Five Key Things To Know About LendingClub Notes

Investor Essentials

LendingClub

5 Key Things to Know About LendingClub Notes

LendingClub Notes provide access to consumer credit, an asset class that was previously only available to institutional investors. Because many LendingClub investors are new to consumer credit, it's important to understand the asset and what to expect. Here are five key things to know about LendingClub Notes that can help you get the most out of your investment experience.

What is a LendingClub Note?

Investors can participate on the LendingClub platform by purchasing LendingClub Notes. Notes correspond to fractions of personal loans that LendingClub facilitates to borrowers. Notes mature in 3 or 5 years, according to their term. Notes can be purchased in $25 increments so investors can easily build portfolios with many Notes corresponding to many different loans and borrowers. To learn more about diversification, see page 6.

1 Focus on net returns

It may be tempting to look at a Note's stated interest rate and assume that's what your return will be, but the interest rate doesn't reflect all of the factors that impact returns. Three of the most notable factors are charge-offs (when borrowers do not repay their loans), prepayments (when a borrower pays more than their minimum required amount, reducing the amount of interest you'll receive over time), and fees. Charge-offs are typically more impactful than prepayments and fees, which we'll cover in-depth in the next section.

On the following page, we've provided a hypothetical illustration of an investor's potential net return.

Focusing on net returns, instead of a Note's stated interest rate, can help you better understand how LendingClub Notes can potentially fit into your overall investment strategy. For example, some people see Notes as an alternative to cash; others see it as a complement to a fixed income portfolio; while others see it as a potential tool to generate growth. Investing through LendingClub is "self directed," meaning you can choose how to invest according to your individual investment strategy.

Measuring Net Returns

We provide several estimates and metrics of performance on our website, such as Projected Return – an estimate of how loans may perform – and two net return metrics that can help assess the performance of a portfolio: Net Annualized Return (NAR) and Adjusted NAR (aNAR).

Projected Returns are what you see during the investment selection phase. These projections are LendingClub's estimates of how loans may perform in the future. They estimate loan performance based on expected principal and interest payments, charge-off rates, prepayment rates and fees. Projected return shows what each dollar invested in a Note could earn, and does not consider any amounts sitting in cash.

Net Annualized Return ("NAR") is our basic net return metric, showing historical performance of loans or Notes. NAR is an annualized measure of the rate of return on principal invested over the life of an investment. NAR is based on actual borrower payments received each month, net of fees, charge-offs, and recoveries. NAR assumes all loans that are not charged off will be paid in full, regardless of their current or delinquent status.

Adjusted Net Annualized Return ("aNAR") is calculated the same as NAR, but adjusted for potential charge-offs. It incorporates an estimate of future losses on any loans that are "past due" but have not been charged off. For more on how NAR metrics are calculated, please see here.

1 Focus on net returns (continued)

As borrowers make payments on their loans, investors are paid monthly on the corresponding Notes, minus the impact of borrower charge-offs, prepayments and LendingClub fees. Keep in mind that this example is a simple illustration of the basics – an individual investor's returns can vary based on many factors.

Hypothetical Example[1]

Average interest rate for portfolio[2]	14%
Estimated effect of charge-offs and prepayments[3]	-8%
LendingClub fees[4]	-1%
Annualized Net Return[5]	5%

1 The calculations shown are for illustrative purposes only, and do not reflect any actual or projected results for any investor. Actual investor results may vary. This information is not a promise of future results. Individual portfolio results may be impacted by, among other things, the size and diversity of the portfolio, the exposure to any single Note, borrower or group of Notes or borrowers, as well as macroeconomic conditions. Notes are offered by prospectus filed with the SEC and investors should review the risks and uncertainties described in the prospectus prior to investing in the Notes. This information is not presented as investment advice. LendingClub does not provide investment, legal, or tax advice.

2 Average Interest Rate represents the weighted average interest rate for the loans corresponding to the Notes in an investor's LendingClub portfolio. The number used in this illustration is based on the current stated interest rate of LendingClub's Platform Mix (see Automated Investing section for details on the Platform Mix). Investors can select Notes corresponding to their desired loan grade or mix of loan grades, whether through LendingClub's Automated Investing Tool or by manually selecting loans. Note purchases are subject to loan inventory and availability, which is not guaranteed. Interest rates are subject to change. This information is not a promise of future results.

3 Effect of charge-offs and prepayments measures the impact on returns caused by both charge-offs and prepayments over the life of the portfolio. Charge-offs impact returns because investors lose both principal invested in the charged off Notes and the potential to receive interest from such Notes. Prepayments impact returns because they reduce the amount of principal earning interest from Notes. A Note is considered prepaid when the dollar amount received is greater than the amount due for any given month. The impact expressed here is for illustrative purposes only, does not reflect any actual or projected results, and may not accurately reflect the actual charge-off or prepayment rate for any individual investor. Actual charge-off and prepayment rates vary. It is inevitable that certain loans will charge-off or prepay and result in a loss of investment capital. Actual charge-off and prepayment rates experienced by any individual portfolio may be impacted by, among other things, the size and diversity of the portfolio, the exposure to any single Note, borrower or group of Notes or borrowers, as well as macroeconomic conditions.

