

THE NEWS

Lenders bet on social glue

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Personal loans are getting social.

Using hometowns, alma maters and other information scraped from social networking sites, person-to-person lending company Lending Club is banking on social networking sites to match lenders and borrowers and cement trust.

The 18-person Sunnyvale company launched on Facebook earlier this week and has deals with at least three other such partners. CEO Renaud Laplanche said he will announce those partners when the company finishes raising its first round of capital — a \$10 million infusion expected within a few months.

“We see ourselves as much as a technology company as we do a financial services company,” said Laplanche. “Our strategy is to make our service available to communities. We won’t be a destination site” like competing person-to-person online lending sites.

The journey to such destination sites,

which include San Francisco’s Prosper, Waltham, Mass.-based CircleLending and U.K.-based Zopa, is becoming a popular one.

Prosper has 270,000 members and has done \$64 million in loans. CircleLending, which emerged in 2002 as a way to secure loans between friends and family has done more than \$150 million in loans. Zopa, which scored a Series C round in March to accelerate its U.S. launch and named a new global CEO to be based here, does not discuss its loan numbers. It reports 150,000 members.

Although each lender functions differently, the basic premise is the same.

The service vets would-be borrowers, examining credit scores and financial details much like a bank would, and then provides that information (minus the name to protect privacy), to the lending community. That pool of would-be lenders then either compete on loan terms by placing bids, as they do on Prosper, or evaluate pre-set terms as they do

through Lending Club. The sites earn revenue by charging processing fees on both sides of the transaction. In theory, the borrowers get a better deal than they would get at a bank because the fees and interest rates are lower. And the lenders enjoy returns of 6 to 25 percent or so, depending on the risk and terms.

As the most recent entrant, Lending Club seeks to differentiate itself by only loaning to people with credit scores of 640 and above — the top 75 percent of the borrowing market.

Prosper recently set 520 as the lowest acceptable score for borrowers following a review of defaulted loans during the past year.

Still, Laplanche said his big competition isn’t new companies, it’s established banks and loan methods.

“The main hurdle to adoption of this model is trust,” he said. “We’re using existing infrastructure and connections people already have to establish that.”

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