Browse Listings (Prosper) or Browse Notes (Lending Club) link, a long list of available loans will appear on your screen. You can see that these loans have been assigned different grades (and colors to match). Some loans are given an A rating. Others are given a D rating. If you click on each loan, you'll see that A-grade loans give you a lower percentage than the other grades, maybe only 6%. But D-grade loans give you a large return: around 18%. By choosing to take on some higher risk, we can really amp up an investment's overall return.

Prosper			Lending Club		
●	AA	6-8%	A	6-9%
●	A	8-12.5%	B	10-14%
●	B	12-16%	C	14-17%
●	C	16-22%	D	17-20%
●	D	22-29%	E	21-22.5%
●	E	26-31%	F	23-24%
●	HR	31%	G	25%

Filtering Exercise #2 – Adding Good Risk with Lower-Grade Loans

We can set up a filter that shows how investing in lower grade historically gives us better returns than investing in higher grade loans, so let's go back to the Lending Club Back Testing tool at Nickel Steamroller.

First, set up the same filters we used in the last section. On the main tab (Common) set the minimum **Annual Income** to '60000'. On the Credit tab set the **Inq Last 6Months** to zero. Hit the blue Filter button at the bottom of the screen and scroll to the top of the page. You can see how these filters give us the same result as in the first exercise (10.47% ROI).

Under the main Common tab and find the filter for **Grade**. Check only the boxes for the lower loan grades: C, D, E, F, and G. Click the blue Filter button and watch the historical return jump up from 13.37%, an increase of 2.9%. This is why many lenders, myself included, invest in lower grade loans. Historically, their returns have been really outstanding.
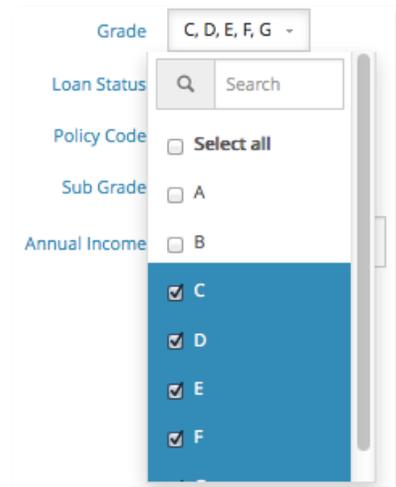
Lower-Grade Loans are <u>Not</u> for Everyone

Many people actually prefer sticking with lower-risk, higher-grade loans like As and Bs. These loans are far less likely to default, and you still get a great 5-7% ROI. Additionally, some evidence shows that these higher quality loans are more likely to endure stress that our country experiences, such as increases in the national rate of unemployment.

Some people find this ideal. For instance, if you are a peer to peer lender in or near retirement, and you cannot take as much chance of losing your investment, you should probably focus on the safer A & B-grade loans, even if it means you will earn a smaller return.

I do the opposite. I only invest in low-grade loans because I am younger and feel comfortable enough to take on that risk. This has resulted in me earning a much higher ROI than most lenders: over 11% with Lending Club and Prosper. I do not, however, suggest this approach for beginning lenders. For most people, especially those starting out, it may be optimal to have an assortment of different loan grades so that you achieve a balance of stability and increased returns.

> **"Low" Grade Loans:**
> It is worth repeating that these lower grade loans are not to be thought of as lower quality. These borrowers still have at least a 660 credit score and have passed tough platform underwriting, meaning they likely are prime/creditworthy people to lend money to.

Putting It All Together

Now that we understand the basics of avoiding defaults and taking on some loan grade risk, try doing these two things at the same time. It's quite simple to have a diversified account by only

purchasing **200+ equally weighted notes**. But developing filters is a *skill*, a creative process that you can get better at over time. Sites like NickelSteamroller.com are there to help you attain that skill. You may have to try out many different approaches before you find the best filter for your own level of risk, but this is a process that can actually be quite enjoyable. As you add lower loan grades and filter out riskier borrowers, you can watch your ROI inch higher and higher.

Before we close out this eBook, let's try one more exercise to improve our filter even more.

