

Pennsylvania Securities Commission helps assess risks of peer-to-peer lending

Almost everyone knows it's hard to find a soul mate on the Internet. Now comes the **Pennsylvania Securities Commission (PSC)** with a warning to borrowers and investors that non-traditional loans offered via the Web can also be problematic.

The Securities Commission issued a joint alert today in cooperation with the **North American Securities Administrators Association (NASAA)** and other state securities regulators encouraging investors and borrowers to be mindful of the risks of online loan matchmaking, also known as "peer-to-peer lending," social lending, person-to-person lending or P2P.

"Peer-to-peer lending allows individuals and small businesses to receive loans that might be difficult or costly to obtain from traditional banks in our current economic climate," **noted PSC Chairman Robert Lam.** "Meanwhile, investors are invited to fund such loans based on the promise of a steady capital return.

In theory, it's an idea that seeks to capitalize on the ability of the Internet to bring strangers together." **Commissioner Tom Michlovic** warned that risks needed to be investigated by both sides of the equation – the borrower and the individual "lender" or "investor." He said, "Banks historically build impressive edifices out of bricks and mortar to underscore how stable and reliable they

are. On the Internet, it's much more difficult to build a reputable institution from 'castles in the sky.'"

Commissioner Steven Irwin noted that peer-to-peer lending is an emerging business model that is still in its infancy. "There are several risks that investors should take into account before getting involved," he said. "When you see a peer-to-peer lending opportunity on the Internet, you should do your homework." In many cases, the lending organization may be selling securities to would-be investors that come within the state securities laws.

Potential investors can contact the PSC to make sure the securities are registered and authorized for sale in Pennsylvania and to obtain background and licensing information on the company facilitating the loan. ... "It takes time to fully assess the risks and rewards of financial innovations such as peer-to-peer lending," Lam said. "Investors should proceed with caution when considering new investment vehicles like P2P."

The Dodd-Frank Wall Street Reform and Consumer Protection Act calls for the Government Accountability Office to study the regulatory framework for peer-to-peer lending. Because peer-to-peer lending platforms often involve both loans and securities, they may be regulated by the Securities and Exchange Commission, state securities regulators or state banking regulators.

(PR Newswire, 14 December 2010)