Peer to Peer (P2P) Lending – Assessing the Risks

In the current economic climate, as credit has remained tight and loans from traditional sources like banks and credit unions are harder to obtain, peer-to-peer (P2P) online lending sites have recently experienced significant growth. P2P lending sites are Internet platforms run by lending organizations that match borrowers to lenders. Lenders invest in loans made to individuals and small businesses, hoping to make a positive return on their money. Borrowers are able to receive loans that traditional banks may not make, or may make only with expensive terms.

Notes sold to lenders (investors) by P2P lending organizations may qualify as securities under state securities laws. In fact, the SCC recently concluded that one P2P lending organization had sold unregistered securities and failed to provide adequate investment information to prospective lenders. (A link to the related Consent Order is provided below.)

SCC Consent Order – 7/30/2009

Before becoming an investor, please contact the Division of Securities and Retail Franchising to make sure the securities are registered and authorized for sale in Virginia.

P2P lending opportunities involve unique risks that investors should consider before getting involved. The North American Securities Administrators Association (NASAA) has issued an alert describing some of the potential risks to take into account before becoming a P2P lender. Please see the link below to read the alert.

NASAA P2P Alert