How to Make Money with

LendingClub

a pay what you want report from www.MilitaryMoneyManual.com

There is a revolution happening in the financial markets. For the past hundred years, the common investor has been limited to investing in stocks, bonds, real estate, or FDIC insured products such as CDs or savings accounts. Now, thanks to the magic of the Internet and some brilliant entrepreneurs, you can invest in your fellow man and generate **solid returns**. It's called **peer to peer lending** and **Lending Club** is the company at the forefront of this next revolution in financial products. Next year (2014) it's expected to IPO. Lending Club paid over $135 million to its investors since 2008. If you invest smartly, you too can reap the benefits of this financial revolution.

This isn't the next Enron, Bernie Madoff, or sub-prime mortgages. This is real people investing real money in other real people and receiving solid returns for their investments. I've been using the service for over 2 years now and I'll share my experience with you.

- ✓ Are you tired of earning less than 1% in your savings account?
- ✓ Are you leery of a stock market that requires a 20 or 30 year investment horizon?
- ✓ Is real estate just too time consuming and onerous?

If yes, then Lending Club is for you. Start investing smarter today.

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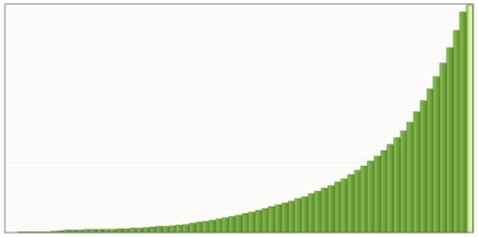
What is Peer to Peer Lending?


Growth of Lending Club 2007-2013

Peer to peer lending is a new and very exciting development in the financial world. However, the principle behind P2P lending is as old as the banking industry. The first P2P lending companies were founded in the mid-2000s. Since then the industry has grown rapidly and already there have been over $2 billion loaned just in the US.

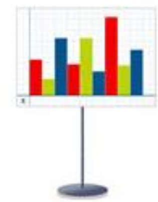
Peer to peer lending, also known as person-to-person lending, peer-to-peer investing, social lending, or abbreviated as “P2P lending” is:

the practice of lending money to individuals or “peers” through an online platform.

I’ve found the easiest way to understand Lending Club is you are acting like a bank. When someone needs money for a house, a car, a personal loan, or to start a business, they can go to the bank to apply for a loan. This is the same process Lending Club follows, except instead of the borrower paying the bank back, you get paid!

Borrowers apply for loans.
Investors open an account.

Borrowers get funded.
Investors build a portfolio.



Borrowers repay automatically.
Investors earn & reinvest.

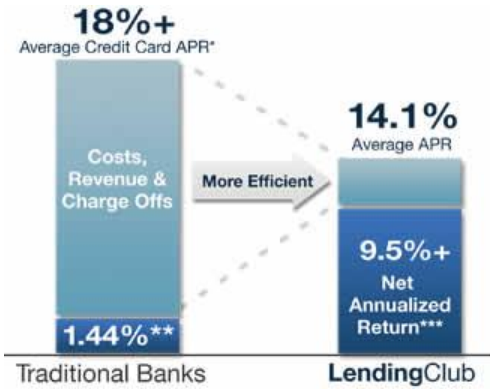
Most peer to peer loans are unsecured, meaning there is no collateral put up by the borrower to protect the lender against default. This creates the risk for no principle recovery in the case of a default, but we'll get to that later.

Lending Club is a United States based peer to peer lending company headquartered in San Francisco, California. LC was the first P2P lender to register its loans as securities with the Securities and Exchange Commission, adding an enormous amount of legitimacy to its new and innovative financial service. Because of the SEC registration, each note (a percentage of the loan, smallest size $25) is a tradable and transferable legal document that can be bought and sold on secondary markets to other investors.