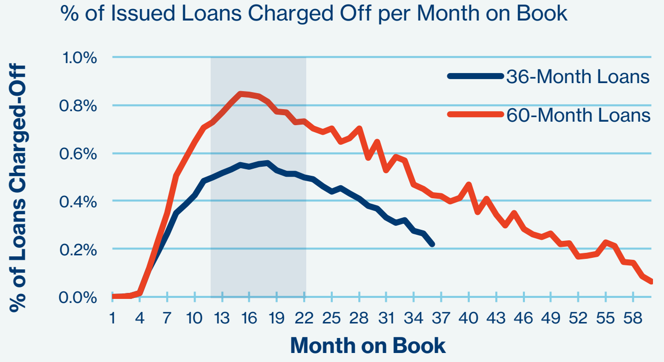
4 Effect of LendingClub Fees measures the impact on potential returns caused by fees charged by LendingClub. LendingClub charges an investor service fee of 1% of the amount of payments received within 15 days of the payment due date. The service fee is not an annual fee and may therefore reduce annual investor returns by more or less than 1%. LendingClub services the loans facilitated through our platform by maintaining investor accounts, collecting and processing principal and interest payments from borrowers, and distributing payments net of service and collection fees to investors. LendingClub also charges a collection fee on the amount of any payments successfully collected on pre- and post-charged off loans. Please review the prospectus and visit our website for complete details on how LendingClub charges fees, how fees impact investors and net returns.

5 Annualized Net Return is the hypothetical net return for invested capital on an annualized basis. It is for illustrative purposes only, is not a promise or indication of future results, and is solely based on a hypothetical LendingClub portfolio. As with all investments, taxes are an important consideration that may also affect your net return. Investors should consider their personal tax situation when investing and consult a tax or financial advisor for further guidance.

2 Charge-offs will happen

It's inevitable that some borrowers will get behind on their loan payments. Some of these borrowers will get back on track and others will stop repaying their loans. After it's clear that a borrower won't make any more payments a loan is considered "charged-off." All investors in consumer credit experience some charge-offs, so it's important to understand them and consider how they might impact your investment strategy.

Charge-Offs Typically Peak Around Months 12-22, Then Fall[6]



6 Source: LendingClub, as of July 2017. Percentage of loans charged off is calculated as the number of issued loans (as loan units, not on a dollar basis) that have charged off as a percentage of all issued loans (as units) at each month on book from inception (2007 for 36-month loans and 2010 for 60-month loans) through December 2016. Historical charge-off rates are not a guarantee of future charge-off rates. Data portrayed in this chart is on a loan, not Note, basis. Charge-off rates experienced by an individual portfolio may vary.

When do charge-offs occur?
A loan is considered "charged-off" when a borrower is 150 days late in making his or her payment. Marking a loan as "charged-off" means LendingClub no longer believes there is a reasonable expectation that the borrower will make further payments, which means that investors lose both their outstanding principal as well as the interest they would've received if the borrower had continued to repay the loan.

Charge-offs can occur at any point in the life of a loan. But as the chart to the left shows, historically, charge-off rates have peaked between months 12-22 of a loan's life.

How can I seek to minimize charge-offs in my account?
Credit grades can help investors estimate the potential risk for charge-offs (and choose Notes that best meet their individual goals). LendingClub assigns grades from A to G to each loan based on the credit quality and risk attributes of the corresponding borrower, which can help investors assess risk. Higher grades (A-C) offer lower interest rates, but also lower expected charge-offs and volatility. Lower grades (D-G) offer higher interest rates, but higher expected charge-offs and volatility.

LendingClub takes charge-offs seriously. Our robust servicing and collections process is focused on slowing delinquencies and maximizing asset recovery. We use technology to minimize the occurrence of charge-offs, for example, using data to determine when and how to contact borrowers who are falling behind on payments. More than 95% of our borrowers link their bank account to make automatic monthly payments, minimizing chances that they'll accidentally skip a payment.

When we do need to attempt collection on delinquent loan(s), we update investors via the loan performance page within their online account summary.

3 Diversification is key

Purchasing multiple Notes that correspond to different loans or borrowers can help limit the impact of any single charge-off. In fact, 98% of investors who own 100+ Notes of relatively equal size have seen positive returns.[7]

For example, let's say you want to invest $2,500. You could invest: a) $2,500 in one Note that corresponds to one borrower; or b) $25 in 100 different Notes, each corresponding to different borrowers. If you invest $2,500 in one Note and the borrower eventually charges off, you could potentially lose all of the money you invested that is still not yet paid back by the borrower (your outstanding principal). If you invest $25 in 100 Notes corresponding to different borrowers and one borrower charges off, your loss would be limited to that one borrower.

