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CONSUMER CREDIT CROWDFUNDING PLATFORMS IN SPAIN

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ABSTRACT

This article describes the different consumer credit crowdfunding platform models that are currently operating in Spain and analyses their development and their main characteristics by drawing on granular data publicly available from two of the platforms operating in Spain. The article shows that, while the volume of financing granted by this type of platform has grown at a considerable pace in recent years, its share of the total remains very small compared with bank lending figures. The evidence presented also shows that the risk profile of the borrowers who access this financing is significantly higher than that of those borrowing from credit institutions.

Keywords: consumer credit, crowdfunding, P2P.

JEL classification: E41, E44, E51, G21, G32.

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Introduction

Financing granted via crowdfunding platforms specialising in consumer credit has grown rapidly in Europe in recent years, at an average annual growth rate of 50% between 2015 and 2019. However, the volume of credit granted, which totalled almost €4 billion in 2019, only amounted to 1.4% of the consumer credit extended by the banking sector, according to *The 2nd Global Alternative Finance Market Benchmarking Report.*[1]

This article describes the different consumer credit crowdfunding platform models and summarises some regulatory aspects (second section), analyses how their activity has evolved in Spain and Europe (third section) and compares the main characteristics of the lending activities of two platforms for which granular data are available with the financing granted by credit institutions (fourth section).

Business models and some regulatory aspects

Crowdfunding platforms started out with a peer-to-peer (P2P) business model. In this case, the platform is responsible for organising an exchange between borrowers and private investors who provide funds in the form of personal loans. The private investors act as direct lenders (both natural persons and companies) and bear all of the loan's default risk. This model has gradually evolved and two others currently exist: diversified credit portfolios and guaranteed return. The former is similar to the P2P model, except that private investors do not lend directly to borrowers. This model is characterised by having loan originators, lenders that offer alternative finance directly to individuals. The platform is tasked with subsequently diversifying the financing granted by the originators among the different investors. As with the

1 See Ziegler et al. (2021). Consumer credit granted by finance platforms at the European level considers European Union Member States together with Albania, Armenia, Belarus, Bosnia and Herzegovina, the Faroe Islands, Georgia, Iceland, Kosovo, Liechtenstein, Macedonia, Moldavia, Monaco, Norway, Russia, Serbia, Switzerland, Turkey and Ukraine. The European Union Member States account for approximately 85% of total funding granted by any type of alternative finance platform. The data on new consumer credit granted by the platforms are initially provided in US dollars and have been translated into euro using the exchange rate at each year-end.

P2P model, the investors continue to bear the default risk, although this is generally lower due to diversification, as it is shared among various lenders. Lastly, under the guaranteed return model the default risk is borne in full by the platform. The investors are ensured a fixed return and are not exposed to credit risk.

The P2P model, which gave this type of crowdfunding platform its name, is currently the least common.[2] Most of the platforms currently operate under the second business model, where lenders cannot directly choose the users they wish to fund: it is the platform that is responsible for raising the capital to grant the financing. According to *The 2nd Global Alternative Finance Market Benchmarking Report,* in 2019 these two models accounted for 87% of new consumer credit granted by this type of platform in Europe.[3] Braggion et al. (2021) explain that this is partly due to these platforms needing a large private investor base in order to continue growing. The P2P model favours those investors with higher risk tolerance. However, this characteristic may also be a barrier to platform growth, as it could be the case that there are insufficient investors willing to take on the level of risk that this type of model imposes on lenders.

In Europe, crowdfunding service providers are governed by Regulation (EU) 2020/1503 of 7 October 2020, which entered into force in November 2021 and lays down the uniform requirements for the provision of crowdfunding services in the European Union. As a result of this regulation, Title V of Law 5/2015 of 27 April 2015 on the promotion of business financing – the legislation governing this type of funding in Spain[4] – is being amended. A transition period is envisaged for the entities that are already carrying on their activity in Spain and that might be affected by the new rules, during which they may continue providing crowdfunding services until November 2022.

In addition, in line with the new European Regulation and in order to strengthen investor protection against market conduct risk, the European Banking Authority published in May 2022 its final draft Regulatory Technical Standards (RTS) on crowdfunding service providers.[5] The RTS establish the information that crowdfunding service providers must disclose to their investors, such as the method for calculating credit scores, the nature of the information used in the risk models and the information on the price of the loans. They also establish that such service providers must have a level of governance and appropriate procedures that ensure that information is properly disclosed to their investors and that risks are efficiently managed, in addition to loan valuation and origination policies.

