Web loans and social lending

Over the past few years, a new phenomenon called social lending has emerged. Online marketplaces allow people to lend and borrow money in private deals with each other, sidestepping the banks. A series of checks and balances ensures that the marketplace is functional and fair.

Lenders make lending offers to borrowers with a specific score or range of scores. Borrowers assess the rates offered and accept or reject as they choose. Loan funds are sourced from a number of lenders to ensure that risk is well spread.

When a deal is struck, borrowers enter into legally binding contracts with their lenders. Borrowers repay monthly by direct debit. If any repayments are missed, a collections agency uses the same recovery process that high street banks use.

Benchmark Capital (www.benchmark.com) has funded both Zopa, originating in the UK, and Prosper, originating in the US. Wellington Partners (www.wellington-partners.com) is also an investor in Zopa, as is Bessemer Venture Partners (www.bvp.com).

At this point, the major threat arising from these developments appears to be to credit unions, though this situation could change as the loan amounts involved increase.

ZOPA
www.zopa.com
At Zopa, borrowers must have credit scores of at least A+, A-, B- or C. To reduce any risk, Zopa lenders only lend small chunks to individual borrowers, and several borrowers can be part of a larger loan arrangement.

Zopa earns charges borrowers a 0.5% transaction fee and lenders a 0.5% annual servicing fee.

The website identifies the key personnel behind the idea and the operations of Zopa, and their combined financial services experience is certainly impressive. Supporters other than Benchmark, such as Wellington, are also listed.

PROSPER
www.prosper.com
San Francisco-based Prosper launched in February 2006 (Prosper was called Circline during its stealth stage). Like London-based (and Benchmark funded) Zopa, Prosper is a marketplace for borrowers and lenders.

Individual borrowers say how much they need to borrow (up to $25,000) and the maximum interest rate they will pay. Interested lenders say how much they want to lend, and at what rate. Prosper takes the lowest price lenders and groups them into a loan.

LOANBACK
www.loanback.com
A smaller person-to-person operation is Loanback, which claims a significant level of loan funding to date. This company, which is registered in Delaware but with a PO box in California, does not claim any large backers. An interesting feature of the site is a blog dating back to November 2005 for personal experiences with Loanback and open questions on issues and problems.

OTHER SOCIAL LENDING WEBSITES
The UK-based Social Futures Observatory released in October 2006 a report entitled Internet Based Social Lending: Past, Present and Future (see www.socialfuturesobservatory.co.uk/piece3.htm) which used Zopa as a case study and identified other players in this space as CircleLending, Vancity and LifeSpin, as well as Prosper.

www.circlelending.com
CircleLending was set up in September 2001 in Cambridge, Massachusetts, and first launched to provide unsecured loans between family and friends. Later it introduced a facility to enable business loans between relatives, friends and associates, and then expanded into mortgages, full title searches and closings, and a small business fundraiser service.

www.vancity.com/MyCommunity
Vancity was founded in 1945 in Vancouver, Canada as a credit union and moved online with the widespread availability of the Internet from 1994.

www.execulink.com/-life
LifeSpin, established in 1989 in London, Ontario, stands for Low Income Family Empowerment/Sole-support Parents Information Network, and is “dedicated to providing information and support to individuals surviving on low incomes”.
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Other websites of interest

SEARCHFORECAST
www.searchforecast.com
You can now find out how many web pages of your website that Google and other search engines display. SearchForecast is a global search engine intelligence business that provides insights of 150,000 top ranking domain names throughout the world and a content publishing platform to increase rankings in search engines.

SearchForecast provides metrics on how search engines rank websites as well as providing website visitation metrics, industry comparisons and relative market shares. A Search Engine Visibility Scorecard provides management with the exact elements a website contains or omits and explains their impact on search engine rankings.

A recent finding by SearchForecast is that 60% per cent of Google's revenue is derived from websites running their Google Ads (called AdSense).

BLOOMBERG
www.bloomberg.com
A reader writes to remind us of the ongoing usefulness of Bloomberg.com for news coverage and more. He says, "Often 'The Fin' will quote news and analysis from Bloomberg (not vice versa!). For the benefit of other members I recommend you include this site."

Many thanks for your comments, Kevin Vaz. We welcome any feedback from readers on useful websites.

Disclaimer: Inclusion of any website in the JASSA webmaster column is not an endorsement by Finsia of any advice or content provided on any topic therein. Website addresses are mentioned for general reference, assistance and guidance only.

Do you have any websites you would like us to cover in this column? Please email JASSAcontent@finsia.edu.au with your comments and suggestions.

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Attend one of the events listed below, or alternatively visit www.finsia.edu.au/cpd for a complete list of what’s available in your region.

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