Peer-to-Peer Lending

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Peer-to-Peer lending, also known as social lending, is still a somewhat new form of financing, and is something that really first took off as a facebook application. Yes, it is still a loan that needs to be paid back, but when you use it to pay for your college expenses it is often cheaper interest wise than private student loans. Social lending has really grown over the last year or two.

What really differentiates social lending from other forms of financing is the fact that (in most cases) these services do not require a cosigner. This is obviously of interest to students who are often relying on mom and dad to co-sign on their student loans.

In the past, federal loans and grants were typically enough to cover tuition and other college expenses. But, as tuition keeps going up, mainly because states across the nation are reducing their higher education budgets, federal aid just isn't enough to cover all the expenses anymore. This is forcing students to take out costlier private student loans and find new forms of financing, such as peer lending.

How it Works

Peer-to-peer lending sites typically fall into two categories: friends & family, and stranger-to-stranger. How it works for students is, you visit one of these social lending websites (see list below) and create an account along with the amount of loan you are looking for. Then, the lenders on the site looking to lend cash can decide if they want to invest in your education. So, if you decide to try out peer lending, make your profile on the social network look promising.

The thing about this type of loan is that everyone qualifies. Your loan is dependent on the willingness of the social network to make an investment in your future. The idea behind peer lending is that you are borrowing from someone you typically know, which usually means lower default rates on loans.

What's in it for lenders?

Lenders can earn better returns than they would in a money market or savings account. A peer-to-peer loan used as a student loan is a safer investment for the lenders of these social lending sites. Student loans tend to have lower default rates than most consumer loans. Also, lenders of these sites get the self-satisfaction of knowing that they are making a difference in people's lives.

Let's take a look at some of the popular social lending sites across the web. You can use these social lending websites as another option, when it comes to paying for college.
Peer-to-Peer Lending Sites

Fynanz

A peer-to-peer lending site focused exclusively on student loans. Borrowers can create an online profile with their educational details, along with a loan and rate request. Lenders place bids on the listed loans based on the student's academic accomplishments and background, rather than just their credit score. Fynanz guarantees each loan, and since the loans are considered qualified educational loans, students can deduct the interest from their taxes once they start repayment.

To reduce risk, Fynanz looks at other factors in addition to credit score when evaluating each student borrower; these include GPA and what school the student is attending. A Fynanz loan can be used for tuition, room and board, textbooks, and other living expenses. You are allowed to set your own repayment term, ranging from 5 to 10 years. This service offers competitive interest rates based on academic performance, so it’s an even better option if you’re a good student.

Greennote

Greennote offers a low 6.8% loan, and no co-signer is needed. Repayment starts six months after you leave school and you are able to defer your payments for up to five years while you attend school (payments are due starting six months after you finish school, or five years after you take the loan, whichever comes first). Their service helps you raise money for school from friends, family and other individuals in your social network. The minimum loan amount is $1,000, with the maximum being the total cost to attend your selected college.

Zopa

With Zopa, you can borrow between $1,000 and $25,000 at interest rates nearly half than at a bank (starting at 8.49%). The loan has a 5 year payoff term and borrowers must have a credit score of at least 640. This type of loan may not pertain to traditional students compared to the other peer-to-peer lenders on this list, as it requires somewhat of a credit history and an income of at least $2,000 per month. If this is an issue for you, you can also have your parents co-sign on the loan.

Lending Club

Lending Club, which launched in May 2007 exclusively for users of facebook (as a facebook application), opened up its services to all consumers in September 2007. Interest rates start at 7.88%. Borrowers pay a processing fee based on the loan grade that ranges from 0.75% to 3.00% of the loan amount. This fee is deducted from the loan proceeds prior to the loan being deposited in your bank account.

Virgin Money

With Virgin Money, you borrow money from a friend or family member, meaning you have to find your own lender. You pay the loan back in regular installments to the lender. Basically Virgin just acts as a neutral and legal third party between you and the person you are borrowing from.

Prosper

Prosper, while not there specifically for student loans, it is still an option. Only a small percentage of outstanding loans are currently being used for student loans on Prosper. The reason why it may not be so popular for paying for college is its repayment terms are not favorable to students. Repayment ranges from 1 to 3 years, not typical of traditional student loans. Prosper does offer a low fixed rate, however.