Building a portfolio with many Notes is easy with our automated investing (AI) tool. You simply set the investment criteria you want with easy-to-use filters and AI will place orders for Notes as matching inventory becomes available. The broader your filters are, the faster your money can be put to work (fewer filters means more matching inventory). Conversely, using many filters can result in a concentrated portfolio that takes more time to build due to limited matching inventory.

You can also build your portfolio one Note at a time with our manual option. And if you're interested in slicing and dicing the data, we make our complete loan database available for download.

Automated Investing Strategy

Investors can choose a pre-set strategy that matches their risk profile or create a custom strategy.

Manual Strategy

Individually browse available loans and select Notes to purchase.

7 As of March 31, 2017. Based on adjusted net annualized return (Adjusted NAR) of current retail investors with a portfolio containing 100+ Notes, none of which have been purchased or sold on the Folio Investing Note Trading Platform[8] where the portfolio concentration is one percent or less (e.g. no Note constitutes greater than one percent of the total portfolio value) and the portfolio has a weighted average age of at least 12 months (weighted based on the dollar value of each Note relative to the total dollar value of the portfolio, where the age of each Note is measured as of the purchase date of such Note). Adjusted NAR is calculated using the formula described here. This information is not intended to be investment advice. Historical performance is not a guarantee of future results. Actual results may differ materially from historical data. LendingClub Notes are not guaranteed or insured, and investors may lose some or all of the principal invested. Individual portfolio results may be impacted by, among other things, the size and diversity of the portfolio, exposure to any single Note, Borrower, or group of Notes or Borrowers, as well as macroeconomic conditions.

8 Folio Investments, Inc. ("Folio Investing") is a registered broker-dealer and member of FINRA and SIPC and operates the Note Trading Platform. Folio Investing is based in McLean, VA and is not affiliated with LendingClub. Folio Investing has no role in the original issuance of the Notes and is not responsible for and does not approve, endorse, review, recommend or guarantee the Notes or the accuracy, reliability, or completeness of any data or information about the Notes. See the Important Disclosures page for additional important information. More information about Folio Investing is available at www.folioinvesting.com.

4 Monthly payments include principal and interest

Loans on the LendingClub platform are fully amortizing, which means monthly payments to investors include both principal and interest. Early on, a larger proportion of any payment is made up of interest. As the loan ages, payments are comprised of more principal.

The income stream an investor can receive from a Note is different from that of other fixed income investments. If you invest directly in a bond, you typically receive interest payments semi-annually throughout the life of the bond and principal is returned at maturity. Our Notes are designed to deliver cash flow monthly and allow investors to avoid lumpy payments. Investors should note that LendingClub Notes differ from bonds in many ways, including liquidity, fees and other factors; see “Know the Differences” at right for a full comparison.

Know the Differences

	LendingClub Notes	Bonds (typical)
Exposure	Consumer Credit	Government or Corporate Credit
Underlying Asset	Fractions of personal loans facilitated by LendingClub	Loan to a government entity or corporation
Distribution Frequency	Monthly	Semi-annually
Distribution Components	Principal and interest payments corresponding to borrower payments throughout the life of the loan	Interest semi-annually, principal at maturity
Liquidity	Very limited. Can seek to sell prior to maturity on secondary market (Folio Investing)	Limited. Can seek to sell prior to maturity through broker-dealer on secondary market at market price
Principal Insured	No	No
Fees	1% service fee on all payments received, other fees in case of collections	Varies, subject to broker-dealer fees

5 Reinvestment is critical for consistent returns

Because Notes are fully amortizing, about half of your original investment principal for a 3-year Note can be returned to you within 14 months (assuming the borrower does not charge-off). New investors can be surprised to see half of the money they earmarked for investment back in their pockets in a little more than a year.

While getting money back relatively quickly can be in line with certain investment strategies and can reduce risk (as money back in your pocket is no longer at risk), if it's not put to work again that cash is left sitting in your account not earning interest. Reinvestment into new Notes is necessary for long-term consistent returns. Leaving funds uninvested (also called "cash drag") means you can miss out on the opportunity to compound returns.

Reinvestment can also help diversify a Note portfolio as the platform is always adapting and responding to current market trends. New Notes come onto the platform regularly, which reflect the latest credit and grading models. Investors can use the AI tool to stay current on reinvestment and bolster the diversity of their Note portfolio.

Conclusion

Consumer credit is an exciting asset class and we're proud to make it accessible to a broad range of investors. Our Notes have some unique characteristics that set them apart from other investments and allow them to offer the potential for solid risk-adjusted returns. If you have any questions about how our Notes work or what to expect from your investment, our team is here to help. Contact us to learn more about what Notes can do for your portfolio.

LendingClub

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	Monday - Friday