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GETTING PERSONAL CANADA: P2P Lending - An "eBay" For Money

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TORONTO (Dow Jones)--Lending money to your neighbor is probably a good way to ruin a friendship. But lending money to a stranger can be quite profitable, and is now easier than ever.

Peer-to-peer lending, a concept long popular in the underdeveloped world and flourishing in Europe and the U.S., is gaining ground in Canada.

CommunityLend, a Web site that links borrowers with lenders, was quietly launched in Ontario and Quebec last month following approval by provincial regulators. It hopes to expand across Canada over the next few years.

CommunityLend is like an eBay of money - it provides a platform where prospective borrowers post the amount of money they require and the rate of interest they're willing to pay. Prospective lenders, who must be accredited investors, then bid for the right to purchase the loan.

The maximum loan amount is C\$25,000 and all are for three-year terms.

"Our general concept is to change the rules of lending," says Colin Henderson, a former Bank of Montreal (BMO) executive and a co-founder of the site. He sees CommunityLend as a way for Canadians to refinance credit-card debts or obtain funds for a specific purchase - like a car or home-renovation project - at potentially lower rates.

Lenders will be provided with the borrowers' credit ratings, and selected personal information (such as job stability and income level) in order to analyze their risk and properly structure their bids. It's possible, Henderson says, for the loan to be shared among lenders, or even for lenders to bid down the interest rate if demand is strong.

"These lenders would be people who are sophisticated investors," Henderson says. "They would see P2P lending as a new addition to their overall portfolio. This is investing in consumer debt, which is really not available today unless you buy bank stock."

CommunityLend is modelled on Zopa, a U.K.-based P2P lending site in existence since 2005. According to its Web site, lenders received an average return of 7.9% over the past year after fees and excluding bad debt. Default rates ranged from 0.5-5% depending on the credit tranche of the borrower. In January alone, Zopa disbursed GBP3.8 million.

P2P lending has also gained popularity in the U.S., with sites such as the Lending Club. Since inception in May 2007, the Lending Club has lent US\$85.6 million, providing investors an average annual return of 9.7%. Its annual default rate has been 2.55%.

Another P2P lender, PeerMint, has plans to launch in Canada, Australia and New Zealand, but remains under development. Montreal-based IOUCentral was launched in 2008 but closed after a few months due to regulatory issues.

Newstart Canada is a more established P2P lender in Canada, but unlike CommunityLend, it deals with Canadians who have poor or non-existent credit histories. It provides them with short-term loans of up to C\$10,000 to purchase a vehicle, as a first step in rebuilding their credit profiles. Accredited investors can purchase a portfolio of securitized automotive loans at rates of 13% for one year and 14% for two years.

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