Filtering Exercise #3 – Further Refining the Filter

Again, go to Nickel Steamroller's Lending Club Back Tester tool. We want to add the three filters from our previous two exercises, (1) selecting only C-G grade loans, (2) selecting borrowers with $60,000 of yearly income, and (3) removing any loans with previous inquiries. To do that, use the following three steps:

1. For our first filter, find the **Grade** filter and select only **C, D, E, F, & G** loans.
2. For the second filter, find the **Annual Income** boxes and enter '60000' in the minimum (left) box.
3. Our third filter, removing loans with previous inquiries, is done by clicking the Credit tab and finding **Inq Last 6Months**. Put '0' (zero) in the maximum (right) box.

When you have implemented these three filters click the blue Filter button. Our starting ROI is 13.37% from 31,000 historical Lending Club loans.

If you look farther down the page in the Results section, you will see the box for **Purpose**. Looking closely, you can see that one purpose has performed significantly worse than the rest: **small_business**.

Again, this makes sense if we think about it, since borrower's repayment is often dependent upon the success of their business, versus something like debt consolidation where the borrower typically continues to have a consistent income coming in.

Purpose

	ROI ⇕	Avg Rate ⇕	Loss ⇕
car	12.13%	16.81%	3.78%
credit_card	13.68%	16.89%	2.92%
debt_consolidation	13.56%	17.48%	3.57%
educational	13.26%	13.85%	-0.13%
home_improvement	13.72%	17.24%	2.99%
house	12.89%	18.73%	4.42%
major_purchase	10.69%	17.40%	5.77%
medical	12.21%	18.37%	4.97%
moving	13.49%	18.49%	3.60%
other	13.25%	18.72%	4.50%
renewable_energy	13.25%	18.57%	4.02%
small_business	8.53%	18.71%	9.02%
vacation	12.95%	17.48%	3.65%
wedding	12.60%	18.10%	4.29%

Go up to the top of the tool and remove small businesses from the filter by finding the **Purpose** filter under the Common tab and checking all of the boxes except **small business**.

Click the blue Filter button and watch the ROI climb again from 13.37% to 13.52%.

Keep Going

Let's modify this filter one more time. Find the **Emp Length** filter under the common tab. This is where we can filter borrowers by how long they have been *employed*. Obviously, those with longer employment history will be more reliable investments to lend to, more reliable during an economic downturn.

With this insight, exclude borrowers with less than 6 years of employment. Do this by only checking the boxes for 6 through 10+.

Click the blue Filter button. The historical ROI climbs to 13.85% with over 18,000 historical loans.

Hopefully you are starting to see that just a little work can mean greater returns for your account.

Trust the Numbers

One of the first things I learned when developing a good filter was to second-guess my instincts. Sometimes we assume that a specific filter is good, when it actually is not. For instance, if we take our new filter and remove all borrowers who have had a late payment (called a delinquency or DQ) in the past two years (set max **Delinq 2Years** under the Credit tab to zero), you would assume that the ROI would go up. After all, we are removing anybody who has ever been late on a payment.

Instead, the overall ROI goes *down*. Interesting, right? Sometimes we can guess why this happens. Perhaps people who have had a late payment or two also have a more authentic credit history than those whose accounts are relatively untouched (meaning, some people have not yet had a chance to reveal themselves as the poor borrowers they actually are).

Whatever the case, trust the data. Trust the historical statistics. If we are using these tools correctly, we begin to see how the historical data is brilliant if only we give it space to be so.

Exception: When <u>Not</u> to Trust the Numbers

You should not use a filter that does not return enough historical loans. For instance, if we removed the **2yr DQ** setting from the last paragraph and added a filter to only allow borrowers from **Wyoming**, our ROI would jump up to 17.45%.

But only 48 historical loans match this filter, a number that is not statistically valid, meaning this filter is not based on a large enough sample size, and thus is not trustworthy.

As a general rule, a good filter should contain at least 2000 historical loans, the more – the better. If you can get a filter to return at least 2000 historical loans, the past history is statistically significant, meaning it can be used to make inferences for how similar future loans might behave.

As you invest in peer to peer lending, the tightness of the filter you use will determine how quickly your cash may find good notes. Filters that return only 2000 loans often take longer to invest with, *and at times may not have any matching loans at all*. On the other hand, if you invest with a filter based on a large number of historical loans, perhaps tens of thousands of them, you may be able to put large sums of cash to work in a short amount of time.

The filter that we made in this eBook (C-G grade loans, zero inquiries, $60K+ annual income, 6+ years of employment, no business loans) seems a decent filter to invest with, since it has over 18,000 historical loans.

