

Humble Beginning in Peer to Peer Lending

I first dipped my toes in to the Peer to Peer lending market back in 2010. Back then I was just dabbling and transferred \$2,000 into my investment account over a 6 month period. Looking back at the history it looks like this initial investment was made up of 5 separate deposits.

I don't really remember what put P2P lending on my radar, but I do remember finding it intriguing...obviously it was interesting enough for me to divert some capital over to a P2P platform. Prosper was the first platform I found that facilitated such P2P lending activity. I am pretty sure [Lending Club](#) was around at the time as well, but I chose to invest my capital using the Prosper lending platform.

My Initial \$2,000 Investment Was Short Lived

Bank Account Transfers

[Transfer Money](#)

Scheduled Transfers

No scheduled transfers

Past Transfers

1 - 20 of 24 transfers		Page <input type="text" value="1"/> of 2 <input type="button" value="Go"/>		« Prev Next »		
Start ▲	Complete	Transfer no.	To/From account	Frequency	Amount	Status
Feb-05-2010	Feb-11-2010	5419823	Washington Mutual xxxx3479	One-time	\$100.00	Completed
Feb-11-2010	Feb-18-2010	5427659	Washington Mutual xxxx3479	One-time	\$400.00	Completed
Apr-22-2010	Apr-22-2010	5574211	Washington Mutual xxxx3479	One-time	\$500.00	Completed
Jun-25-2010	Jun-25-2010	5670797	Washington Mutual xxxx3479	One-time	\$500.00	Completed
Jul-28-2010	Jul-28-2010	5717755	Washington Mutual xxxx3479	One-time	\$500.00	Completed

You can see from the above screen capture that I made my first deposit in February of 2010. I was interested, but much of my free capital at the time was going to invest in the stock market, as we were still less than a year off the March 2009 lows. Therefore, I was not willing to divert much capital this way.

After depositing a total of \$2,000 with my last deposit in 2010 I set my Prosper

account on auto-pilot. I didn't even check in on it that often. Then Prosper introduced a trading platform that created a secondary market when you could actually liquidate the loans you were invested in before maturity, which I believe back then were 1-3 years in duration.

So, of course in April of 2011 I had to test this new platform out to see how easy it would be to liquidate my loans. I was curious what kind of haircut I was going to have to take to liquidate early. By July 11 of 2011 I had completely liquidated my loans. To my surprise I took a haircut on some, but was some how able to get a premium on others. In the end I think I ended up taking about a 1% haircut on average.

After completely liquidating my loan portfolio, I transferred my original investment of \$2,000 plus the accumulated interest of about \$100 out of my Prosper account and into my checking account. In 18 months my P2P lending career was over. In that time I did have 3 loans get sent to collections and eventually they were charged off.

I honestly can't remember what my thinking was at the time, but P2P lending would not cross my mind again until sometime in 2015, when I decided this was an asset class that deserved a permanent allocation.

What Is Peer to Peer Lending?

As we approach about 500 words into this post I am realizing that some of you reading this may not even know what P2P lending is. I won't spend too much time here, but lets review this briefly.

Peer to Peer lending is just like it sounds, as an investor, you are loaning money to borrowers. P2P platforms like Prosper and [Lending Club](#) make this rather easy. They have built an auction process where borrowers apply for loans and investors bid on those loans. As an investor you can invest (bid) in as small as \$25 increments, so you can build up a pretty diversified portfolio quickly.

How it works

Prosper connects people who want to borrow money with investors who want solid returns.

Borrowers

Apply

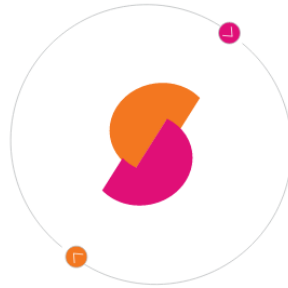
Eligible borrowers select a loan offer.

Verify

Our team carefully screens each borrower before funding is approved.

Repay

Borrowers make fixed, scheduled payments each month.



Investors

Explore

See your investment options based on criteria that you care about.

Invest

Fund a portfolio of loans that you've selected.

Earn

Enjoy monthly returns directly deposited into your account.

\$6,060,652,487

The amount Prosper investors have helped fund since 2006—and counting.

Whether you invest with Prosper or with [Lending Club](#), they both offer a rating system that buckets each loan based on the risk level (the same way a bank would classify risk). The riskier the borrower the higher the interest rate, but also the higher probability of default.

Select the risk and return you want

Each loan is assigned a risk rating from **AA** (lower risk, lower return) to **HR** (higher risk, higher return).

Risk Rating	AA	A	B	C	D	E	HR	Total Return
Estimated Returns*	4.38%	5.08%	6.07%	7.58%	9.73%	11.35%	11.13%	6.81%

And lastly with both platforms you can invest manually, handpicking the loans you invest in, or you can automate your investing. I am a big fan of the automation route.

What Does My P2P Portfolio Look Like Today?

In 2015 I jumped back into the P2P lending space and currently have an account with both Prosper and [Lending Club](#). Although currently I have the majority of my P2P allocated capital at Prosper.

Last year when I put together [my blueprint to \\$10M in net worth](#), I decided that P2P lending should play a role and should account for 5% of total net worth. Currently I have only invested \$6,000 to date. In order to reach a 5% allocation based on my current net worth I am going to need to continue to build this to around \$22,000.

