Marketplace Insights

Behind the Investment Platform: The LendingClub Borrower

Fall 2017
1. LendingClub provides creditworthy borrowers access to affordable credit. On average, personal loan borrowers on the LendingClub platform have a healthy credit score, a long credit history, and an annual income above the national median (see Graphic 2).

2. Through LendingClub, borrowers can access the credit they deserve and use credit responsibly to achieve their goals.

3. Because LendingClub collects exhaustive data on borrowers, it can offer investors the ability to design an investment strategy to fit their needs.
The LendingClub Borrower

LendingClub customers come from diverse backgrounds, geographies, and age groups. They also use loan funds for a variety of needs including paying down credit cards, debt consolidation, home improvement, and covering major purchases. The average LendingClub customer has a long credit history, multiple financing options, a healthy credit score (see Graphic 2) and is a working professional. While they’re diverse from many perspectives, what borrowers have in common is the strength of their credit profile and a desire to improve their finances—and that’s why they come to LendingClub. We’re helping them get access to the credit they deserve and use credit responsibly to achieve their goals.

Key Borrower Characteristics

LendingClub customers exhibit strong credit profiles as compared to the national average. Let’s take a deeper look at a few key characteristics of borrowers on the LendingClub platform for insight into who they are, why they come to LendingClub, and how LendingClub’s data on borrowers can help investors design their own targeted investment strategy.
FICO
FICO is a common factor that many lenders use in their underwriting. FICO scores take five considerations into account, and each factor is weighted by importance: 1
- payment history (35% of the score)
- current level of indebtedness (30%)
- length of credit history (15%)
- types of credit used (10%)
- new credit accounts (10%)

Lenders and marketplace lending companies typically use a borrower’s FICO score along with other details from their credit history to assess risk and determine whether credit should be extended. Depending on the company, FICO score ranges are typically between 300 and 850. Generally speaking, scores above 670 indicate a “good” credit history. 2

The median FICO score for borrowers on the LendingClub platform is 692. 3 While FICO is an important input into credit decisions on our platform, we’ve been innovating well beyond traditional FICO-based underwriting since we opened our business in 2007. Through a proprietary analytics model, borrowers are evaluated on hundreds of data points in addition to their FICO scores.

Income
Borrowers on the LendingClub platform have an annual median income of $70,680. 3 LendingClub borrowers’ incomes typically range from $69,000 to more than $125,000. Generally, the higher the income, the higher the borrower’s credit quality. The median household income in the U.S. is $56,000. 4

Debt-to-Income
Debt-to-income (DTI) is a ratio that compares the total amount of monthly debt payments a borrower has versus their overall monthly income. Borrowers on the LendingClub platform are required to have DTI scores below 40%; the average DTI of borrowers on the LendingClub platform is 17.8%. 3

Years on File
“Years on file” refers to the length of a borrower’s credit history. The average years on file for borrowers on the LendingClub platform is 14. 3 Length of credit history is indicative of a borrower who is not brand new to credit and who has developed a financial history.

Loan purpose
Typically, borrowers are looking for loans through LendingClub to help refinance or consolidate credit card debt. About 80% of borrowers use loans through LendingClub for this reason, benefiting from competitive rates and the ease of applying for and managing their loan through the LendingClub platform. 5 This is especially true in comparison to traditional brick-and-mortar banks, which can take weeks to fund a loan.

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2. https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/
3. YTD 2017 (through Q3)
5. As of June 30, 2017
Addressable Market

Today, outstanding credit card and personal loan balances in the U.S. are approximately $960 billion. Of that, two-thirds, or roughly $600 billion, represents interest-earning balances carried month-to-month — the overall addressable population. About half of the addressable population (more than $300 billion) currently meets LendingClub’s target credit profile—a market that we have only just begun to penetrate.

Graphic 3: Vast, High Quality Addressable Market

Card and personal loan outstanding balances (2017)

Interest-earning balances

- $960B

Transactor / low-rate / low-balance

$600–650B

Outside target credit profile

$300–350B

Within target credit profile

Remaining opportunity

3–4%

LC penetration of immediate opportunity

A. “TransUnion Industry Insights Report,” TransUnion, Q3 2017
B. TransUnion custom analysis and LendingClub analysis
Key Borrower Outcomes

Though borrowers are diverse, most of them share one thing in common—they’re saving money by consolidating debt through LendingClub. Borrowers who received a 36-month loan to pay off their credit cards or consolidate their debt saved between $900 and $2,800 over the life of a loan.6 In addition, most borrowers’ FICO scores improve after taking out a loan through LendingClub. On average, 73% of LendingClub customers’ FICO scores improve; among those, the average FICO score increase is 28 points.7

LendingClub is empowering people who are striving to achieve financial success, and it shows in their feedback (see Graphic 4).

