

# Profiting from peers a growing loans trend in British Columbia

Peer-to-peer lending website overcomes regulatory hurdles to secure access to capital and provide loans in the province

By Richard Chu

**A** Toronto-based peer-to-peer lending company is gaining traction in B.C. after spending most of last year obtaining financial and securities regulator approval to operate in the province.

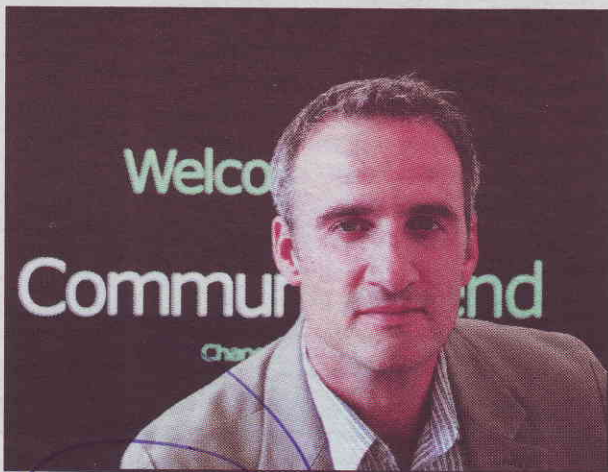
**CommunityLend Inc.** is an Internet-based lending company set up to provide loans from private investors to qualified borrowers who sign up as members of the website. The company aims to provide more affordable unsecured loans to borrowers than what banks offer while also giving private investors access to the personal lending market.

CommunityLend's CEO **Michael Garrity** said using an Internet platform rather than a financial institution to process adjudication, origination and loan management has many advantages.

"There is a tremendous opportunity in a platform that allows people with deposits looking for a better return to meet up directly with borrowers."

With \$1.1 million in loan requests accepted and roughly 2,800 members, CommunityLend is still relatively small. However, the company has continued to attract institutional investors looking to tap the consumer credit market that Canada's financial institutions dominate.

Garrity said most of the company's original investors put up \$1 million each and a new investor recently pledged \$10 million as part of a pilot test of the system's



Michael Garrity, CEO, CommunityLend: "you might be looking at some folks who are lower in the credit bands"

investment potential. But he noted that anyone who qualifies as an accredited investor in B.C., Ontario or Quebec can also put in as little as \$1,000 to loan to borrowers looking for financing of up to \$25,000.

CommunityLend has a relatively low loan rate in part because it still has minimum credit requirements for borrowers and because the site doesn't provide financing for people who can't get a loan from a regular financial institution.

"Our loan rates are based on the credit history of the individuals on the system," said Garrity. "You might be looking at some folks who are lower in the credit bands. But nearly all of our rates are indexed to be 100 to 200 basis points lower than the best rate a borrower can get from a financial institution."

The company plans to expand its member base by partnering with businesses that could benefit from a private lending option for their

customers. It provides that service for **Autotrader.ca**.

Last week, it also launched its own sales finance platform, **Financeit.ca**, which provides in-house financing options for home-improvement companies. About 40 companies have already expressed interest in the program, including four from B.C.

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- Robert Burbach, senior analyst, IDC Financial Insights

**Robert Burbach**, a senior analyst at **IDC Financial Insights**, said peer-to-peer lending remains a relatively new concept in Canada, but can be a viable business.

He noted that the market for small loans in Canada is relatively underserved by most financial institutions.

"Banks want to give you a line of credit. It's not in their interest to do loans for small, specific items. So I think [CommunityLend] is a very viable business. People are looking for alternatives. The main challenge is getting out there and getting the brand known."

A few years after similar services started appearing in the U.S., the U.K. and Australia, CommunityLend remains one of the most successful initiatives to create a peer-to-peer lending market in Canada. Among the largest in the U.S. is **Prosper.com**. After launching in 2006, it now boasts more than a million members and over \$215 million in funded loans.

Like other peer-to-peer lenders, CommunityLend charges fees to the borrower and the lender only when a loan is approved

and fully funded. Borrowers are charged at least \$75 for a funded loan and lenders are charged a 1% administration fee on the value of loans outstanding on the system.

CommunityLend was founded in 2007, but only started operating last February after spending a few years getting approval from securities regulators in Ontario and Quebec. It gained access to B.C. last September after obtaining **BC Securities Commission** approval.

While it took years to begin operations, working with the regulators has paid off. Another peer-to-peer lender, Quebec-based **IOU Central**, launched in 2008 but was forced to shut down a short time later because it hadn't obtained regulatory approval. While the regulatory requirements have been onerous, the benefit to investors and potential borrowers is that the business is fairly transparent.

"If you go to our legal page, it's as frank as humanly possible. We have a long list of risk disclosures on the website," Garrity said. "All investments have risk associated with them, and we try to be as transparent as possible about that." ■

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## Employee Benefits Q&A

**In today's economic environment, how do companies maintain a valuable benefit program while controlling the rising cost?**

During challenging economic conditions, companies look to improving on their "return on investments", and this also includes greater value from the monies they spend on their "employee benefit programs". Greater focus has been to provide the right plan, at the



provide long rising costs.

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