Lending Club started as a Facebook app in 2007. Originally, the idea was that you would borrow money from people who were connected to you socially. The founders of Lending Club believed that this would decrease the instances of defaults. After about a year of operations, Lending Club suspended new lender registration. On June 20, 2008, LC filed an S-1 statement with the SEC to issue $600 million in promissory notes to lenders. The registration was completed on Oct 14, 2008. The social aspect of connecting with Facebook is no longer included in Lending Club. Instead, the company relies on proprietary algorithms to offer the most credit worthy borrowers to investors for investment.

In April 2012, the 2008 SEC filing was renewed for an additional $1 billion in loans. The company became cash flow positive in November 2012. As of April 1, 2013, Lending Club issued over $1.5 billion in more than 100,000 loans. The company is now working towards a potential IPO in 2014.

Peer to peer lending allows for much more efficient lending operations. Take a bank for instance. They are hampered by immense regulation and overhead costs like office space, marketing, employees, etc. Lending Club removes these inefficiencies by taking the entire lending and borrowing process online. Instead of a bank acting like a middleman by using your deposits to lend out to borrowers, you can lend your own money directly to borrowers.



This allows the borrowers to borrow at a lower rate and the lender to get a higher rate of return for their investment. Lending Club still acts like a middleman and takes a small cut of each loan payment, but since they operate online their costs are minimal, and the majority of the interest payments are based on to you. This allows them to post average net annualized returns of 6-18% for 93% of investors. Compare that to your bank interest rate. Granted, Lending Club is not FDIC insured, but I believe the rewards are well worth the risks.

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My Lending Club Story

It began in January 2011. I had started my first "real" job after college 6 months earlier in June 2010. I was frustrated with the up and down returns of the stock market and looking for a way to expand my monthly cash flow. Real estate in the area I was stationed was not an option, plus I knew I'd be moving within 18 months. Certificate of Deposits and savings account interest rates were abysmally low. None of these investment vehicles produced monthly payments or had a rate of return above 2%. **Then I found Lending Club.**

Melito, an ice cream salesman in the Philippines. I helped expand his business with a $25 loan on Kiva.org

The peer-to-peer lending concept was familiar to me from Kiva, another P2P lending site. Kiva is focused on charitable investments in businesses in the third world. This is commonly known as microfinance: loaning money to people who don't have access to traditional financial institutions. People who need loans but can't get them from banks or can't get a reasonable interest rate apply for loans that are funded by people from around the world. Most investors have only $25 in each loan, meaning that they have very little to lose on each defaulted loan. I knew the default rate for Kiva was as low as 1.04%. Could Lending Club provide similar low risk with high return potential?

At first, I was apprehensive. The returns seemed too good to be true.

- Who was borrowing money at such a high interest rate?
- What was the default rate like?
- How much data did the company have to backup that people would actually repay the loans?

All of the questions and more were clearly explained on the website. The transparency of the lending process and the amount of data available to the investor is fantastic. You can find lots of stats here. There's even more data once you sign up for the service.

I've been investing in Lending Club now for over two years. In that time, I've only invested roughly $1100 into the service. Up until this year, I took a very lazy and uneducated approach to selecting which loans to invest in. Now I'm taking it much more seriously. After two years of investing in Lending Club, here are my results. Remember, this was with almost no research and a very relaxed approach to selecting which loans were invested in. Had I taken more time to research, I'm sure my returns could have been much greater. I am now filtering much more aggressively and being very selective with the loans I invest in. You can follow my results on my blog.

Loan Performance Summary – generated from LendStats.com

ROI	5.1% (+-0.43%)
Rate of Loss (Default/Charge Off)	5.36%
Total Lent	87 loans, $2,158
Remaining	$1,169
Net Gain	$112 (+-$10)
Markups Paid (secondary market)	$2
Average Loan Grade	C1
Average Interest Rate	12.23%
Average Loan Age	16.5 months

A 5% return is not negligible, especially when there was no work done on my part, CD and savings accounts interest rates are so low, and this is an investment very uncorrelated to stock market or property value performance. In an era of low FDIC insured interest rates and an extremely volatile and possibly overpriced stock market, Lending Club offers just one more way to diversify your income and investments.

