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Lending Club valuation rises to $3.76bn

By Arash Massoudi in New York and Richard Waters in San Francisco

Lending Club, the largest peer-to-peer loans company by volume, has reached a valuation of $3.76bn after raising new funds to make its first acquisition of a more traditional finance company.

The San Francisco-based start-up paid $140m in cash and stock to purchase Springstone, which provides offline financing for elective medical procedures and private school education, as it races to expand into new markets ahead of an initial public offering.

The latest escalation in Lending Club's valuation, up from a reported $2.3bn in November and $1.6bn when it raised money a year ago, puts it among a group of fast-growing internet companies that have seen their values soar in recent months as mutual fund groups, hedge funds and private equity firms crowd into the venture capital market ahead of expected IPOs.

Lending Club said it raised $65m from equity investors including T Rowe Price, Wellington and BlackRock and also received $50m in debt financing to fund the acquisition.

Renaud Laplanche, chief executive officer, refused to comment on whether the company was still on track for the 2014 IPO he has previously said was likely, but added that the new backers were the kind of investors Lending Club wanted when it goes public and who were likely to hold the stock a long time.

New investors have been attracted to the late rounds of private financing typically reserved for venture capitalists in the hopes of getting in cheaply ahead of an IPO, while also being guaranteed a larger allocation when the companies eventually go public. That has led to warnings of a bubble in pre-IPO companies as values have been driven rapidly higher.

Springstone, founded in 2007, made $340m in loans last year to consumers applying "on premise" through a network of 14,000* private schools and medical clinics that do procedures like hair restoration and teeth implants.

The deal is the latest move by Lending Club to expand into new products after recently launching into small business lending. Renaud Laplanche, chief executive, said that it would look to apply technology to improve on-premise financing by creating applications on mobile phones and tablets that let consumers apply from home.

"Our strategy is to bring more transparency to that market and offer consumer friendly products that are responsible," he said.

P2P lending was conceived to directly connect borrowers with individual lenders, bypassing banks.

But the sector has rapidly evolved as institutions such as hedge funds and other large investment companies went to great lengths to get their hands on the best loans – to the extent that now, more than 60 per cent of the industry's loans are purchased by institutions. Lending Club acts as a platform connecting lenders and borrowers and takes a fee from both sides, rather than assuming any direct balance sheet risk.

With board members including Lawrence Summers, the former US Treasury secretary, and John Mack, former chief executive of Morgan Stanley, it has quickly emerged as the most ambitious of a new generation of online loans companies hoping to use the reach and low costs of the internet to outflank traditional banks.

"We really believe we can transform the entire banking industry and make it more consumer friendly and more transparent and more cost efficient," Mr Laplanche said.

Lending Club made $2bn in loans last year. Prosper, its nearest US competitor, is also backed by BlackRock.

**This figures was amended from 1,400 schools reported in the original article*