

VentureWire

Sunnyvale, Calif. Lending Club Scores Cash In Credit Crunch

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With the stock market becoming a scary proposition for many investors and interest rates rising for borrowers, peer-to-peer lending is benefiting, according to one of the major facilitators of those types of loans.

That company, LendingClub Corp., doing business as Lending Club, is expected to announce today that it has raised \$12 million in Series B financing led by Morgenthaler Ventures. Existing investors Norwest Venture Partners and Canaan Partners also participated. In August 2007, Lending Club raised about \$10.3 million in a Series A round from Canaan and Norwest.

Lending Club provides a Web site where individuals can lend to other individuals. The dour economic environment has been helping the company, according to Renaud Laplanche, its founder and chief executive. Demand for loans is up due to the credit crunch, he said, while on the supply side many investors are looking for alternative investments as the stock market offers unsightly returns.

"As unfortunate as this environment is, it is probably a good thing for the company," Laplanche said. The company says loans made through its network have grown to \$20 million in 2008 from \$4 million in 2007, and are projected to reach \$120 million this year. Based on the 4% fee it takes on all loans - the company takes in the range of 3% from borrowers and 1% from lenders - that would give Lending Club projected revenue of \$4.8 million in 2009.

Lenders received an average annual return of 9.05% over the last 20 months, according to the company.

On the other hand, the economic crisis has driven up default rates for Lending Club, just as it has for banks in general. As a result, the company has increased interest rates at a rate proportional to the increase in defaults.

To guard against defaults, Lending Club recommends investors diversify by selecting a variety of loans in which to place their money. For example, an investor with \$10,000 would invest \$100 in 100 loans so that if one loan defaulted it would have little impact on overall returns.

The default rate on loans issued from Aug. 1, 2007, to today was 4.09%, though the rate was 0% for loans graded "A," according to the company's Web site.

"For lenders, some high-net-worth individuals put in excess of a half million dollars in. They get 9% return and they say, 'Where else can I get that?'" said Rebecca Lynn, a Morgenthaler principal, who is joining Lending Club's board of directors. "Lending Club is also focused on prime borrowers. They have a lot of pain even with credit scores of 720 and above. They often get hit with 20% to 30% credit card interest rates."

Lending Club uses not just credit scores but a variety of factors to determine prime borrowers, Lynn added.

Lending Club, which declined to discuss its valuation, plans to use the new funding to ramp up its marketing efforts. The company also will announce Thursday it has named Pamela Kramer as chief marketing officer. Kramer was previously marketing chief of MarketTools Inc. and before that at E*Trade Financial.

Lending Club went through a period of change last year with the Securities and Exchange Commission, by voluntarily registering with the SEC and partnering with WebBank, an FDIC-insured, state-chartered bank in Utah, to issue the loans.

Lending Club stopped facilitating loans for six months during this period, but now is registered, has public audits and files quarterly reports.

One of Lending Club's main rivals, Prosper Marketplace Inc., was issued a cease-and-desist order by the SEC in November, preventing it from facilitating any new loans. Loan notes issued by Prosper between January 2006 and Oct. 14, 2008, violated a securities law because the company didn't register them properly, the SEC said.

Founded in 2006, Prosper has raised \$40 million from Accel Partners, Benchmark Capital, DAG Ventures, Fidelity Ventures, Meritech Capital Partners and Omidyar Network.

A Prosper representative said the company could not comment for this story due to a "quiet period" with the SEC.

<http://www.lendingclub.com>