2 See Braggion et al. (2021).

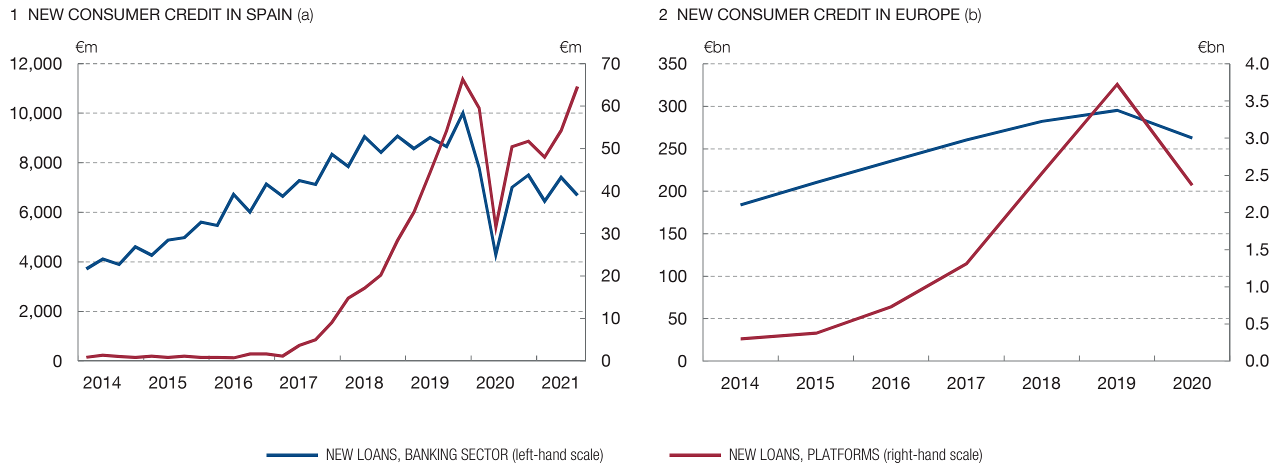
3 See Ziegler et al. (2021).

4 Note that the European legislation does not include lending between individuals, whereas it is included in the scope of the Spanish legislation.

5 In addition to these RTS, other legislation associated with the implementation of the new EU Regulation exists.

Chart 1
NEW CONSUMER CREDIT GRANTED VIA CROWDFUNDING PLATFORMS HAS GROWN AT A VERY FAST PACE IN RECENT YEARS

High growth of new consumer credit granted by crowdfunding platforms has been observed since 2017, exceeding the banking sector's growth rate for the same segment. Lending extended via these platforms has recovered considerably since 2021, after the sharp contraction as a result of the pandemic, which was smaller than that in the banking sector.



SOURCES: Banco de España, Global Alternative Finance Market Benchmarking (University of Cambridge) and loan-level information from two P2P platforms operating in Spain.

a Only includes loans extended by the two platforms with considerable activity in Spain for which information is available.
b New bank loans refer only to euro area countries. Data on new consumer credit granted by platforms refer to European Union Member States together with Albania, Armenia, Belarus, Bosnia and Herzegovina, the Faroe Islands, Georgia, Iceland, Kosovo, Liechtenstein, Macedonia, Moldavia, Monaco, Norway, Russia, Serbia, Switzerland, Turkey and Ukraine. The European Union Member States account for approximately 85% of total funding granted by any type of crowdfunding platform. The data on new consumer credit granted by the platforms are initially provided in US dollars and have been translated into euro using the exchange rate at each year-end.

Growth of consumer credit granted by crowdfunding platforms in Spain

Under Law 5/2015, authorisation must be obtained from the National Securities Market Commission (CNMV), following a mandatory report by the Banco de España,[6] in order to operate as a crowdfunding platform. There are currently 27 authorised crowdfunding platforms entered in the CNMV's register for the Spanish market. European platforms can operate in Spain provided they are authorised to do so in their home country.

The volume of new consumer credit granted via two European platforms with significant presence in Spain for which information is available has in recent years grown at a much faster pace than consumer credit extended by banks (see Chart 1.1). Despite this growth, its share remains very low compared with bank consumer credit: in 2019 it only represented less than 1%.[7] In the first half of 2020 consumer credit originated via these platforms contracted sharply as a result of the impact of the

6 The mandatory report is limited to the crowdfunding projects linked to loan applications.
7 Based on the volume provided in *The 2nd Global Alternative Finance Market Benchmarking Report,* if we consider total financing granted by crowdfunding platforms – including (consumer, business and property) lending and equity-based and non-investment-based platforms –, the proportion would amount to around 1.5% of new bank consumer credit.

