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Dec (9) Understanding Peer to Peer Business Lending - TheSimpleDollar.com

lending can provide you with access to needed funds when a bank may not. A peer-to-peer business loan, or P2P loan, provides you with money from either a person or a group of people instead of a bank or credit union. P2P loans are accessed through an underwriting site or lending platform. The site handles the process of obtaining funding for your loan from a person or institution, such as an investment fund or bank.

Many P2P loans are easier to access than other business loan types because they often examine your credit score and other credit criteria. Some loans use a blend of personal and business finances to make a decision while others will only review personal credit or business finances. Most P2P loans do not require collateral, and different lenders choose how to prioritize the various components of your credit score and your business finances.

The 8 best peer-to-peer lenders of 2019

Table columns

Finances and Credit Reviewed (Business or Personal), Loan Ranges, Origination Fee, APR or Interest Rate as of December 2019

Upstart: Personal, \$1,000-\$50,000; 0%-8%; 6.14%-35.99%

Prosper: Personal, \$2,000-\$40,000, 2.4%-5%, 6.95%-35.99%

StreetShares: Both, up to \$250,000, 3.95%-4.95%, Not Disclosed

Funding Circle: Both, \$25,000-\$500,000, 3.49%-6.99%, 11.67%-36%

P2B Investor: Business, \$500,000-\$10 million, 1.5%, Not Disclosed

Peerform: Personal, \$4,000-\$25,000, 1%-5%, 5.99% to 29.99%

The 8 best peer-to-peer lenders of 2019

Upstart

Upstart is a P2P lender providing funding for both personal and business use. All loans provided are personal loans and sizes range from \$1,000 to \$50,000, making it a good option for small businesses ready to finance an equipment purchase. Because the loan is personal, you do not need to provide business information except as it pertains to your personal income. Upstart examines your earnings as well as your credit history, education and job history when making a loan determination and setting loan terms. If you have a day job and want to start a side hustle, your work and education history could help you to get better terms from Upstart than a credit card can provide.

Prosper

Prosper provides loans for small businesses, but they are arranged as personal loans and assess your credit score to provide funds. If you are in the beginning stages of launching a business, obtaining funding through a traditional lender can be impossible. A Prosper P2P loan is for \$2,000 to \$40,000 and can have an annual percentage rate ranging from 6.95% to 35.99%. Prosper's interest rates are in keeping with other P2P lending options, but if you do not qualify for a low APR, the loan costs will be high when you extend payments over the full 3-to-5-year repayment period. Prosper allows for early payoffs of loans without a prepayment penalty, making it possible to save on interest by paying down the balance when your business takes off.

StreetShares

StreetShares was founded by veterans to meet the needs of veterans, but any small business can apply for a loan. StreetShares is suited to small businesses that are at least one year old and have minimum revenue. It suits enterprises in a growth phase that need access to multiple types of credit, such as a short-term loan and a line of credit. New borrowers can obtain up to \$200,000 in credit but repeat customers, such as a growing business, can borrow up to \$250,000. Your maximum borrowing capability is based on a variety of factors, including your business revenue and personal credit history. A business loan requires examination of your business finances and also requires a personal guarantor with reasonable credit. In addition to providing the unsecured loans standard in P2P lending, StreetShares also provides access to secure loan types and Small Business Administration loans, making it possible for you to start with P2P loans and move into traditional financing.

Funding Circle

For a business looking to go to the next level, Funding Circle provides financing up to \$500,000 and is a true peer-to-peer loan for businesses, so prepare to buckle up and provide paperwork for both the business and the owners. This means business tax returns, personal tax returns and bank statements. Despite the paperwork, Funding Circle's

requirements are fairly minimal and include having a business that's at least two years old, a personal credit score of 620 for a business with multiple owners or 660 for sole proprietorships, and no personal bankruptcies in the last seven years.

From its inception, Funding Circle has provided a personal touch through the loan process, and your business can still expect this. The company states an account manager will reach out within one hour of receiving an application to discuss your business, documentation needs and potential loan terms.

P2B Investor

If you run a large business with ambitious credit needs but are not capable of securing a line-of-credit through a traditional lender, P2B Investor, also known as P2Bi, can help. The lending marketplace provides loans secured by assets like accounts receivable or inventory and offers lines of credit crafted to serve business-to-business companies. To qualify, you need a robust enterprise. P2Bi's ideal candidate has at least \$2 million in revenue and 10% or more in annual revenue growth. P2Bi can also offer term loans at an amount at or below your line of credit. Because of its requirements for lending, P2Bi is best suited for businesses that need access to capital to ease cash flow bumps in the road due to delayed customer payments or fluctuating production cycles.

Peerform

Peerform provides a variety of unsecured personal loans at competitive interest rates within the peer-to-peer realm. Loan sizes range from \$4,000 to \$25,000, making it an option if you need to cover a very specific and defined expense. For example, a jewelry designer may want to invest in a 3-D printer to expand product offerings or purchase materials to build a booth and displays for trade shows. Well-qualified buyers are able to obtain lower APRs and origination fees, and a prepayment penalty is not applied. This means you can pay your loan offer early to reduce interest costs without a fee or adjust the size and frequency of payments to accelerate repayment.

What is a peer-to-peer lender?

Borrowers connect with P2P lenders through an intermediary, such as a lending platform, to obtain loans. The lending platform acts as an underwriter and vets your eligibility before posting the loan through the platform. One or more lenders may fund your loan, and certain lenders may specialize in offering specific loan types, such as business loans. In addition to personal investors offering funding for P2P loans, many investment funds serve as lenders for P2P loans. You do not repay a peer-to-peer lender directly. Payments and other loan business is handled through the underwriter.

How should I choose the right peer-to-peer lender?

The right P2P lender for you will largely depend on the size of your business. For start-ups, an unsecured personal P2P loan is an alternative to financing company expenditures on high-interest revolving credit cards. A robust small business with established financial records should look for a lender with a higher loan limit if growth is a goal. For a booming enterprise looking for short-term help with expenses during cash flow hiccups, a P2P lender with a line-of-credit option is ideal.

To protect yourself and your business, always review all costs of a loan. P2P lenders can charge a variety of fees, including origination fees, annual fees and prepayment penalties. Research the possibilities with various lenders who use a soft credit report pull and do not require a commitment to provide additional loan terms.

The bottom line

As your business expands, a P2P loan provides a way to bridge the time period from launch to eligibility for a traditional business loan. This makes it possible for your company to jump over hurdles only money can fix, such as a machinery purchase to increase production for orders providing added revenue. However, P2P loans are not without their drawbacks, including APR ranges that can match high-interest credit cards. Research all of your funding options before committing to a high interest rate and strive to pay off your loan as quickly as possible. This paves the way to additional funding opportunities in the future while saving you money.

Meta: Peer-to-peer business lending provides small businesses with access to loans funded by individuals or investment funds versus traditional lenders like banks and credit unions.