So how does Lending Club work? And, more importantly, how can you get it to work for **you**?

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How Lending Club Works

Lending Club allows you to act like a bank. Instead of going to a bank for a personal loan for an addition on a house, medical expenses, or credit card debt consolidation, borrowers can apply for a loan on Lending Club. Credit card interest rates can be as high as 18, 25, even 29% or higher! Payday loan or personal loan rates can be just as damaging. Meanwhile, savers are stuck with savings accounts that return .05% annually.

Enter Lending Club, who plays matchmaker between those looking for a lower interest rate loan and those looking for a better investment option than a 1% CD. Lower interest rates are charged to borrowers, higher returns go to investors, and Lending Club takes a small percentage of the returns. Everyone wins. Except the banks, who are going to have to offer better interest rates to borrowers AND investors if they want to stay in business.

Lending Club is a simple concept. Creditworthy borrowers, usually with FICO scores over 700, go to the site, request a loan for anything they need (car, wedding, debt consolidation, credit card payoff, whatever). Based on the borrowers' creditworthiness, they are assigned a letter from A-G and a number in each letter grade as well.

"A" grade loans therefore have the lowest default rate and the lowest interest rate. "G" rate loans are the most risky but also have the highest interest rate. The loans go up for a few days for investors to ask questions and look at the due diligence (verification of employment, income, etc) Lending Club automatically performs for you. Once the loan is fully funded, it's issued to the borrower. The investors then receive principle and interest payments every month. Every time your payments add up to another $25, you can purchase another note and invest in a new loan.

Loans can be any amount from $5000-$35,000. Obviously, this is an enormous amount of money to invest in any one person. Lending Club makes diversification easy by creating "notes" out of each loan. A note is a sub-unit of the loan. The smallest note possible is a $25 note. So on a $5000 loan, you may have 200 lenders investing. In case the borrower defaults, your exposure to them was only $25, rather than the full $5000 of the loan.

By spreading the risk across multiple lenders, Lending Club can keep returns high for each investor. If a loan is completely repaid early, you can take the principle and interest you receive and invest in new notes. Borrowers get access to low interest loans, you can access to solid returns, Lending Club takes their cut for matching borrower to lender, and everyone wins!

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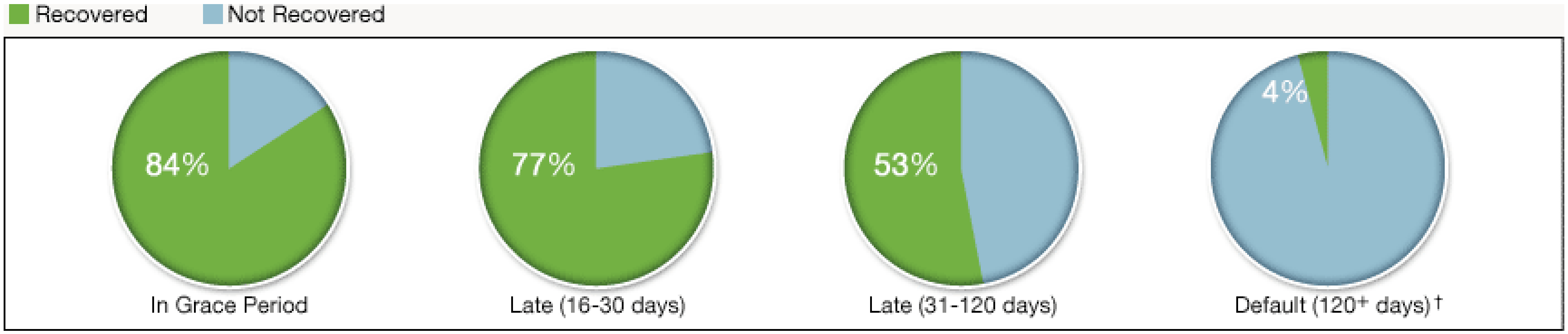
Is it Safe?

