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Peer-to-peer lockdown: investors fear cash will be trapped for years

Investors in the fledgling sector are being hit by negative interest rates

By Adam Williams

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Investors in once-lucrative peer-to-peer investments fear they will be left holding the baby after millions of pounds was lost to poorly run exchanges and the sector's existence was thrown into doubt.

Some peer-to-peer providers have applied negative interest rates to existing customer accounts, effectively charging them for their portfolio. Cash has also been diverted into lifeboat provision funds. Users fear they will be unable to [access their cash](#) for years.

Exchanges were supposed to allow ordinary investors to beat the banks and generate a strong income. However, the boom quickly turned sour. In January the City watchdog, the Financial Conduct Authority, issued a warning describing peer-to-peer lending as high risk and unsuitable for most investors.

In the past 12 months, several firms announced they would close to new customers, sparking fears over the long-term future of the sector.

Peer-to-peer platforms allowed DIY investors to lend cash to small businesses and other individuals. Returns of up to 12pc were commonplace and proved attractive. The lure of investing through a tax-free “innovative finance” Isa also drew large numbers.

Lendy | Timeline of peer-to-peer platform's demise

January 2013

Lendy, then known as Saving Stream, launches. The peer-to-peer platform originally gave customers the chance to invest in maritime finance projects before later expanding into property loans.

April 2014

Regulation of the peer-to-peer sector is transferred to the City watchdog, the Financial Conduct Authority (FCA). Firms are initially given “interim” permission to continue trading while they apply for a full licence.

March 2017

Saving Stream rebrands as Lendy, amid fears the firm's customers were unaware they were investing in high-risk schemes.

July 2018

Lendy is fully authorised by the FCA despite concerns over widespread defaults among the company's borrowers.

November 2018

The troubled firm reaches an agreement with the FCA which means it must obtain written consent before making any payments that could be considered outside the usual course of its business, or are worth more than £5,000.

January 2019

Lendy is placed into special measures by the regulator, as the number of loans in arrears spirals.

May 2019

Lendy falls into administration, leaving £152m of investors' cash on the line.

Adam Williams

Yet investments ended up being much riskier than the stock market and have been likened to casino-style gambling. Many savers felt betrayed after platforms such as [Lendy](#), [FundingSecure](#) and [MoneyThing](#) collapsed, leaving millions of pounds of cash on the line.

Falling confidence has also left existing customers [unable to sell their loans for years](#). Although borrowers take loans for a period of years, investors were once able to sell these to others if they wanted to access their cash early, via a so-called secondary market. However, if no new investors are willing to take over there is no way existing lenders can cash out.

RateSetter has effectively “bought out” all of its investors and will fund loans itself in the future. All existing lenders will be repaid their original investment on April 2 and the peer-to-peer platform closed down.

Zopa has [opened its own bank](#) and its innovative finance Isas are closed to new customers with no timeline of when they will reopen. However, existing users are able to sell their loans to other current customers.

Funding Circle, the third member of peer-to-peer’s “big three”, has suspended all new lending as it concentrates on supplying Government-backed loans to small business customers instead. It has also closed its secondary market until further notice.

In another blow, Lending Works introduced negative interest rates last October. This means customer balances are being reduced over time. Users are blocked from selling their investments as the so-called secondary market is closed. Some savers with loans generated in 2017 are suffering a minus 17pc interest rate. Such rates were introduced as the firm could no longer cover expected defaults, as economic turmoil caused by coronavirus led more borrowers into arrears.

A spokesman for the firm said that no customer would make a loss over the lifetime of their investment, however. “The average return across all our loans is 3.7pc per year even though the economic impact has meant lower than predicted returns,” he said.

“All our DIY investors have earned a positive return overall and for our new 2021 loans we are forecasting annualised returns of between 4pc to 4.5pc.”

With interest rates from high street banks close to zero, savers could be tempted to take a second look at peer-to-peer lending. Despite the many controversies, Neil Faulkner of 4th Way, an analyst, said peer-to-peer loans still delivered solid returns.

He warned users should spread their loans across many platforms, so they were not exposed to huge losses if one firm failed. Mr Faulkner recommended Loanpad, Proplend, CrowdProperty and **Kuflink**. Each firm allows customers to invest tax-free through an Isa.

Interest in innovative finance Isas has [started to wane](#), however. There were 49,000 new accounts opened in the 2017-18 tax year but this fell to 38,000 the following year, according to the latest HM Revenue & Customs figures.

That is dwarfed by the 8.5 million subscriptions for cash Isas and 2.4 million for stocks and shares Isas in 2018-19.

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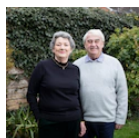
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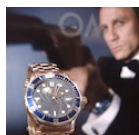
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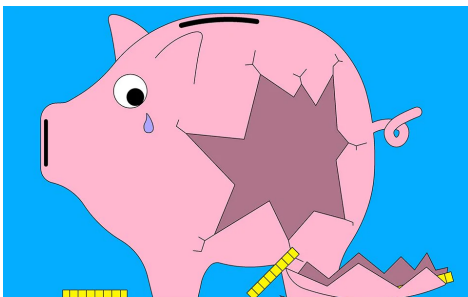
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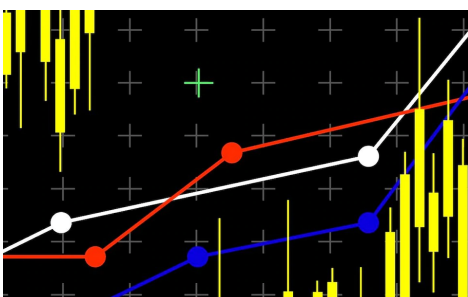
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