a) Characterize Lending Club’s business, characterize the two sides of the market it is facilitating, and explain its value proposition for both borrowers and lenders.

The Lending Club’s business is to offer standard or custom loans through peer to peer lending networks. It lowers costs by operating without physical branches and utilizes high levels of automation. In this way, borrowers pay lower interest rates and investors receive better returns compared to traditional bank loan programs.It facilitates two sides of the market: borrows and investors. Borrowers come from the group of individuals and small businesses. Individuals commonly use loans from the marketplace to pay off credit cards or consolidate debt. Small businesses use the money to grow their business, buy equipment or pay for other expenses. Investors include high net worth individuals, hedge funds, banks, etc. The two value propositions for borrowers are cost reduction and convenience as they only have to submit an application for loans on the platform. The system would then employ datasets to estimate the risk and set the credit rating and interest rates within a couple of minutes. For investors, there are two propositions: convenience and performance. As Lending Club provides tools for investors to choose customized loans, it becomes easier for them to form diversified portfolios which reduces volatility and gives more solid returns. Automated investing is also available for investors to automatically invest in loans that satisfy certain criteria. What’s more, the platform offers risk-adjusted returns on loans. As Lending Club has gathered a considerable amount of proprietary loan performance data from its customer base, its model is able to modify based on the actual performance of the loans.

Finally, as the world’s largest online loan marketplace, Lending Club provides a brand value proposition for both sides of the market.

b) Explain Lending Club’s lending mechanism.

Lending Club’s lending mechanism is the following: Borrowers apply for a loan and if they meet certain criteria (eg. minimum 660 FICO score), Lending Club would add their loan to the platform. For investors, they could build a portfolio of loans to diversify their risk. The minimum investment is $25 per loan.

Lending Club also verifies each borrower. If the borrower passes verification and gets fully funded, the loan will be approved for investors and issued to the borrower. Otherwise the loan will not be issued and investors will get all money back.

A loan will be posted on the platform for no more than 14 days. Most loans are funded much quicker. Once funding is complete, approved borrowers will receive their funding (less an origination fee) in the following business days and start making payments within 30 days.

Investors will receive principal plus interest on a monthly basis and can decide whether to withdraw or reinvest the money after they get paid.

c) Should investors value Lending Club as a marketplace technology company, or a specialty finance company? Why?

We believe that when LC first IPO'd, investors should have valued Lending Club as a marketplace technology company rather than a specialty finance company. This is because Lending Club connects borrowers and lenders through their platform/marketplace. This is similar to what AirBnB does for renters and short term tenants. While some may say that the personal loans Lending Club provides means it could be valued as a speciality finance company, we believe the value of the company is in the platform that connects borrowers and lenders. Furthermore, Lending Club does not keep cash on its balance sheet, a major differentiator from speciality finance firms. When Lending Club changed its business model to where it provided the loans like a bank, it should be valued then like a specialty finance company, as it is similar to an online lender.

d) How concerned should Lending Club be about the growing number of competitors? Which competitors should they be most concerned about?

The market has been growing and newcomers are entering the market. Even if they are still in this market, they grow bigger every day and they raise large amounts of capital and cash on their balance sheets. Due to their presence in the market and high competition, the stock price of Lending Club fell and created a problem for the investors and the company. Because of the Lending Club's slow, but steady growth, they get criticized for not being able to compete with the newcomers' growing competition. The market has begun questioning the possibility that something is happening at the company and if their strategies are right. With growing capital that competitors were raising, the expectations of the Lending Club were the same, that they should invest and continuously grow their revenue. Even though competitors would not be able to compete with the Lending Club, their presence in the market has made it hard for them to keep their positions and investors. This competition has lowered the profit for the Lending Club, and it is getting hard for them to compete without having enough capital available. The Lending Club should be concerned about the growing number of competitors because it affects them negatively and they lose profit due to decrease in the market share. They should be the most concerned about the competitors that are in the same section as Lending Club. Some of such FinTech and Non-Bank lenders are OnDeck Capital, Inc. (ONDK) and GreenSky's (GSKY). OnDeck Capital has delivered record earnings, while GreenSky reported record revenues, their margins were getting lower, but they are expanding into elective healthcare and e-commerce financing. Enova is another strong competitor, which is technology enabled non-bank leader that brought new customers in 2018 and their demand remains strong and their product resonates well in the market. Many of their competitors are trying themselves in something new and continue to grow their shares. If Lending Club will not be able to find a new product, then there is a chance that they will not be the leader in their area anymore.