This is probably the biggest question you have right now. What sort of risks does investing in Lending Club carry? How safe an investment is this? Am I going to lose half my money like in the 2008 stock market crash, or half the value of my home, or lose everything in a Bernie Madoff style Ponzi scheme?

Before investing in anything, be sure to read the Prospectus that the company is required to file with the Securities and Exchange Commission. No Prospectus? Probably not a company you want to invest in! Lending Club registered with the SEC back in 2008 and has updated their Prospectus frequently since then.

Remember that these loans are NOT FDIC insured. You have the potential to lose 100% of your investment. While that risk is extremely small, it is possible. The only guarantee in financial life is FDIC insured accounts or US government backed bonds. Anything else is an investment with risks. I believe that with the proper precautions and understanding of these risks, they can be mitigated and you can achieve a solid return.

The main risk investing in peer-to-peer loans is default, or charge-off. If a borrower is late on their monthly payment, the loan first moves into a Grace Period of 15 days. After this time, the loan then moves into two late statues: 16-30 days and 31-120. Once a borrower begins missing payments, there are additional late fees imposed on them. However, these fees are often not collected, because once a borrower stops paying, they're not going to pay any more. You can see the recovery rates below:



As you can see, once a loan is more than a month late, the chance of recovery approaches 50%. Once a loan defaults, there is almost no chance of recovery.

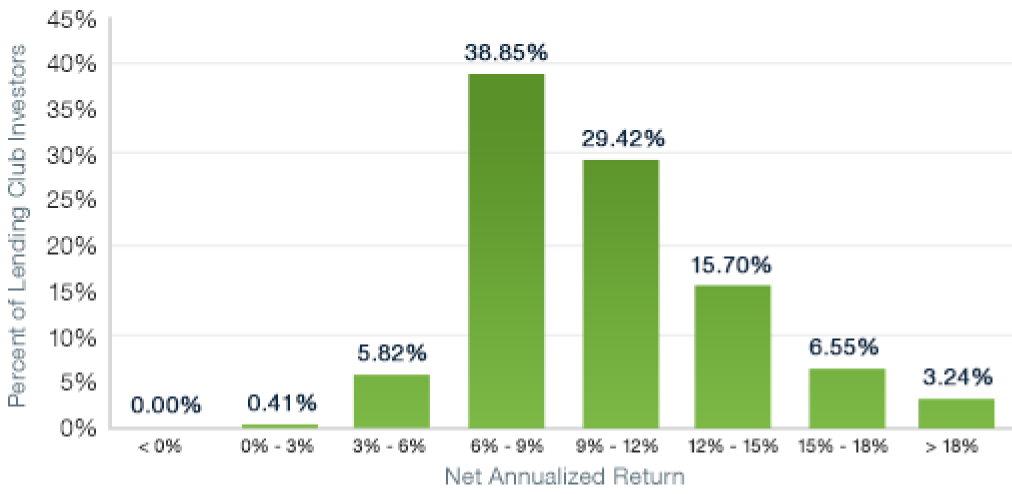
What cost does the borrower incur by defaulting? A much lower credit score, the hounding by credit collectors, and of course the shame of being a delinquent borrower. While this may be worth it to some people, the vast majority of LC borrowers do make their payments on time and pay off their loans in full.

So how do we avoid these risks? There are two key ways to avoid defaults and maximize your LC return:

- **Diversification**

  Diversification begins with only investing a certain percentage of your total net worth or investable assets into Lending Club. LC IS NOT A SURE THING. Do NOT put all of your eggs in one basket. After you insure that you are properly diversified in your investments, then you can begin diversifying your Lending Club holdings.

Diversification in Lending Club is primarily accomplished by investing in many notes. This chart explains it best. With 800 or more notes, a $20,000 minimum investment ($25 per note), 100% of investors have experienced positive returns. 93.76% have experienced returns between 6-18%.



