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FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TATAI HOKOHOKO - NEW ZEALAND

Peer-to-peer lending: Tips for lenders and borrowers

Peer-to-peer lending matches people who want loans with people who are potentially willing to fund those loans. The matching is done via an intermediary – a peer-to-peer lending service.

How does it work?

Peer-to-peer services work in different ways, but typically they are web-based. Borrowers list their request on a peer-to-peer lending website, and lenders browse the website to decide which loans they want to invest in.

Sometimes websites will show details of specific loans. For example you might see an offer that says: "Peter wants $10,000 to help pay for his wedding – he'll pay 7% interest."

Lenders may be able to lend the full loan amount, or just a portion of it. The service may also combine similar loan requests so the lender has the opportunity to invest in a variety of loans at one time.

Typically the peer-to-peer service provider manages the administration of the loans. The services offered can vary between providers, but may include transferring money between lender(s) and borrower(s), dealing with repayments and interest payments, and chasing any late payments or defaults. Make sure you understand what the peer-to-peer lending service you're looking at offers, before deciding to invest.

Is it safe?

Peer-to-peer lending services need to be licensed by FMA and are subject to financial markets laws. This doesn't make them safe, but it means there are rules around how they work. Here are some things you'll need to think about.

If you're lending money

It's not the same as putting money in a bank

You may be offered a higher interest rate than the bank, but this is because you're taking more risk. The risk you're taking is that the borrower(s) may be unable to repay you, rather than your bank being unable to repay you.

You could lose your money or not get the interest you've been promised

Your investment is actually a direct loan to an individual or an organisation, so if they don't pay it back, you're unlikely to get your money back. Some services offer ways to reduce this risk – such as spreading your loans across more borrowers, or guaranteeing the repayments themselves. These services don't eliminate the risk of losing your money. Even where the repayment is guaranteed you will only receive repayments if the person or service providing the guarantee has enough money to pay.

It may be difficult to get your money back quickly

Unlike some other investments, you may not be able to sell the loan or withdraw your cash whenever you want. If you're lending money you need to make sure you can afford to have your money tied up for the period of the loan.

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If you're borrowing money

You might not be able to raise money through the service

The service will run some checks on you. If you've got a bad credit history they may decide they won't help you find money. And if they do accept you, you will only get the money you need if there are people willing to lend it.

How can I protect myself?

Use a licensed peer-to-peer lending service

Licensed services have been checked by us, and follow rules around presenting information clearly. They must have a complaints handling procedure, including an independent dispute resolution scheme that you can complain to at no cost. Most services will display their licensing status on their website. If you're not sure you can check the list of licensed peer-to-peer service providers on our website.

If you're lending money

The FMA only checks and licenses the peer-to-peer service provider and doesn't check the financial health of borrowers or any information you may get from the lending service. Make sure you ask about the level of checking the service itself does on the borrowers before and during the life of the loan.

Read these two important documents

The service provider must give you both a disclosure statement and a client agreement.

The disclosure statement tells you things like how the service works, the fees you'll pay, and the checks the service has and hasn't done on the borrower(s) you're lending to.

The client agreement is your contract with the service provider, outlining the terms of your agreement.

If you're borrowing money

Be honest in the information you provide. There are laws around fair dealing, such as being who you say you are and being truthful about what you're using the money for. You'll be liable for penalties if you break them.

Where to find more information

To find out if a peer-to-peer lending provider is licensed, visit: http://fma.govt.nz/compliance/lists-and-registers/licensed-peer-to-peer-lending-services/