At this point I don't really know how fast I will allocate capital here in order to achieve the 5% allocation goal.

With that said, lets take a look at my current summaries for both accounts.

Prosper Account Details

ANNUALIZED RETURNS BY PURCHASE PERIOD

Purchase Period	Total Invested*	Average Note Age*	Annualized Returns*	Lender Promotion Returns*	Total Returns*
Overall	\$6,089.39	169 Days	3.68%	0.06%	3.74%
2016	\$2,175.00	68 Days	5.02%	0.00%	5.02%
2015	\$3,325.00	221 Days	5.87%	0.00%	5.87%
2014	-	-	-	-	-
2013	-	-	-	-	-
2012	-	-	-	-	-
2011	-	-	-	-	-
2010	\$589.39	246 Days	-12.10%	0.00%	-12.10%

Cash Summary	
Total deposits:	\$7,000.00
Total withdrawals:	- \$2,099.96
Cash used to purchase notes:	- \$8,870.19
Payments received:	+ \$4,038.12
Miscellaneous activity:	+ \$4.81
Cash balance:	= \$72.78
Prosper investments:	\$25.00
Note Trader winning bids:	\$0.00
Pending Quick Invest orders:	\$0.00
Available to invest:	\$47.78

Performance Summary	
Payments received:	\$4,038.12
Principal paid off:	- \$3,736.74
Payments in excess of principal:	= \$301.38
Principal charge-offs:	- \$59.19
Gain/loss to date:	= \$242.19

Note Status Summary	
Principal value of active notes:	\$5,074.26
Total active notes:	231 View
Current:	229 View
Past due (1-30 days):	2 View
Past due (31+ days):	0 View
Payoff in progress:	0 View
Total charged-off notes:	3 View
Total notes paid in full:	17 View
Total notes sold:	76 View

Note Acquisition Summary	
Value of notes at acquisition:	\$8,870.19
Acquisition cost:	\$8,870.19
Premium at acquisition:	\$0.00
Principal charge-offs:	\$59.19
Principal paid off:	\$3,736.74
Average note yield at acquisition:	7.72%

Pending Investments View investments		
	Investments	Average Yield
Manual investment:	-	-
Quick Invest (view):	-	-
Pending review:	\$25.00	5.90%
Total:	\$25.00	5.90%

Lending Club Details

ON Adjust account value and returns for past-due Notes. [View/Customize Adjustments](#)

Adjusted Net Annualized Return 7.57% Historical Returns: 4.1% - 5.94% Understanding Your Returns	Adjusted Account Value \$1,011.46 Available Cash \$13.27 Add Funds	Interest Received \$12.08 Total Payments (Principal & Interest) \$63.89
My Account #75131024 More Details Available Cash \$13.27 Committed Cash ? \$0.00 Outstanding Principal \$998.19 Account Value \$1,011.46		My Notes at-a-Glance 42 ▾ Not Yet Issued ? 0 Issued & Current ? 42 In Grace Period ? 0 Fully Paid ? 0 Late 16 - 30 Days ? 0 Late 31 - 120 Days ? 0 Default ? 0 Charged Off ? 0 Displayed by Number Adjusted Amount
Adjustment for Past-Due Notes ? (\$0.00)		
Adjusted Account Value \$1,011.46		
Add Funds	Automated Investing	Browse Loans
		Payments \$63.89 ▶

You can see from the above screenshots of my P2P accounts that in 2016 Prosper is earning about a 5% return and [Lending Club](#) is earning about 7.6%. I think the disparity is really a function of how seasoned the investments are. I fully expect my Lending Club returns to fall closer to 5% over time. There will eventually be charge offs at some point.

Summary

I only have about \$6,000 invested and based on my \$10M blueprint I should be increasing this to about \$22,000. I have the money, but why don't I increase this to \$22,000 immediately? Well, the thing I didn't contemplate when I was formulating my plan, was taxes. The returns from my P2P portfolios are taxed at ordinary income rates.

If you read my [recent post on how I plan to increase my income to \\$600K/year](#), then you will remember that one of the things I am trying to do is divert more capital into more tax efficient vehicles. We are approaching a marginal tax rate of ~54% and I would like to invest in assets that are going to help dilute that. All this to say that we are going to focus on a more tax efficient investment next, and it will require a significant portion of our capital.

I am also contemplating whether I really need to spread my P2P capital across multiple platforms or not. The good news is that with apps like Personal Capital, it makes it easy to keep on all your accounts in one place.

- Gen Y Finance Guy



Gen Y Finance Guy

Hey, I'm Dom - the man behind the cartoon. You'll notice that I sign off as "Gen Y Finance Guy" on all my posts, due to the fact that I write this blog anonymously (at least for now). I like to think of myself as the *Chief Freedom Officer* here of my little corner of the internet. In the real world, I'm a 30-something former C-Suite executive turned entrepreneur turned capital allocator. I am trying to humanize finance by sharing my own journey to Financial Freedom. I believe in total *honesty* and *transparency*. That is why before I ever started blogging, I decided that I would share all of my own [financial stats](#). I do this not to brag, but instead to inspire motivate, and also to hold myself accountable. My goal is to be a beacon of hope, motivation, and inspiration for *you*, the reader, by living life by example and sharing it **all** here on the blog. My sincere hope is that you will be able to learn from me - both from my successes and my failures! [Read More](#)