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Our Ref: PQ200317A

RE: Peer-to-peer lenders

I write in response to your Parliamentary Question to the Chancellor of the Exchequer of 16 March, asking whether the Financial Conduct Authority (FCA) has taken any action to (1) monitor, or (2) issue guidance, to peer-to-peer lenders about whether new client inflows should be used to support previous borrowers experiencing financial difficulty and funded by earlier investors.

Peer-to-peer platforms have always been required by our Handbook to act in the best interests of their customers when offering loans for investment. This would include an assessment of a borrower's current creditworthiness, ability to repay and suitability of a loan for a particular investor's profile. Our supervisory activity will include assessing compliance with these requirements.

In December 2019, we strengthened our rules for peer-to-peer platforms. This included a requirement for platforms to publish an "Outcomes Statement" that includes expected and actual default rates of all loans and, where a firm offers a target rate, the actual return achieved. These rules cover the 'lifecycle' of a loan and set out more clearly how a platform must undertake an adequate credit risk assessment based on all information about the borrower that the platform is aware of at that time. This could include a borrower's previous payment history. This is covered in COBS 18.12.5 to 18.12.10.

Furthermore, where a firm determines the price of a peer-to-peer agreement and is facilitating an early exit for a lender (through a secondary market), then it must ensure that the price offered is fair and appropriate. This would specifically include a revaluation where the borrower is in financial difficulty. This is set out in COBS 18.12.16 and 18.12.17.

Our rules do not allow an investor to be offered a loan that is currently in default. Furthermore, platforms must, when allocating loans, only include those where there is a reasonable certainty the lender will achieve their target rate. This is set out in COBS 18.12.11 to 18.12.14.

I hope that this is helpful.

Christopher Woolard
Interim Chief Executive