Multiple Filters for Multiple Groups

Some lenders will have multiple saved filters to pull apart the data in different ways. For instance, you may have one filter you set up for borrowers with no inquiries and another you use for borrowers who actually do have an inquiry or two. You can keep the zero-inquiry filter looser while adding additional criteria to the 1-inquiry filter, resulting in two filters (one loose – one tight) that output the same historical return.

Multiple filters give you more overall loans to choose from, allowing you to put more cash to work quickly. As long as the risk and return is to your liking, and as long as each filter has at least 2000 historical loans, you may find multiple cross-sections of borrowers to be worthy investments.

Conclusion: Mastering Your Filters

By now, you should have a decent idea about what filters are and how to set some of them up for yourself. Some of you may be asking what the "best" filter is for sites like Lending Club and Prosper. There really isn't one. The platforms offer us so much data that a hundred skilled lenders will have a variety of excellent filters between them. Try spending some time with the Nickel Steamroller tools, seeing what cross-sections work best. Eventually you may become quite adept at discovering great filters.

It helps to remember that **peer to peer lending is still in its infancy**. Lending Club and Prosper have a limited volume of yearly data to offer us, and are still making adjustments to their underwriting. As more loan history builds up and the platforms evolve, the overall shape of peer to peer lending will continue to change. As a result, the best, most finely-tuned filters will always be changing as well. It is wise (and fascinating) to consistently monitor your filters and see how they shift as they gain more and more historical data.

Part 6 – Last Pieces

Developing Filters for Prosper

For the purpose of focus, this eBook spent the majority of its time focusing on developing a filter for Lending Club. However, Prosper.com is just as good an avenue of investing, and offers us the ability to diversify our investment upon a second platform. Statistical tools like Nickel Steamroller include Prosper as well for this reason. Let's create a filter on Nickel Steamroller by going to their Prosper Back Testing tool. On this page, create the following filter:

Under the Common tab

- **Prosper Rating**: B, C, D, E, & HR (keep AA & A unchecked)

- **Income Range**: $25,000+ (uncheck Not employed, $0, and $1-$25,000)

Under the Credit tab

- **FICO Score** (a borrower's credit score): 660+ (uncheck anything below this)

- **Inquiries Last6Months**: 0 (so put a zero in the right/maximum box)

Click the blue Filter button. With 16,000 historical loans, this filter has a combined 13.61% ROI.

It's worth mentioning that this filter may not be to your liking. You may want something more specific and tight with a higher historical return. Or, perhaps, you want to limit your risk as much as possible and only invest in AA & A-grade loans.

Also, it is important to keep in mind that Prosper, like Lending Club, is still maturing and developing its platform, so this filter is sure to change in the coming months. It would be wise to keep examining it over time and adjusting it accordingly.

Moving Between Tools and Platforms

You may need to do a few extra things to actually move from these statistic sites like NickelSteamroller.com to actually investing in Prosper and Lending Club. For instance, Nickel Steamroller has a blue button to the right of its Filter button that says 'X matching active listings', where X is the number of loans currently on the platform that match that filter.

Clicking the button for that filter's active listings, you will see a list of matching loans appear. You can then click the **Loan ID** link to go to the platform's website and invest in that note.

However, active loan lists on sites like Nickel Steamroller are sometimes out of date. Some of these active loans may have already reached full funding (or were canceled) and are, thus, closed to additional lenders. The most up-to-date list of active loans can be found on Lending Club or Prosper themselves.

Here is how I move from tools to platforms:

1. Develop a great filter using a tool like Nickel Steamroller

2. Save this filter on Prosper or Lending Club's website

3. Invest through the platform's website using this saved filter

This method allows me to invest using the freshest list of available loans. It also helps avoid investing twice in the same loan – something that can happen if you invest with a third-party tool. The one problem with this approach is Lending Club's filtering toolset. While Prosper's website is great at filtering, Lending Club's still needs some work. So, when using their site, a saved filter can only take you so far.

I usually run a saved filter and then further filter each individual loan by reading them one by one. Having to quickly scan each loan makes my routine slightly more time consuming – but, until Lending Club improves their website, this is what I feel works best. Honestly, the process only takes me a few moments each week.

There are many ways to go about the process. You should take some time to try out different ways of investing so you can find a way that works best for you. **The most popular option by far is automated investing.** This way, you do not have to log into the platform at all. However, this method requires having a lot of trust for the platforms, which is something beginners often lack.