- **Filtering**

As you can see, diversification itself can protect you from negative or extremely low rates of return. However, to really maximize your return on investment, it is important to filter out loans that have historically not performed as well as others. This is easy to do on the LC website. With a few simple filters, which you can save and reuse again and again, you can decrease your risk of default and increase your return on investment. What should you filter out? Primarily you should be filtering to decrease your default rate and increase your rate of return. We'll cover some strategies to accomplish this in the next chapter: "Making Money with Lending Club."

Lending Club performs extensive filtering before even presenting loans to invest in. Of the $13.3 billion in loan applications, only $1.6 billion have been funded. That's 88% of loan applications denied, for a variety of reasons. This filtering process performed by Lending Club ensures that only the top 12% of loan applications are even available to invest in. Once you apply some filters, you can decrease your risk of default even more.

There is one additional risk in that Lending Club itself could become defunct and stop operating. The company recently reported it was cash flow positive and is expected to IPO in 2014 and continues to report sound financials. It is led by an experienced management team and although it has originated over $1.5 billion in loans, it still has less than 100 employees, so it keeps costs low. However, bad things can happen, and Lending Club has taken the proper business continuity planning. They also have contracts with the Portfolio Financial Servicing Company, which would take the loans from Lending Club and continue to ensure investors were paid in the event of the company collapsing. Rest assured, while there are no guarantees in life, Lending Club has taken the proper precautions to protect itself and its investors.

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Making Money with Lending Club

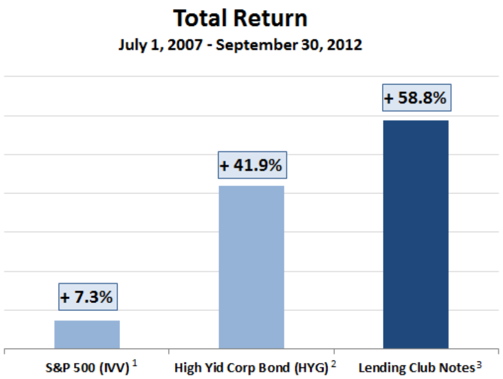
Making money with Lending Club is easy. All you need is some cash that you're willing to invest (keeping your total portfolio diversified, of course. Remember what happened in Cyprus in 2013!) and a few minutes of your time to select the loans you would like to fund. You have two options: log into your account and create a filter to only invest in the loans you want; or, let Lending Club do the selection for you. 100% of investor with 800 or more notes have experience positive returns from 2007-2013. And 93% of them have experience returns from 6-18%. That's quite an accomplishment for a 5 year time period!

How much money should you invest? I would recommend no less than $1000 initially. This will allow you to spread your investment over 40 loans at $25 per note. This allows for some diversification and for you to get the feel of using the Lending Club platform.

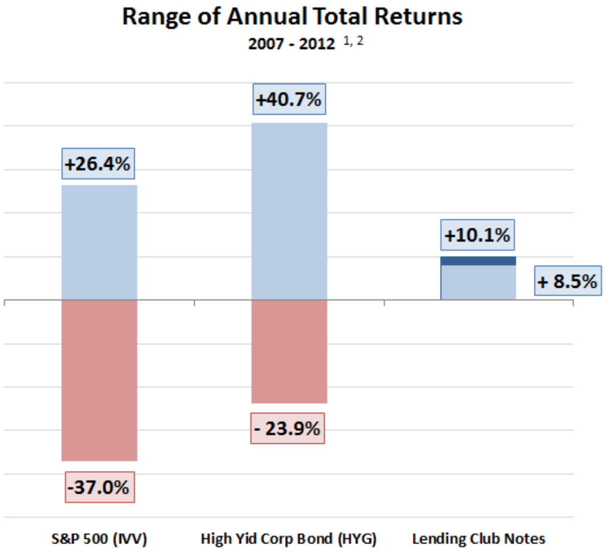
Beyond that, you have to decide what the safe level of risk is for you. **DO NOT** INVEST EVERYTHING YOU OWN INTO LENDING CLUB. DO NOT. Look at Cyprus in 2013. Any amount above the insured amount in bank accounts was taken from the accounts! Look at Enron. All those employees who had their entire savings in Enron stock lost everything. Look at Bernie Madoff. People loved his 20 years of double digit returns. But it was a Ponzi scheme. People lost billions. Nothing is ever a sure thing. There's an old saying about putting all your eggs in one basket. Lending Club is one risky and very new basket. Read the prospectus. Read the risks involved. Be knowledge. **Again, DO NOT put your life savings into Lending Club.**

