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ALABAMA SECURITIES COMMISSION HELPS INVESTORS ASSESS RISKS OF PEER-TO-PEER LENDING

MONTGOMERY, ALABAMA (Dec. 13, 2010) – A good loan can be hard to find, so borrowers and lenders increasingly are turning to the Internet to locate one another. The Alabama Securities Commission (ASC) today issued an alert to encourage investors to be mindful of the risks of online loan "matchmaking," which is 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 would otherwise be difficult or costly to obtain from traditional banks, while investors fund such loans based on the promise of a capital return," said ASC Director Joseph Borg. "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."

"When you see a peer-to-peer lending opportunity on the Internet, you should do your homework," Borg said.

In many cases, the lending organization may be selling securities that come within the state securities laws. Contact ASC to make sure the securities are registered and authorized for sale in Alabama and to obtain the background and licensing information on the company facilitating the loan.

Potential lenders also should consider the risk of the borrower defaulting on the loan. Since peer-to-peer loans are unsecured, investors are dependent on the borrower to repay the loan and may have no legal ability to pursue the borrower in the event the borrower fails to pay. The notes issued to the lender are not FDIC-insured, nor are they guaranteed by any federal or state agency.

ASC also advises investors to be aware that the identity of the borrower is often not available to the lender, making it impossible to verify independently the status of the borrower's finances and business prospects. The lending platform may not do a thorough background check of the borrower, and borrowers may incur additional debts to other lenders.

"It takes time to fully assess the risks and rewards of financial innovations such as peer-to-peer lending," Borg said. "Investors should proceed with caution when considering new investment vehicles."

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.

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The alert is available at **www.asc.alabama.gov**. For more information, contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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