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Peer-to-peer loans: Writer explains what it's like to borrow from strangers

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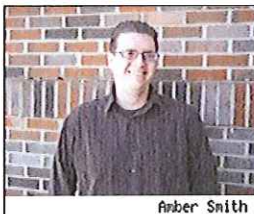
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Josh Smith

Over the past couple of years, lenders have tightened their purse strings, making it harder for even the most creditworthy consumers to land a loan the traditional way. But as the banks' wallets closed, other ones have opened: Peer-to-peer lending sites like **Lending Club** and **Prosper** have provided a safe place for lenders and borrowers to meet, share information and ultimately share cash.

Struggling to pay off my credit card debt and the sky-high interest that accompanies it, I decided to turn to Lending Club. My ultimate goal: To refinance my \$5,000 in credit card debt into a Lending Club loan carrying a fixed term and a more reasonable rate. And so I began the process.

First, I calculated just how much it would take to pay off my credit card debt, then I looked up my credit rating -- two crucial pieces of information you will need to begin the loan application process. (To get a free credit report

you can go to AnnualCreditReport.com -- a central web site set up by the three major credit reporting companies.) Once on the site, I chose the amount I wanted to borrow, picked "credit card refinancing" as my reason for borrowing and provided my credit score range (to use Lending Club your score must be 660 or higher). Easy enough, but it was about to get a little tougher.

In order to facilitate these loans and provide a trusting environment for lenders, peer-to-peer lending sites like Lending Club require that you provide just as much personal information to them as you would to a bank. You will also have to give this information to each potential lender, as well -- and that's where things get a bit daunting

I was taken to a secure page where I entered all of the standard account details that one would give to a bank when applying for a loan: name, address, date of birth, Social Security number, employment status and income. What made me take pause as I filled out the form was the information that would be displayed publicly for my potential lenders to see. I didn't mind that my city, state and employment status would be displayed publicly, but I hesitated when it came to sharing my income with the world. I wasn't concerned with the security of this information so much as getting over the social stigma of not talking about how much I make and how much I owe.

Once I accepted the fact that only registered lenders would be able to see my "borrower profile," which includes my gross income, debt-to-income ratio and summarized credit history; and that they need this information to make a lending decision, and hopefully offer me a lower interest rate, I got over my hang up and clicked "Next" to see what rate Lending Club was offering. (Lending Club uses your credit score to choose the rate of your loan, just like a bank would with rates starting at 7.89% APR.)

From this point on you have to make your case to potential lenders. Just as you would write an enticing description of yourself on an online dating site, you need to sell yourself to lenders. On Lending Club, you have the opportunity to describe why you need the loan and you can provide explanations for any black marks on your credit report. You can also enter any affiliations you might have with organizations like your alma mater or the Boy Scouts (Who knows? You just may attract lenders who are also affiliated with these groups.) Unlike going into the bank, and having one shot with one person, here you have dozens of potential lenders checking out your profile.

After I finished listing all of the wonderful things about myself, I verified some information over the phone with a Lending Club representative, not an automated machine - an actual person who I could understand. Afterward, my loan request was listed for potential lenders to see.

Now it was onto the next phase, one that some may find even more uncomfortable than listing their income or other personal information. Lenders who are interested in helping you out can ask you questions about your expenses or additional income. At times, it may seem like you're revealing a lot of private information to a nameless faceless person; but the only issue I had was getting past the embarrassment of disclosing my monthly student loan payment - often mistaken for a mortgage. In the end, I only had to answer a few questions about my monthly expenses and plans for repayment. You don't need to answer every question, and again most were similar to what a bank would want to know, so you remain in control of your data.

Within a day of being listed on Lending Club my loan had been funded halfway. Five days later, the loan was fully funded by 89 lenders and the money was on its way to my bank account where it would sit for a minute before heading out to credit card companies.

Getting a peer-to-peer loan was incredibly simple. Even though I had a few concerns about sharing my income and debt information with lenders I found it to be less stressful than heading into the local bank to beg for a loan. That said, before you sign up, you should at least check with your local bank to find out what rates they are offering since you may be able to get a better deal depending on your credit score and other factors.

Even though I have 89 lenders I only make one payment to Lending Club, which is automatically drawn from my bank on the same day each month. If I want to pre-pay the loan I can make a one time payment or increase my monthly auto-pay to wipe out my debt quicker.

Thanks to my Lending Club Loan I was able to cut my combined credit card interest rates in half and put an end date on my debt with a fixed three-year loan. With no prepayment penalties and smarter spending and saving I am already on my way to a better financial future.

If you have any questions about the process leave a note in the comments and I'll do my best to answer it.

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