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# Faircent.com, Lendbox.in and other peer-to-peer lending platforms gain popularity, draw RBI gaze

By [Shailesh Menon](#), ET Bureau | Updated: Jan 28, 2016, 11.09 AM IST

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One morning a year ago, Avinash Kumar, a Noida-based Naturopathy doctor, walked into the local branch of a public sector bank. He badly wanted a loan to expand his clinic. Less than an hour later, he walked out empty handed.

Kumar's application for a 'doctors' loan' was rejected because he was not "qualified enough". "I was told 'doctors' loans' were only for MBBS doctors. The bank did not consider alternative medicine practitioners as doctors," he recalls.

Kumar then decided to try out something that he had heard about from friends. He registered himself as a borrower on [Faircent.com](#), a peer-to-peer lending (PTPL) platform. In just a week, he raised Rs 75,000. He availed another loan of Rs 1.8 lakh more from the same platform recently. "It was so easy."

The denial of loans by banks is a problem small borrowers routinely face. But scores of borrowers like Kumar have found relief in PTPL platforms, collecting money from total strangers.

PTPL is the practice of large-scale lending of money between people online. In other words, it is an 'emarketplace' that hooks up lenders with borrowers.

PTPL [interest rates](#) are usually higher than market rates, often in the range of 16 to 21 per cent. But Kumar was fortunate to be viewed as a creditworthy borrower and managed to raise funds at about 15 per cent.

## Cheer for Small Borrowers

**What's peer-to-peer (PTPL) lending?**  
An alternate source of credit funding that enables people to borrow money from others, without a formal institution in between.

**How's it done?**  
Both borrowers and prospective lenders register themselves on the website. The borrower is required to plug in the details of funds required, preferred interest rate, reason for borrowing and tenure. Borrower details are visible to lenders who take a call whether to lend or not.

**How are the rates determined?**  
Once the borrower profiles are displayed on the website, lenders can quote their price for lending. If the borrower is deemed creditworthy, lenders may try to outbid each other by quoting lower rates.

**At what interest rates are loans given?**  
At average rates ranging between 16 and 24%. Loan amount may range between ₹10,000 and ₹25 lakh.

**What if borrowers default on repayments?**  
Borrowers are bound by legal contracts. Therefore, legal recourse is always open for the lender.

In the past 18 months or so, more than a dozen PTPL facilitators have sprouted in India. They have overseen total deals worth nearly Rs 20 crore till date.

So far so good. But now, the rising popularity of PTPL has caught the attention of banking regulator, Reserve Bank of India (RBI).

RBI Deputy Governor [R Gandhi](#) has said the regulator is studying peer-to-peer lending. "While recognising the need for innovative products and services, we should be conscious about the risks that may emanate out of such innovations," Gandhi said at the CII NBFC Summit held in December 2015.

Though PTPL has been beneficial to people ignored by banks, RBI believes it must frame rules and regulate it owing to a few concerns. For one, the open informal structure and lax disclosure protocols worries the regulator. For another, the quality of participants (lenders and borrowers) is not comforting. The presence of 'professional moneylenders' on PTPL platforms is another red flag, according to experts opine.

## Leading Peer-To-Peer Lending Platforms

|                                       | Faircent.com  | lLend.in   | Lendbox   | Loanmeet  |
|---------------------------------------|---|--|---|---|
| Number of lenders                     | 5,000   | 1,300  | 900   | 670   |
| Number of borrowers                   | 20,000  | 3,500  | 2,000   | 1,500   |
| Hh-rate possibility of getting funded | 1/10 applications   | 3/10 applications  | 6/10 applications go through                    | 1/20 applications   |
| Commission                            | 1% from lender; 2-6% from borrower depending on creditworthiness  | 1% from lender; 3% from borrower                                       | 2-6% from borrower                              | 2-5% from borrower  |
| Registration fee                      | ₹1,500 (refundable if funds not raised)   | ₹500   | Nil   | ₹1,000, 50% returned if funds not raised  |
| Total disbursed                       | ₹2 crore  | ₹90 lakh   | ₹75 lakh  | ₹61 lakh  |
| Lender's mandate                      | ₹10 lakh of investible funds, above 25 years of age, investments in stocks & possession of immovable property | Annual income of ₹8 lakh, PAN card, "only graduates"                   | PAN card, ID proof, one cheque leaf             | Insist co-investing   |
| Borrower's mandate                    | Salaried borrowers, SME owners with cash flows  | Salaried borrowers (₹25,000 per month, 6 months continuous employment) | No salary/income limits, three security cheques | Pan, Aadhar & bank statements, 1 banking transaction from borrower's account favouring Loanmeet |