Table 1
AVERAGE MATURITY AND INTEREST RATES FOR CONSUMER CREDIT IN 2019

		Platform 1	Platform 2	Banking sector (a)
Average amount (€)		2,197	375	—
Maturity (b)	Up to 1 year (%)	0.2	95.9	13.3
	1-5 years (%)	99.8	4.1	43.9
	More than 5 years (%)	—	—	42.8
	Average maturity (years)	4.5	0.1	—
Interest rate	Up to 1 year (%)	56.8	10.1	2.9
	1-5 years (%)	56.5	10.1	7.7
	More than 5 years (%)	—	—	7.3
	Average interest rate (%)	56.5	10.1	6,7

SOURCES: Granular information from two crowdfunding platforms with activity in Spain and Banco de España.

a Includes specialised lending institutions.
b For each category, the percentages express the corresponding volume's share of the total volume of the loan portfolio in Spain.

pandemic. Nevertheless, this decline was less steep than that in consumer credit granted by the banking sector. These platforms' activity returned to growth from 2021, in step with the economic recovery.

This same pattern is observed in Europe as a whole, where consumer credit granted by this type of platform also grew at a considerable pace during the years leading up to the pandemic. In 2019 (latest data available) the volume of consumer credit obtained via these platforms amounted to approximately 1.4% of new consumer credit extended by the banking sector (see Chart 1.2).

Main characteristics of the lending via some crowdfunding platforms

This section analyses some of the characteristics of the consumer credit originated via two of the ten leading crowdfunding platforms operating in Europe,[8] which in 2019 extended €200 million of consumer credit (approximately 33%[9] of the total financing provided by this type of platform in the Spanish market). Therefore, the conclusions drawn should be treated with caution, as they are only based on the information available for these two platforms.

8 Volume of funding according to P2P Market Data. These two platforms operate via a diversified credit portfolio business model. They are registered in their home country and operate in Spain using their "EU passport".

9 Own calculations drawing on *The 2nd Global Alternative Finance Market Benchmarking Report,* published by the University of Cambridge in June 2021. Total financing granted by crowdfunding platforms – including (consumer, business and property) lending and equity-based and non-investment-based platforms – is considered.

Table 2

PLATFORM 1'S LOAN PORTFOLIO IN SPAIN AND EUROPE

Year	Number of loans	Amount granted (€)	Average loan size (€)	Average maturity (years)	Average interest rate (%)	Defaulted loans (a) (%)	NPL ratio (b) (%)	Customers without access to bank credit (c) (%)
Portfolio in Spain								
2013	61	266,400	4,367	3.3	23.7	72.1	96.4	100.0
2014	1,609	3,991,942	2,481	3.2	29.7	77.8	96.0	100.0
2015	2,187	3,730,015	1,706	4.0	48.2	75.0	97.1	100.0
2016	2,642	4,768,690	1,805	3.3	78.2	79.0	96.7	100.0
2017	4,174	4,769,825	1,143	3.3	118.5	77.2	95.5	100.0
2018	1,625	2,328,587	1,433	3.6	62.9	62.8	85.9	100.0
2019	10,953	24,063,153	2,197	4.5	56.5	73.0	80.0	100.0
2020	3,019	6,438,655	2,133	4.5	56.2	67.2	70.1	100.0
Total portfolio								
2009	665	133,569	201	0.8	29.7	38.9	99.6	0.0
2010	1,157	399,738	345	1.0	32.6	37.8	100.3	0.0
2011	451	497,160	1,102	1.5	25.6	27.7	82.9	0.0
2012	457	702,075	1,536	1.7	24.1	20.8	66.6	0.0
2013	2,512	7,588,440	3,021	3.1	26.4	35.3	73.6	3.5
2014	7,455	19,307,097	2,590	3.4	29.3	55.0	81.1	20.7
2015	8,046	20,051,985	2,492	4.2	33.1	60.5	72.1	18.6
2016	10,514	28,437,800	2,705	3.5	41.2	59.6	70.0	16.8
2017	17,933	34,901,020	1,946	3.6	46.7	59.0	63.1	61.2
2018	25,103	60,872,113	2,425	3.9	31.7	49.7	41.0	100.0
2019	55,839	156,892,891	2,810	4.1	35.5	47.8	43.2	100.0
2020	27,519	68,449,297	2,487	4.2	34.7	24.6	23.2	100.0

SOURCE: Granular information from a platform with activity in Spain.

