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P-to-P Debt Consolidating To Affect Bank Balances?

■ BY DANIEL WOLFE

A growing number of people are turning to online person-to-person lending sites to borrow money they plan to use to pay off credit card debt.

Though the sums are a very small portion of total consumer debt, the loans could move money out of the banking system as borrowers pay off cards and their lenders draw down savings to fund the loans.

The market for online loans intended to pay off card balances is projected to reach $159 billion, or 16% of projected credit card debt, by 2012, in a report Javelin Strategy and Research of Pleasanton, Calif., plans to publish today.

"Those numbers were surprisingly high," said Jean Garascia, an associate analyst at Javelin and the report's author. Online lending, through sites run by Prosper Marketplace Inc., Lending Club Corp., and others, is "getting more and more public, and it's creating more and more awareness among consumers," she said.

Demand, however, must be matched by supply, she said, if the trend is to grow.

"P-to-P lending is not going to impact … [banks'] bottom line next month," she said, but the effect could be felt in just a few years.

Jessica Hougentogler, a spokeswoman for JPMorgan Chase & Co., said in an e-mail that despite the buss surrounding social lending sites "we feel good about our continued growth prospects."

Ms. Garascia said that online lenders are starting to favor less-risky loans. "From the Prosper figures I've seen, it's actually skewing much farther away from the people who are risky," she said.

Prosper, a San Francisco company started in 2006, once allowed people with any credit score to request a loan. Early this year, it adopted a 520 Experian Scorex Plus score as the lower limit, in part because few loans were being made to people with lower credit scores.

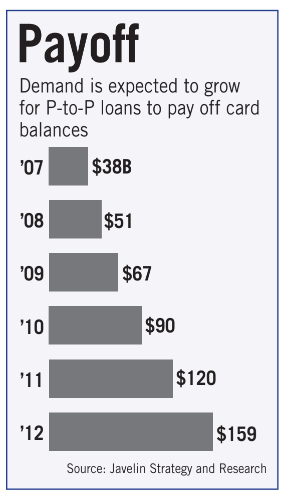
Rivals such as Lending Club, Zopa Ltd., and Globefunder Ventures Inc. have lower limits, in the mid-600s. Representatives of these companies have said that setting such a limit gives some assurance to prospective lenders that the sites are not overrun by loan requests from risky borrowers.

John Donovan, the chief operating officer at Lending Club, said the Sunnyvale, Calif., company gives financial education materials to people who do not meet its minimum credit score requirement.

"This is really something for prime borrowers," and lenders recognize that, he said. "We're certainly seeing people willing to lend out money."

There is, Mr. Donovan said, substantial demand for loans to pay off credit card debt.

Donovan: "We're seeing a lot of people paying off credit cards."



"They are certainly doing debt consolidation," he said. "We're seeing a lot of people paying off credit cards."

Lending Club borrowers are more motivated to pay off their loans because they have a personal connection to their lenders, Mr. Donovan said. Lending Club's users connect through a shared personal history, such as having attended the same college. Such personal connections are uncommon at banks, he said.

Lenders, in turn, trust borrowers not just because of the social connection but also because they see a willingness to come to a social lending site as a sign of financial responsibility, he said.

"People are getting a lot smarter about their debt," he said. Aside from lower interest rates, borrowers get a sense of accomplishment. Lending Club loans have a three-year term, whereas credit card statements give no idea when a balance will be paid off. "People are looking for solutions," he said.

Ms. Garascia said that this mindset is not unique to online lending participants.

"There is a shift, kind of, in the mind frame of what's responsible financial behavior and what's not," she said. Credit card debt is common enough today that "it's not necessarily something to be downtrodden about or ashamed about."

Lenders willing to take a chance on those borrowers "understand that … [credit card debt] happens and that it can be resolved."

Lending sites may branch off to other areas, such as putting more emphasis on loans to small-business owners, but demand for credit card debt consolidation is here to stay.

"At this point, it seems like there's always going to be credit card debt … . I don't really see that aspect of it going away," Ms. Garascia said.

Though this trend could threaten banks, they and credit unions could become involved in it, she said.

Zopa, a British company that launched its U.S. online lending site this week, involves one of six credit unions in every transaction.

At Zopa, the loans are not made directly among individual users of its site. Borrowers get a loan from a credit union, and other users are invited to help them repay the loan by buying a certificate of deposit and sharing the interest they accrue.

Deborah Colby, the vice president of marketing at First Technology Credit Union in Beaverton, Ore., said her credit union participates because she sees it as the best way to reach younger members.

"In trying to attract the youth market in general, this generation is very loyal to companies they believe in, but they're very suspicious of marketing," she said. "Traditional marketing and traditional verbiage just doesn't work."

Ms. Garascia said, "Social lending does appeal to younger consumers more than the average consumers," though they often lack money to lend or a need to borrow.

In the next five years, as this group grows up, its members are likely to seriously consider social lending sites as alternatives to banks, she said. ■