e) If you were Lending Club's Chief Risk Officer, what would be some of the strategic considerations that would go into the development of the borrowers' credit model?

The P2P lending market has been overgrowing in the last decade. Lending Club is a lending and alternative investment company that carefully focused most of its attention on Lending Club's growth at a responsible rate. They believed that growth is a crucial factor in the way they were planning their strategies and developing their borrowers' credit model. Lending Club was a market leader for an extended period, and they considered that too quick expansion would result in the companies' chance to break at any point because of their loan originating process and risks that they undertake on the way to enter the market. When they developed their borrowers' credit model, many firms did not focus on the credit process and were often seen as taking shortcuts. This, as a result, could impact investors' returns and their future investments with the competitors. Lending Club believed that capturing market share is not as important as becoming successful in maintaining responsible growth targets because it will help them keep their risks low and similar factors out of the model. This is a critical part of their model because it shows that the company can maintain its control over its processes, which positively affects investors' trust and revenue growth rates.

During the creation of the borrower's credit model, it is essential to understand various possible risks that arise when a corporation or a borrower does not meet their debt obligations. Different types of risks must be considered when creating a borrower's credit model: credit default risk, concentration risk, and country risk. Credit default risk occurs when the borrower fails to pay in full the loan obligation or when it is past due the date of repayment. This is important because it may affect all credit-sensitive transactions with loans, securities, bonds, and more. Credit default risk can change due to various economic situations and will affect the company's ability to collect their money for the other loans and interests. Concentration risk arises from having potential offers coming from the same sector or part, which might threaten the company's core operations. Therefore, the company should consider diversification of their portfolio of investors to prevent having a concentration of all returns from one prominent investor. This is a risk that is currently very low in the Lending Club because they have a very diverse portfolio. Another risk, which becomes more possible in today's market is the country risk, which comes from political instability and may result in the default on a loan obligation. All of these risks must be considered to minimize them and forecast them accurately.

Some of the factors that would go into the development of the borrowers' credit model are Probability of Default, Loss Given Default, and Exposure at Default. These factors arise from three risks discussed earlier. The probability of the Default factor is reflecting the chance that a borrower will default on their obligations. This factor can be obtained from credit rating agencies, which will help set the interest rate and principal on the loan. Loss Given Default is the factor that means the exposure to the loss in a company. Meaning that the company will suffer higher losses from a borrower with higher loans if they default. Exposure at Default is an evaluation of how much the corporation is exposed to loss at any time and how significant the loss will be.

If I was Lending Club's Chief Risk Officer, some of the strategic considerations that would be used in the development of the borrowers' credit model are the borrowers' credit history, the borrowers capacity and ability to repay a loan, the capital that the borrower puts towards its investments, their possible collateral, and conditions of the loan or agreement. Credit history is one of the most critical parts of the model because it helps the company to evaluate the credit risk. Borrower's ability to repay a loan strongly correlates with Loss Given Default because it can be measured by comparing income against recurring debts and debt-to-income ratio. The capital and collateral are essential to consider because they provide the borrower's ability to secure a loan by showing the ability to put a down payment and provide assurance.

In conclusion, the Lending Club's primary strategy to focus on maintaining respectable growth targets plays a crucial role in their success and their development of the borrower's credit model.