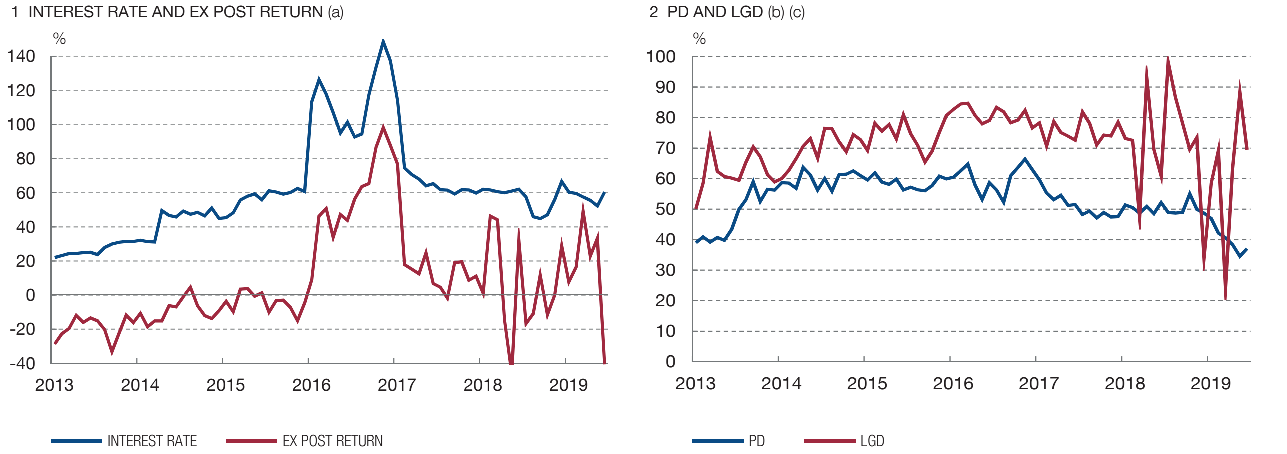
a The ratio of defaulted loans is calculated as the number of loans classified as in default as a percentage of the loans granted for each year.
b The NPL ratio is approximated as the amount of outstanding capital classified as in default which is over 90 days past due as a percentage of the outstanding capital in each year.
c The platform includes a risk metric for those loans where the customer has not had access to bank credit. The ratio of customers without access to bank credit is calculated as the ratio between the amount of those loans with such metric and the total amount granted for each year.

Although the business model is the same, the characteristics of the loans granted via these two platforms have some significant differences (see Table 1). Specifically, on data for 2019, the loans originated via platform 2 are for substantially lower average maturities and amounts (one month and €375 versus 4.5 years and €2,197 via platform 1). The average interest rate on platform 2 was also lower (10% versus 57% on platform 1), although in both cases these interest rates are clearly higher than the average rates for funding granted by banks in 2019 (6.7%), suggesting that the borrowers accessing finance via crowdfunding platforms have a higher risk profile. This aspect is analysed in more detail below.

Chart 2

EX POST INVESTOR RETURN ON CROWDFUNDING PLATFORMS APPEARS HIGHLY VOLATILE

Despite the high interest rates on the consumer credit, the average ex post return may be negative due to the high PDs of the loans granted.



SOURCE: Own calculations, drawing on loan-level information on a platform for which granular information is available.

a The ex post return is calculated as the IRR of each loan granted by the platform. As the platform analysed has available the dates of the repayments for each loan (including loan recovery in cases of default), the IRR is obtained as the rate that discounts the present value of the repayments to the loan amount on its origination date.
b PD is calculated as the percentage of loans granted in a month on which borrowers have defaulted.
c LGD is calculated as 1 less the proportion of the principal recovered in the event of default.

The information on platform 1's loan portfolio, which enables the loans' original risk profile to be analysed in some detail, is summarised in Table 2.[10] First, the table shows how in recent years all the lending, both in Spain and in Europe, was to customers without access to bank lending.[11] Second, the loans' high NPL ratios stand out. Thus, there has been some form of default on 73% of the loans granted in 2019 and 80% of the outstanding capital was at least over 90 days past due. As mentioned above, the interest rates on these loans are very high because of their high risk. These figures stand in contrast to those observed for consumer credit granted by resident credit institutions, which have an NPL ratio of around 4.3% in the same period.

Table 2 also shows that in 2019 lending by platform 1 in Spain accounted for 15% of the new loans granted in its overall lending. The loans granted via the platform in

10 Conversely, this analysis is not possible using the data for the other platform, as it does not appear to provide information on defaulted loans, possibly because these loans could have been sold on the secondary market. Indeed, a secondary market exists on which investors can sell their loans in order to recoup the initial capital before the agreed maturity. On the public information available on this platform, at the date of preparing this article, the value of the loans sold amounted to approximately 5% of the total financing granted via this platform. This ratio could be higher, as 40% of the original amount of the loans was sold at a discount.