Account Liquidation

As a lender on these platforms, you will eventually need to get your money back. This is where we get the term **liquidity**, a word that refers to how freely you can get actual cash out of Lending Club or Prosper's system and back into your bank account. One benefit of peer to peer lending is how liquid your accounts are, far more liquid than investing in stocks or mutual funds. With stocks, your investment can often take a huge dive around the time you need the money. This is how people can get stuck, often having to wait for years before the market recovers and they can close their investment without too harsh a penalty. Peer to peer lending, on the other hand, allows for a couple very efficient ways to get your cash if you need it:

- **Best method – Stop reinvesting your returns:** If you simply stop reinvesting your returns, cash that you can withdraw will begin to build up in your account. For people who take out only three year notes, they can have half their account in cash within 18 months without any penalty.

- **Quickest method – Sell your notes through FOLIOfn:** Both Prosper and Lending Club allow you to sell your healthy notes at any time. If you needed to liquify your investment, you could post your notes on their secondary markets (a service run by a company called FOLIOfn). The bigger hit you take on your notes, the quicker they would sell. You could liquify your account within a couple weeks this way. Attach a FOLIOfn market to your accounts by clicking "Trading Account" on Lending Club or by clicking "Trade Notes" under the "Invest" menu in Prosper. (Note: this option is not available for IRAs)

Taxes (And How to Avoid Them)

There are two types of accounts in peer to peer lending: regular accounts and retirement accounts (IRAs). Regular lender accounts do not have a unique tax rate like capital gains, so if you are in a 30% tax bracket then you will pay 30% in taxes on your peer to peer lending returns. But Prosper and Lending Club both offer great retirement account options like Roth & Traditional IRAs that have added tax incentives.

There are important details to know about these accounts (and about IRAs in general). Those details are beyond the scope of this eBook, so it would be a good idea to read up on these details

before investing. Speaking as someone who has a peer to peer IRA, it's amazing to watch your lender balance grow tax-free.

Conclusion: The Future of Peer to Peer Lending

Peer to peer lending is a monumental shift coming to our country, a massive restructuring of our nation's lending practice that is still being understood, even by the platforms themselves. One of the great joys of being active within peer to peer lending is how we are all learning this together. As the platforms work out their underwriting process, as the data we crunch continues to grow in size, as our returns adjust from changes to the platform, we need to keep the conversation going.

Stay active and keep learning. Ask questions and get feedback on your lending practice. Share what is working for you and ask for advice if you experience defaults. I think you will find that there are lots of people like yourself who are going through this same process.

In my opinion, a future involving peer to peer lending offers a society where people can invest and borrow from each other with increased ease. Lenders will be more aware of where their money is being used. Borrowers will be less prone to default because they know their loan has been issued by actual people like themselves. The system will be thinner and cleaner, the interest rates better, and everybody is going to benefit (except the banks).

While a lot is still unknown, I believe the best years of peer to peer lending are coming. Everything is about to change. The entire credit industry, from car loans to mortgages, is beginning to experience the greatest shakeup it has ever known.

As this digital-financial transition bears upon our world, as this massive shift arrives, let's continue to interact, grow, and benefit from this change together.

Open an account at LendingClub.com

http://www.LendingClub.com

Open an account at Prosper.com

http://www.Prosper.com

Further reading can be found at **www.LendingMemo.com**

Appendix A – Peer to Peer Lending Websites

Besides Lending Club and Prosper, a large ecosystem of news sites, blogs, and tools exist to aid the average investor. Here are the most prominent:

Lending Club and Prosper Blogs

Both the major platforms have blogs available that give great updates on the state of each of their companies. Lending Club communicates a lot about their open data, while Prosper's blog regularly features CEO Aaron Vermut talking firsthand about his company's growth.

> **Lending Club blog**: http://blog.lendingclub.com/

> **Prosper blog**: http://blog.prosper.com/

LendAcademy http://www.lendacademy.com

Almost everybody who is involved in the wider peer to peer lending community has come through Peter Renton. Peter's Lend Academy blog has been the most trusted source of anything involving online lending for years. He is co-founder of the LendIt conference, the primary national gathering of online lending. Week after week, Peter continues to scoop on the very latest p2p lending news.

