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## Peer-to-peer sites offer college loans

By Beverly Blair Harzog • Bankrate.com



### Highlights

- Four top sites offer alternative sources of college funds.
- Borrowers with good credit get interest rates that beat banks.
- Some sites allow family members to pool money to help the student.

Parents or students scrambling for college money may want to consider person-to-person lending, also known as P2P lending, peer-to-peer lending and social lending.

In P2P lending, a borrower requests a loan on a P2P lending Web site. Depending on the site, either an individual lender or a group of lenders agrees to loan the money in exchange for an interest payment.

Each P2P site has its own method of determining the lending interest rate. Borrowers with good credit records typically get a better rate than they would from a bank.

Families who cannot secure college funds through more traditional channels may find a P2P site to be a good alternative. Within the P2P industry, student loans have become a special niche. Some Web sites offer only student loans, but others offer a variety of loans.

Here are a few of the major Web sites where you can look for a P2P student loan:

### Top P2P student loan sites

- Lending Club.
- Virgin Money.
- GreenNote.
- People-Capital.

### Lending Club

Recently, the Securities and Exchange Commission determined that P2P loans on some Web sites are security instruments that need to be registered as such. [Lending Club](#) suspended operations while taking steps to comply with the ruling, but it is now back in business.

The site has tough credit requirements. You must have a FICO score of 660 and an excellent credit history. These requirements can be daunting for young students, so it's not unusual for a

student's parent to request the loan.

Most loans get funded pretty quickly, says Renaud Laplanche, founder and CEO of Lending Club.

"Only about 10 percent of those who apply actually qualify for a loan," he says. "But around 95 percent of the loan requests that do get approved get funded within 14 days."

Each loan is a fixed-rate, three-year loan, so deferred payments aren't an option.

A borrower's interest rate depends on his or her [credit rating](#). Students (or parents) with exceptional credit might get a rate as low as 7.88 percent. For most borrowers, though, rates will be higher.

Micah Azzano, of Arlington, Va., transferred to American University and needed a loan to pay off a balance from a previous semester at Johns Hopkins University. She chose Lending Club and requested a \$4,800 loan.

She got approved and received funding from a group of 95 lenders. Loans on P2P sites often are funded by a large number of lenders, each bidding a small amount, such as \$100, on a loan.

Azzano also found her interest rate -- 11.03 percent -- acceptable.

"I looked at federal loans, but the required amount of credit hours wasn't possible with my work schedule," says Azzano.

### Virgin Money

Are you on the good side with your rich Aunt Mary? If so, getting a P2P loan from [Virgin Money](#) to pay for graduate school might be a great option. Loans on this site are made between family members or friends, so lack of a credit history -- or having a less-than-stellar one -- isn't an issue.

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"Since the borrowers identify their lenders and work out the terms, Virgin Money doesn't require a credit history," says Helen Payne Watt, director of content at Virgin Money. "However, the loans do have optional credit reporting for borrowers looking to build credit."

Virgin Money also offers the Lender Blender, a software tool at its Web site. The Lender Blender is designed to help a student put together a financial package to cover school expenses, offering financial aid suggestions based on information provided by the borrower. This self-help tool displays a chart with suggestions on how the borrower can assemble various sources of funding under specific circumstances.

"The Lender Blender allows mom and dad, other family or friends, private loans, Federal PLUS loans, Stafford (loans) and Perkins loans to mix in the virtual blender and create their ideal combination," says Watt.

### GreenNote

This site specializes in student loans exclusively. Here, your character and ability to network are more important than your credit.

Students conduct what GreenNote calls a "pledge drive." This involves contacting relatives, friends, neighbors and anyone else you can think of who might want to invest in your future.

Once you have enough commitments to finance your loan, GreenNote handles the documentation. You won't need a co-signer, and you'll get a 6.8 percent fixed-rate loan with deferred payment options.

Because a lender can contribute as little as \$100, you don't need to have that one wealthy relative or friend to fund an entire loan. Students can defer repaying the loan for up to five years, so lenders need to be aware that their money might be tied up for a while. When repayment begins, lenders receive monthly payments with interest until the loan is repaid.

### People-Capital

This site also specializes in student loans. People-Capital uses a Human Capital Score, which calculates a student's future income potential by considering factors such as GPA, standardized test scores, college and major.

Multiple loan options are available, but you won't get the interest rate as low as you can when dealing only with relatives and friends.

"Another unique aspect of our platform is that we provide a blended rate to the borrower based upon a competitive auction process," says Thomas Shelton, founder and CEO of People-Capital.

Shelton imagines a scenario in which a student wants to borrow \$10,000. Grandma bids \$1,000 at 1 percent interest, an alumni club bids \$3,000 at 6 percent, and Wall Street investors bid the remaining \$6,000 at 15 percent.

"After modest fees, the (annual percentage rate, or APR) to the student is about 12 percent -- not bad for a student who might be paying 25 percent interest plus late fees on multiple credit cards," says Shelton.

### Choosing the right P2P site

Other P2P sites include Pertuity Direct, LendingKarma and ZimpleMoney. Two others -- Prosper and Loanio -- are in "quiet periods" while registering securities with the SEC. During a quiet period, a site temporarily suspends business operations until it gets SEC approval. Prosper and Loanio are expected to return to business just as Lending Club has done.

P2P lending sites are required to comply with federal and state regulations that protect consumers. Nonetheless, it's important to review each P2P site carefully so you understand the way the services are delivered online.

If you're researching a site and have questions, contact the site either by phone or e-mail. If you don't get prompt responses, move on.

Remember, borrowers who take out P2P loans have the same obligations as they would after securing a bank loan. Defaulting on the loan will cause the P2P Web site to report the delinquency to the credit bureaus, which will [damage the borrower's credit score](#).

If you think you'll have a difficult time repaying a loan while incurring school expenses, check out sites where deferred-payment options are available.

*Beverly Blair Harzog is co-author of "The Complete Idiot's Guide to Person-to-Person Lending."*

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Posted: June 23, 2009

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