So what kind of asset is LC? There is a lot of discussion on this point. It's certainly a more exotic investment, like currencies, foreign exchange, futures, and options. And it's definitely not a government insured product, like a CD, Treasury bond, or savings account. It's not a stock or a company or municipal bond. It really is a new class of its own. It requires low capital investment (you can open an account with $100), provides monthly returns (possibly in the double digit range, if you invest carefully), and isn't tied to any company. I think it most closely approximates bonds. I would recommend limiting your investment into LC to no more than 10-20% of your liquid net worth. If you like to have a good ratio of stocks to bonds in your investments, I would say that **half of your bonds** percentage can be in P2P notes. (For example, a 25 year old might have 5% bonds and 95% stocks. Therefore, 2.5% could be invested into P2P.)

In an interesting aside, Lending Club has actually outperformed the US stock market (as measured by the S&P 500) in the 5 year period from July 1, 2007 to September 30, 2012. Additionally, the volatility of the returns has been much smoother for Lending Club versus the stock market. Because Lending Club relies on monthly payments from credit worthy borrowers, there is none of the up and down swing of the market.

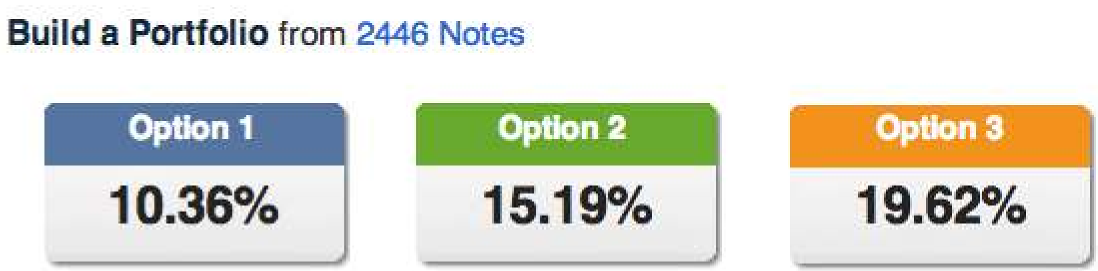


Now that we've gotten the caution about diversifying out of the way, let's talk about how to make money with Lending Club. When you first open your LC account, you'll have two ways of funding it: Wire Transfer (takes 1 business day) or ACH transfer (takes 4 business days). Wire transfers usually cost $18-25 per transaction, so it's probably smarter to save your money and just do the ACH transfer. You'll connect your checking or savings account to Lending Club so you can make deposits into LC and withdrawals to your bank account.



Once that's set up, you can make single transfers or schedule automatic transfers, for instance every paycheck put another $100 into your LC account. This is a great way to save automatically. Once the money is in your account, you're ready to start selecting loans to invest in.

