

Redwood City, Calif.

LendingClub Nabs \$24.5M Series C In Heated Peer-To-Peer Fight

By Tomio Geron

4/14/2010

LendingClub Corp. has raised \$24.5 million in Series C financing as it seeks to go mainstream with its peer-to-peer lending service and goes toe-to-toe with a competitor that is raising a large round of its own.

The round for LendingClub, doing business as Lending Club, was led by Foundation Capital and includes participation from existing investors Morgenthaler Ventures, Norwest Venture Partners and Canaan Partners. The company has now raised about \$48.5 million in total.

The new funding will help the company scale its business and grow to target a larger mainstream audience, said Renaud Laplanche, chief executive of Lending Club.

The round comes as rival Prosper Marketplace Inc. recently announced it is close to closing \$13.3 million to \$15.8 million in Series D financing.

Prosper started before Lending Club, closing its Series A in 2005, two years before its rival, and it jumped out to an early lead. But Lending Club appears to have now grown larger - at least in terms of loans per month by dollar total. Lending Club had \$8.66 million in new loans in March, compared with \$2.26 million for Prosper, according to each company's figures on their Web sites. Prosper still has the largest total loan amount with more than \$193 million while Lending Club recently passed \$100 million in total loans.

Both companies had to carefully navigate the regulatory process, as their practices received scrutiny from the Securities and Exchange Commission during a time of heightened awareness of the financial-services sector.

Prosper, which has raised about \$40 million from Accel Partners, Benchmark Capital, Fidelity Ventures, Omidyar Network and Meritech Capital Partners, stopped issuing loans after a November 2008 order from the SEC stating that Prosper did not register its loans properly. After making changes, Prosper was reauthorized to issue loans in July 2009 and relaunched its service.

Meanwhile, in 2008, Lending Club entered a quiet period where it didn't accept new investors but continued to issue loans while it voluntarily registered with the SEC.

Lending Club has increased revenue by more than 400% over the last 12 months and expects at least that much growth over the next 12 months, said Laplanche. The company has not hit profitability yet as the company focuses on growth, he said.

Laplanche attributed the growth of the company to its focus on high quality borrowers and what he said were more stringent requirements than its rival Prosper.

"Our key focus has been on quality, underwriting the borrowers," Laplanche said. "We've always had tighter credit (rules), higher minimum FICO scores, and more stringent rules on debt-to-income ratio...We've been able to keep low default rates and high returns for investors."

Prosper declined to comment.

Investors earn on average 12% to 13% gross, and the default rate is about 2.3% to 2.5%, for a 9.65% net return on Lending Club, which is higher than what investors could get at a bank, Laplanche said. For borrowers, they can pay a lower interest rate than at a bank.

Lending Club's default rate peaked at about 3% during the recession in October 2009, but has been falling since, Laplanche said. The credit crunch and the general downturn in the economy raised the profile of peer-to-peer lenders, as borrowers found them to be sources of cheaper loans than what banks

could provide. Investors, meanwhile, saw them as a place to get a decent return on their cash at a time when stock markets were volatile.

While Lending Club did provide an alternative to borrowers and investors during the economic downturn, the improvement in the economy won't hurt the company because it focuses on people who could have gotten loans at banks but chose Lending Club for better rates, Laplanche said.

"If we had focused on borrowers who couldn't get loans elsewhere, yes," it could hurt the company, he said. "But that's not our base. We're focused on those who still have options. What we do is provide low-cost options compared to the banking system."