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Abstract

**Introduction**

**Survey of the relevant literature**

What does this paper try to answer?

* Are returns from Lending Club for various grades along the Mean-Variance frontier: is there idiosyncratic risk involved with these particular investments or could these assets do better?

Why is this question important?

* The fundamental assumption of someone deferring their consumption today is to fund their consumption for tomorrow. Investors continue to look for the investment vehicle that maximizes their returns given a certain risk tolerance.

What has been done in the literature?

* “Asset pricing theory all stems from one simple concept… price equals expected discounted payoff.” (Cochrane 8)
* “In absolute pricing, we price each asset by reference to its exposure to fundamental sources of macroeconomic risk. The consumption-based and general equilibrium models described below are the purest examples of this approach.” (Cochrane 8)
* Mean-Variance frontier naturally answers an interesting question: “How much mean return can you get for a given level of variance?” (Cochrane 27)
* <http://www.forbes.com/forbes/2010/1220/investing-lending-club-credit-cards-personal-loans-for-fun.html> (Lending Club Background)
* <http://www.inc.com/magazine/201505/robb-mandelbaum/lending-club-money-on-demand.html> (Lending Club Relevance)

What is the unique contribution of your paper? In addition, explain briefly (typically in a short paragraph at the end of the introduction section) how the rest of the paper is organized.

Investors at their core want to maximize returns; however, investors face the trade-off of having assets with higher returns holding an inherent higher amount of risk associated with those particular assets. Lending Club, started in 2007 as an alternative to the current banking system by facilitating peer to peer lending, has become a new asset.[[1]](#endnote-1) Lending Club divides borrowers based on their credit score, debt-to-income ratio (excluding mortgage), credit history, and income; grades are subsequently assigned based off of the criteria with “A” being the highest and “G” being the lowest. Interest rates of borrowers are based off of their grades, and Lending Club boasts average interest rates of 7.26% for borrowers with “A” status and 25.72% for borrowers with “G” status with every other grade in between[[2]](#endnote-2). Lending Club has not been previously examined within the context of other assets because like any other asset, it lies inside a mean-variance frontier (Cochrane 26). Lending Club has the unique aspect of being a loan as an investment, which comes with compounding interest, early payment, late payments, and defaults. This paper examines Lending Club’s loans in aggregate and attempts to contextualize the asset with respect to each grade while accounting for the unique characteristics of the asset by identifying where along the mean-variance frontier the asset lies. Furthermore, the Sharpe ratios of the assets will be examined to describe how efficient Lending Club is.

* Are returns from Lending Club for various grades along the Mean-Variance frontier: is there idiosyncratic risk involved with these particular investments or could these assets do better?

Clear Description of your contribution

Summary of results

Development of key arguments

Summary of results

Development of key arguments

Conclusion

List of tables and figures

List of references

1. http://www.forbes.com/forbes/2010/1220/investing-lending-club-credit-cards-personal-loans-for-fun.html [↑](#endnote-ref-1)
2. https://www.lendingclub.com/public/steady-returns.action [↑](#endnote-ref-2)