

# A CROWD FUNDING AND PEER TO PEER LENDING OVERVIEW FOR PHYSICIANS



Timothy J. McIntoch MBA MPH CFP® CMP®  
Jeffery S. Coons PhD CFA  
Dr. David Edward Marcinko MBA CFP®

## Crowd-Funding

Start-ups and small businesses may soon be able to sell ownership stakes in their companies by soliciting investors over the Internet under a proposal advanced by the Securities and Exchange Commission [SEC]. The plan would set rules for equity Crowd-Funding which would spur growth by easing financing for companies when mandated in the 2012 Jumpstart Our Business Startups Act. [JOBSA] The rules may boost the nascent Crowd-Funding movement that demonstrates progress in advancing a backlog of regulations required by the JOBS Act and Dodd-Frank law. Firms include: KickStarter, RockHub, CrowdFunder, PeerBackers, AngelList, and a host of others.

For example, businesses using Crowd-Funding could raise no more than \$5,000 a year from someone whose income or net worth is less than \$100,000. Investors with income or net worth greater than \$100,000 could contribute as much as 10 percent of their annual income or net worth, to a maximum of \$100,000 in one year. Crowd-Funding wouldn't be open to public companies, non-U.S. companies, or those that have no specific business plan.

A company using equity Crowd-Funding would be limited to raising a maximum of \$1 million per year. Companies raising less than \$100,000 would have to disclose financial statements and income-tax returns for the most recent fiscal year.

Another company seeking to raise more than \$500,000 would have to provide audited financial statements. Companies raising more than \$100,000 but less than \$500,000 would need to provide financial statements reviewed by an independent public accountant.

# Peer to Peer Lending (P2PL)

Similar to private equity or venture capital, peer-to-peer lending [aka person-to-person lending, peer-to-peer investing, and social lending] is the practice of lending money to unrelated individuals without the benefit of a traditional financial intermediary like a bank or financial institution. P2P lending takes place online using various platforms and credit checking tools. It has been in existence for about a decade.

*Here are some important characteristics:*

- ) P2PL offers a chance to get a lower interest rate than a bank, and gives investors a chance to receive higher returns. Of course, more rewards means more risk
- ) The two largest P2PL companies are Prosper.com and LendingClub.com. Prosper is older, Lending Club is bigger. Prosper allows bidding on the interest rates you're willing to provide a loan. Lending Club sets the rates.
- ) Initial returns on Prosper were disappointing because default rates were high; today it is better. For loans originating in the last six months of 2009, both Lending Club and Prosper have a default rate (including currently late loans) of about 13.5%. Using loans from that same time period, Prosper had overall returns of 8.3% and Lending Club had returns of 4.3%.
- ) Since avoiding defaults is an important part of P2PL, investors should buy many lots of notes - for as little as \$25 each - which make it relatively easy to achieve broad diversification.

- ) Compared to buying index funds and rebalancing once a year, P2PL is more time-consuming as you must pick the loans to invest in individually. Filtering through the offered loans is time-consuming, but can be rewarding. Some investors sell off their notes at a discount once the borrower goes late on a payment for instance, or just because they need their money out of the investment before the term is up.
  
- ) No matter how closely watched there will be a drag on returns from the cash in your portfolio. It takes time to choose loans acceptable and then for them to be approved. Just as with a mutual fund, this will lower your returns, perhaps as much as 1%.
  
- ) One of the real benefits of P2PL is a low correlation with other investments, as it is different than other asset classes and ought to perform differently from equity and fixed income investments.

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**CONTACT:**

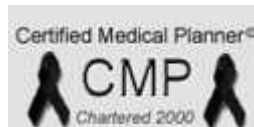
**Ann Miller RN MHA CMP®**

**Phone: 770-448-0769**

**WEB: [www.MedicalBusinessAdvisors.com](http://www.MedicalBusinessAdvisors.com)**

**WEB: [www.CertifiedMedicalPlanner.org](http://www.CertifiedMedicalPlanner.org)**

**Email: [MarcinkoAdvisors@msn.com](mailto:MarcinkoAdvisors@msn.com)**



**THE END**