Professional moneylenders are people whose income comes largely by way of interest on loans disbursed. Though they are required to register themselves as 'professional moneylenders' under various state laws, they are barred from charging more than 2 per cent above maximum interest rates levied by commercial banks on similar-type loans. But average interest rates on PTPL platforms are way above bank personal loan rates and ergo, in contravention of state laws.

Try telling that to the borrowers. The response to PTPL has been nothing short of overwhelming.

**Soaring Popularity** Ekmeet Singh, the 28-year-old promoter of PTPL platform Lendbox.in, opened lender-borrower registrations in December 2015. The platform has already signed up 2,000 borrowers and 900 lenders and mediated loans worth Rs 75 lakh in 50 days.

"We're seeing good interest from borrowers who want to consolidate or restructure their existing debt with cheaper options. Peer-level borrowing is a good option to swap expensive loans," says Singh.

Faircent.com, which became operational 14 months ago, has facilitated loans worth Rs 2 crore to date.

To be sure, the reluctance of banks to lend money to small borrowers set the ball rolling for PTPL in India. Banks have strict requirements such as a high credit score, near flawless bank transaction records and permanent long-term employment with quality companies from potential borrowers. These conditions have helped PTP platforms wean away hundreds of borrowers from the banks' credit pool, according to PTPL facilitators.

"Most banks give loans to employees of well-established companies only. This practically excludes SME and start-up employees," says Sunil Kumar, CEO, LoanMeet.

"PTPL rates may be marginally higher than banks, but definitely cheaper than gold loans and loans from moneylenders," says Shankar Vaddadi, founder of lLend.in. "If borrowers have strong credentials, they can cut borrowing costs to as low as 12-14 per cent."

According to Shankar, default rates are low in PTPL. "It's less than 0.5 per cent in our case. We check the credentials of borrowers."

At some level, PTPL is a win-win for all parties. The borrower accesses funds, the facilitator pockets registration fees and commission (2-6 per cent of the loan) and the lender gets an opportunity to deploy his surplus funds more profitably. "I get just about 8 per cent investing in bank FDs; here I earn as much as 16 per cent," says Shivaram Vinjamuri, a Hyderabad-based corporate coach.

But RBI laws could radically change the growing sector. Sandeep Parekh, founder of legal firm Finsec Law Advisors PTPL is a grey area and may require interpretation. "PTPL may or may not be breaching state laws."

**Under Watch** But PTPL facilitators say they are not breaching laws. "The onus to stay within state laws is the duty of the lender. It's like income tax laws...if you've made investment gains, you've to pay taxes. Likewise, if you're a private moneylender, you should not be seeking high rates," says Rajat Gandhi, CEO of Faircent.com. That seems logical, but the RBI might have none of it. It may cap lending rates, impose disclosure and reporting norms, mandate audits, seek more documentation and list recovery procedures.

"PTPL is a legal business, but it is not regulated. Some soft-touch guidelines will weed-out non-serious players," says Faircent's Gandhi.

PTPL rules have not evolved fully in developed countries as well. But that has not come in the way of facilitators like Zopa, Prosper Marketplace and Lending Club, which are all doing brisk business.

In the US, marketplace loan origination has doubled every year since 2010, to \$12 billion in 2014. A similar trend is playing out in Australia, China and the UK, a Morgan Stanley report said.