Lending Club offers three automatic investment options, from least risky and lowest return to most risky and highest return. These portfolios are automatically generated by investing $25 in each loan selected and by selecting a variety of grades. This can be a good option if you have a large portfolio and don't



have a lot of time to filter your loans. With a large enough portfolio, you will probably see returns close to what Lending Club predicts by investing in these automatically generated options. **However, I believe there is a better way to invest that results in lower default rates and higher returns.**

They key is filtering out loans that have historically performed poorly. Filtering out defaults is especially important. While "past performance is not a guarantee of future results," we can learn from the past and plan accordingly. For instance, look at the chart on the right. After D graded loans, the interest rate continues to increase on average by 2 percentage points. However, the net annualized return does not increase by a corresponding 2 points. And at the G graded loans, even though it's the highest interest rate, the NAR is actually less than the F graded loans! This is due to the increased number of defaults G rated loans experience when compared to all the other grades.

	Avg. Interest Rate	Net Annualized Return*
A	7.53%	5.59%
B	11.79%	9.09%
C	14.87%	10.53%
D	17.44%	12.28%
E	19.56%	13.11%
F	21.59%	13.78%
G	22.05%	12.02%
Total	16.40%	

So how do you know which loans to invest in? The best thing to do is to "back test" your strategy on the enormous amount of data Lending Club releases monthly on all of its loans. This is available under the statistics section of the LC website, or you can use a site like NickelStreamroller.com or LendStats.com to easily analysis the data. Many bloggers also publish their Lending Club investment strategies, based on tests they've done to maximize their returns.

Here's an example strategy. If you invest in just C and D loans, your expected return would be 8.34% with 3.56% of your loans defaulting. However, if you filter these C and D loans and only select those which are specifically earmarked for credit card payoffs, your Return on Investment (ROI) increases to 10.61% and your default rate drops to 1.99%. If you add another filter of minimum FICO score of 650 and minimum monthly income of $5000, your return increases to 10.8% and defaults drop to 1.95%.

There a lot of strategies available to investors. Simply letting Lending Club do the investment for you does not maximize your returns while minimizing your defaults. Applying a few simple filters and diversifying your loans is the optimal way to make money with Lending Club.

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What to Read Next

I hope you enjoyed this report on investing in Lending Club and that you will open an account soon! There are much more solid returns to be had rather than FDIC insured bank accounts or the whims of the stock market. There is a lot more research to be done, but this guide should cover the basics.

If you have any feedback, positive or negative, you can contact me at

mmm@militarymoneymanual.com or on my blog at www.MilitaryMoneyManual.com.

I'm also on Twitter @MilitaryMoneyM and Facebook as well. If you didn't pay anything for this report the first time around and would like to throw me a few bucks for putting it together, by all means please buy another!

There are a tremendous number of resources out there concerning Lending Club. These are the best.

Lend Stats – LendStats.com puts real numbers and data behind peer to peer lending. Here you can upload your portfolio to have it analyzed in more depth than LC provides, as well as back test your Lending Club investment strategies.

Lend Academy – Peter Renton has over 5 years' experience investing in peer to peer lending. He frequently rounds up the best articles on Lending Club from around the web, as well as posts his quarterly returns. He is now averaging over 10% annual return, which is fantastic and shows that with a bit of filtering and diversification, you too can reap the benefits of Lending Club.

Nickel Steamroller – Like LendStats, there are a tremendous amount of tools and resources on this site to analyze notes and to analyze your strategy for picking notes. Their loan analyzer tool is especially useful for identifying notes that have gone bad or are underperforming in your portfolio.

Lending Club Statistics – Lending Club publishes all of its loan details and statistics. Additionally, you can download the entire 111 MB spreadsheet file and do your own analysis, if that tickles your fancy.

One of the best things about the Internet is that you're rarely the first person to have an idea. You have the opportunity to read reviews and experiences of others before you try anything. Several bloggers are recording their experiences with Lending Club:

Military Money Manual: Hey that's me! I've been documenting my Lending Club investment strategy and results for over two years now.

Mr. Money Mustache – The Mustache started investing in Lending Club back in September of 2012. He's recording his results in his "Lending Club Experiment."

Live the New Economy – Mike at Live the New Economy has invested in both Lending Club and Prosper and his recording his results on his blog. He recently passed the two year investment mark.

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