Orchard Blog http://www.orchardplatform.com/blog

Orchard is a leading voice in the peer to peer lending world. They are launching a platform to help institutional investors analyze and invest well in online loans. Regarding their contribution to the wider internet space, Orchard's Blog has been a wonderful source of breakthrough data.

PeerCube http://www.peercube.com

Anil Gupta is a skilled programmer who has done a great service to the lending community. Hailing from my area of Seattle, Anil was the first person to break the news about Lending Club's new proprietary grading structure. He is working on PeerCube, a loan selection tool for Lending Club.

Peer & Social Lending http://www.peersociallending.com/

Ryan Lichtenwald's site continues to put out informative content throughout the year. Additionally, his site PeerSocialLending seems like it will put out some innovative features in the coming months. Definitely one to watch.

Nickel Steamroller http://www.nickelsteamroller.com/

Michael and Rocco's peer to peer lending statistics and research site continues to be the bread and butter of almost all retail lenders. Their Portfolio Analyzer lets you upload your Lending Club notes.CSV file for a more realistic measure of the return you are earning on your account. NSR's *Return Forecaster* tool is excellent at analyzing the historical loan data to find new filters. Furthermore, there are lots of tools and statistics you can find that help get a picture of the overall p2p lending situation, like Lending Club's cumulative growth chart or the monthly originations chart.

P2P-Picks http://www.p2p-picks.com/

Probably the most exciting new arrival in the peer to peer lending community has been Bryce Mason's creation over at P2P-Picks. Bryce is a skilled statistician in LA who has recently completed a excellent study on peer to peer loan filtering that should be released soon. His site uses the same math that hedge funds use to earn solid returns, but makes this system available to the everyday lender for a nominal fee.

Interest Radar https://www.interestradar.com/

I have not used Rev's Interest Radar very much, but other lenders profess its usefulness. It can analyze your portfolio, examine Lending Club historical loan history, and even auto-invest/auto-sell loans for you.

BlueVestment https://bluevestment.com

Nathan's BlueVestment tool is a free service for retail investors to auto-invest in loans. It has partnered with Bryce Mason's P2P Picks site to auto-invest in the top 5% of loans.

Lending Robot https://www.lendingrobot.com/

Lending Robot is a new investment tool based in Washington State that also can auto-invest in loans for you better than the platforms.

Appendix B – An Intro to Lending Terminology

Loan Amount: Size of the loan in dollars

Loan Grade: The riskiness of the loan as determined by the platform's underwriting

Debt-to-Income Ratio: Percentage of a person's monthly gross income that is currently going towards paying their debts

Inquiries in the Past 6 Months: How often a borrower has applied for credit in the past six months

Revolving Credit: Outstanding debt that is not on a payment schedule (IE: credit cards)

Revolving Credit Balance: How much unpaid revolving debt a borrower

Revolving Balance Utilization: What percentage of their available revolving credit is being used (such as how maxed out their credit cards are)

Interest Rate: Rate of interest a borrower will have to pay on their loan

Term: How long they have to repay their loan (usually 36 or 60 months; 3 or 5 years)

Public Records: Negative marks like bankruptcies, liens, & judgments.

Months Since Last Delinquency: How long since a borrower was last late on a loan

Earliest Credit Line: Length of credit history

FICO Credit Score: A number (up to 850) that represents a person's creditworthiness

Months Since Last Record: How much time has passed since their last public record

Total Credit Lines: How many credit lines they have had throughout their life

Open Credit Lines: How many credit lines a borrower currently has open

Delinquencies: How many late payments a borrower has on their credit report

Verified Income: Whether or not the borrower has verified their income with the platform

Now delinquent: How many lines of credit a borrower is currently late on

Amount delinquent: How much debt a borrower is currently late on

Prosper Terms (they track repeat borrowers)

Previous loans: How many loans the borrower has previously had on Prosper.com

Active loans: How many loans a borrower currently has on Prosper.com

On time payments billed: How many on-time payments a borrower has had with Prosper.com

<31 days late payments billed: How many payments a borrower made at Prosper.com paid less than a month late

31+ days late payments billed: How many payments a borrower made at Prosper.com paid more than a month late

Total payments billed: How many total payments a borrower has made on Prosper.com

Credit Score change: How much a borrower's credit score has increased/dropped since their previous Prosper.com loan

Blender: Borrowers who are also lenders