11 This platform provides a risk metric for those customers without access to bank lending due to their risk profile. Accordingly, the ratio of customers without such access was calculated as the ratio between the amount of such loans with such metric and the total amount granted for each year.

Table 3
LOANS RATED USING PLATFORM 1'S RATING SYSTEM BETWEEN 2009 AND 2020

Assigned rating	Number of loans	Share of total loans (%)	Defaulted loans (a) (%)	Average PD (b) (%)	Average interest rate (%)
Portfolio in Spain					
B	11	0.0	90.9	41.6	19.0
C	209	0.8	58.9	37.6	20.2
D	2,458	9.4	66.2	16.4	27.1
E	2,141	8.1	72.7	20.4	35.9
F	11,316	43.1	72.1	33.4	61.2
HR	10,134	38.6	77.0	52.2	89.3
Unrated	1	0.0	100.0	—	26.0
Total loans	26,270	100.0	73.4	38.0	66.5
Total portfolio					
AA	6,176	3.9	20.7	32.5	10.2
A	6,982	4.4	28.5	35.7	13.1
B	17,560	11.1	28.4	40.3	16.4
C	25,223	16.0	33.6	25.8	22.5
D	28,253	17.9	42.7	24.5	30.5
E	30,977	19.6	49.3	27.1	37.3
F	24,916	15.8	69.4	35.9	55.6
HR	14,831	9.4	75.8	49.7	76.8
Unrated	2,733	1.7	33.4	—	29.3
Total loans	157,651	100.0	46.6	31.5	35.7

SOURCE: Granular information from a platform with activity in Spain.

a The ratio of defaulted loans is calculated as the number of loans classified as in default (i.e. with some form of default over the loan's life) as a percentage of the loans granted for each year.
b The average PD shown is the average of the PDs made publicly available by the platform for all loans extended between 2009 and 2020.

Spain were riskier and, therefore, had higher interest rates than those extended elsewhere. For example, in 2019 the average interest rate and the percentage of defaulted loans were 57% and 73%, respectively, while the figures for the total portfolio were 36% and 48%, respectively. However, the other characteristics of the loans in the Spanish and total portfolios, such as their average amounts and maturities, are similar: in 2019 the average maturity was close to four years and the average amount was between €2,000 and €3,000.

On the information publicly available from this platform, it is possible to estimate average ex post investor return[12] (see Chart 2.1 for lending in Spain). This return depends on the interest rate on the loan, the probability of default (PD) and the loss

12 As the platform analysed has available the dates of the repayments for each loan (including loan recovery in cases of default), the estimated ex post return is calculated as the internal rate of return (IRR) associated with these repayments for each loan granted by the platform. The IRR is calculated as the rate that discounts the present value of the repayments to the loan amount on its origination date.

given default (LGD). The average ex post return is particularly volatile and even takes negative values, which poses significant risks for the private investors operating on this type of platform. This is explained by the high level of PD, which ranged from 40% to 60% in the period 2013-2019 (see Chart 2.2).

The platform conducts a risk assessment on the loans which acts as a guide for investors. The credit rating[13] assigned ranges from AA (the safest) to HR (the riskiest). As expected, the percentage of loans with defaults, the PDs and the interest rate applied all tend to increase the riskier the loan, based on such credit rating (see Table 3).

In sum, these findings show that this platform focuses on granting financing to borrowers with a significantly higher risk profile than those who obtain credit from the Spanish banking system. Credit institutions could not extend these loans due to their high own funds cost.[14] Therefore, insofar as these findings are representative of crowdfunding platforms' activity, the evidence provided suggests that these platforms target a potential group of borrowers with a very high risk profile. Consequently, they are not competing with the banking system. The development of these platforms is driving the financing of those risk profiles that do not have access to bank credit.

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13 The platform says it uses an in-house credit assessment model, which draws on all the data collected during the loan application process to determine the borrower's potential risk.

14 A simulation was conducted to estimate the risk weights (RWs) of the analysed platform's loan portfolio. Banks use RWs to calculate their capital requirements and solvency ratios. This platform's loan portfolio in Spain has an average RW of approximately 200%. The RWs were calculated on the basis of the PDs and the LGD made publicly available by the platform. The formula stipulated in Article 154 of the Capital Requirements Regulation (Regulation (EU) No 575/2013) was used to calculate the RWs. By way of comparison, based on the Pillar 3 reports of the top five Spanish banks, the RWs under IRB models for retail exposures (excluding, at four of them, exposures in the form of mortgages and exposures to SMEs) ranged from 32% to 47% at end-2020.

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