

Lending Club Shares Soar 56 Percent In Market Debut

Bernadette Tansey

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[Corrected 12/12/14, 12:10 pm. See below]

Venture investor Rebecca Lynn says people thought she was crazy back in early 2009 when she led an early stage financing round for San Francisco-based **Lending Club**, an online loan marketplace for consumers and small businesses.



At the time, the U.S. financial system was in crisis, banking titans had been pleading for government bailouts, and much of the blame was traced to a massive wave of defaults on consumer loans that formed the basis of shaky mortgage-backed securities.

“The banks were frozen. The banks weren’t lending to anyone,” Lynn says of the daunting financial environment when she spearheaded a \$7 million Series B round for Lending Club as a principal at Morgenthaler Ventures.

Her recollections came just after she witnessed the first trades today on the New York Stock Exchange for Lending Club, whose initial public offering **raised \$870 million** yesterday. The shares, priced at \$15 for the **IPO**, shot up more than 56 percent to close at \$23.43 today. That translates to a market capitalization of more than \$8 billion for the eight-year-old company. A total of 58 million shares were offered: 50.3 million by the company and 7.7 million by investors.

Lynn, now a partner at a Morgenthaler offshoot, Menlo Park, CA-based **Canvas Venture Fund**, and a Lending Club board member, says she saw that scary first quarter of 2009 as an opportunity to back a new borrowing mechanism that could work more efficiently than conventional banks—one that was stepping in when those banks were sidelined by the financial crisis.

“I believed that at any point in time, there would be a pocket of borrowers that were creditworthy,” says Lynn (pictured above, left of Lending Club founder and CEO Renaud Laplanche at the NYSE opening bell).

Lending Club is now being held up as a bellwether for the growing financial technology sector that includes Apple Pay, Paypal, Bitcoin, and other novel ways to store wealth and make transactions. Some of these companies work with conventional currencies, banks, and credit cards, while others detour around them. Mobile payment apps such as Apple Pay replace the physical plastic credit card with a swipe of a mobile phone to draw on a credit card account.

Lending Club (NYSE: **LC**) brings individual investors into the process of funding loans to borrowers. Applicants can ask for personal loans of up to \$35,000 to achieve goals such as paying off debts, consolidating loans, or making a major purchase. Businesses can apply online for loans of as much as \$300,000. The interest rate depends on the borrower's credit score; Lending Club maintains that its rates are lower than those at traditional banks.

Lending Club investors, whether they are individuals or institutions, can go online and choose the loans they want to fund. They're paid returns from the loan payments made by the borrower. Lending Club is described as a "peer-to-peer" lending platform that can disrupt the conventional banking industry. However, the lenders don't own an IOU directly from the borrower. The process is more complex.

The investors actually purchase Lending Club securities called Member Dependent Notes. The loan money is distributed to borrowers by an FDIC insured bank in Salt Lake City, UT, called WebBank, according to Lending Club statements. "Investors do not invest directly in loans," the company specifies on its website. Lending Club says it has facilitated \$6.2 billion in loans to date.

Lending Club's debut comes during a big week for tech companies poised to go public. The market is **anticipating IPOs** from big data companies New Relic, Workiva, and Hortonworks. Momo, a social networking company based in China, saw its shares rise 26 percent, to \$17.02, in its first day of trading today.

Some of Lending Club's early investors took the opportunity for an exit in the company's IPO. Lynn says Morgenthaler was not among them—it didn't let go any shares. Morgenthaler entities owned more than 14 million shares, according to Lending Club's registration statement (form S-1) filed with the SEC in August. *[An earlier version of this paragraph mistakenly stated that Lynn personally owned shares in Lending Club. We regret the error.]* Investment units affiliated with Norwest Venture Partners, Canaan Partners, and Foundation Capital were also major shareholders. Investors who sold shares in the offering were Canaan Partners, Kleiner Perkins Caufield & Byers and Union Square Ventures, according to Bloomberg.