Peer-To-Peer Lending - CRED Mint

Why in news?

Fintech platform CRED has recently announced the launch of a peer-to-peer (P2P) lending feature called CRED Mint.

What is P2P lending?

- An alternative method of financing where individuals obtain loans directly from other individuals.
- Take place via an online platform that matches lenders with borrowers.
- No role forfinancial institutions as the middlemen.
- Also known as “social lending” or “crowd lending.”

What is the benefit?

- Theinterest rates on the lakhs of rupees of savings lying idle in bank accountsare low and donot even beat inflation.
- This is an erosion of wealth.
- So, P2P lending facilitates an investment opportunity that essentially converts savings to investmentsto earn better returns.

What are the associated risks?

- Risks of non-repayment of loans.
- Unsecured form of loan. No guarantee put up by the borrower for the lender to redeem in case of a default.
- However, the unsecured nature is also the reason behind the high return on investment compared to other debt instruments.

How is it in India?

- In 2017, the RBI had brought P2P lending under its regulatory purview.
- There were more than 20 P2P lending players in the market at that time.
- But RBI’s regulations ensured that only the serious ones (with firm business models) remained in the sector.
- LiquiLoans, LenDenClub and Rupee Circle are some of the licensed P2P lending non-banks in India.

What is CRED?

- CRED is a Bengaluru-based startup thatbegan as a credit-card repayment platform.
- It then expanded its offerings, including rent payments and personal loans.
- About 25-30% of all credit card bill payments in India are happening through CRED.

What is CRED Mint?

- CRED Mint is CRED's first community-driven product.
- It will enable CRED members to earn interest on idle savings by lending to other high-trust members.
- For this, CRED has tied up with RBI-approved non-banking financial company (NBFC) Liquiloans.

Howdoes CRED Mint work?

- Users 'invest' their 'savings' in a capital pool that will then be used for lending to other customers of CRED who seek personal loans.
- Members can put between Rs 1 lakh and Rs 10 lakh of their capital to the lending pool.
- The invested money will be routed directly to an escrow account held by CRED's NBFC partner, Liquiloans.

  An escrow account is a third-party account where funds are kept on behalf of two parties who are in the process of completing a transaction.

- It will then be diversified across 200+ borrowers on average.
- Investments made in CRED Mint will be lent out through CRED Cash.
- CRED Cash is a lending product created for high-trust CRED members, in partnership with licensed banks and NBFCs.
- Investors can request withdrawal, partially or in full, at any time with no penalty.
- The withdrawal process will completely be online.
- The money with interest (for the period invested) will be returned to the investor within a working day.

  Investors will earn interest of around 9% per annum.

  Borrowers will pay interest at a rate of 12-13% per annum.

What is CRED’s role in this?

- The risks in P2P lending are reduced with reliance on a community of high trust individuals.
- So, CRED will analysepotential borrowers and providea database of creditworthy people who can be targeted for loans.
- It will make a commission for this.

Source: The Indian Express, Economic Times, Business Line