6. All scenarios assume $10,000 starting balance. Based on responses from 2,862 borrowers in a survey of randomly selected borrowers conducted from 1/1/17 – 9/30/17. Borrowers who received a loan via LendingClub to consolidate existing debt or pay off their credit cards received an average interest rate of 15.8% and reported an average interest rate on outstanding debt or credit cards of 20.4%. Transaction fees range from 1% to 6%, assumed to be 5.03% in this scenario, reflecting average fee during 2017 Q1-Q3 for LendingClub personal loan borrowers. Best APR is available to borrowers with excellent credit. Assumed 3% annual fees for cards as percentage of cycle-ending balances (CFPB, “The Consumer Credit Card Market,” 2015). Credit card minimum monthly payments schedule assumes interest payment on existing balance in period plus 1% of outstanding balance plus fees. 3-year paydown scenarios imply eliminated loan balance at end of period.

7. Average credit score change of all borrowers who took out a loan via LendingClub between January 1, 2013 and December 31, 2016 with a stated loan purpose of debt consolidation or paying off credit cards, observed three months post issuance.

Graphic 4: What Borrowers on the LendingClub Platform are Saying

 Outstanding Service
“"I was truly impressed with how easy it was to apply for a loan and how quickly offers to assist me came in. The timeframe from the initial application to having the loan deposited into my account took just a few days.”

– Leslie
consolidated her debt

 Terrific Service
“"I am saving thousands of dollars and now have no credit card debt. It is a great feeling to make one simple payment a month.”

– Suze
paid off her credit card

 Easy Breezy
“"Acquiring a loan through you guys was painless and stress-free.”

– Mile
consolidated his debt
By collecting and analyzing exhaustive data (over 100 inputs) on our borrowers, LendingClub can price risk more optimally. In addition, we can provide context for investors who can benefit from the data by using numerous filters to screen borrowers based on attributes that fit within their specific investment objectives.

A 2017 study by the Federal Reserve Bank of Philadelphia reported, “given that credit spreads are priced accurately based on the expected delinquency of the loans, we found that for the same risk of default, consumers pay smaller spreads on loans from [LendingClub] than from traditional lending channels, implying that fintech lending has provided credit access to consumers at a lower cost.”

LendingClub’s platform assigns a grade and interest rate to each borrower’s loans to help investors assess risk and return. Borrowers who fall in higher quality grades typically have elevated credit profiles including higher FICO scores and incomes, lower DTI, and other attributes that indicate the borrower is and will continue to be in good financial health. Investors can use the grading system to choose an investment strategy that matches their risk/return profile.

While more tactical investors enjoy the ease of constructing a tailored portfolio based on these metrics, other investors seeking to access the consumer credit marketplace choose to allocate more broadly based on grade and term. Through our technology platform, LendingClub makes it easy for institutions and individual investors to build diversified portfolios that correspond to fractions of hundreds or even thousands of loans.

How Borrower Data Can Help Investors Make Decisions

Graphic 5: Investors Can Filter on a Variety of Attributes

- Interest rate
- Review status
- Listing expires in
- Max debt-to-income ratio
- Total credit lines
- Inquiries in the last 6 mo.
- Home ownership
- Keyword
- Exclude loans already invested in
- Monthly income
- Collections excluding medical
- Total collection amount ever
- Loan purpose
- Verified income
- Exclude relisted loans
- Earliest credit line
- Revolving credit balance
- Months since last delinquency
- Min. length of employment
- Public records
- Loan term
- Loan ID
- Major derogatory
- Accounts now delinquent
- Max loan amount up to
- Funding progress
- Credit score
- Open credit lines
- Revolving balance utilization
- Months since last record
- Location state
- Delinquencies (Last 2 years)
- Initial listing status
- Recent listings
- Joint applications
- Total current balance
Conclusion

Investors can have confidence in underwriting standards based on our track record dating back to 2007— the longest in the space—and a credit model that assesses hundreds of data points on each borrower. Because of this sophisticated model, the overwhelming majority of borrowers save money by consolidating debt through LendingClub. We pride ourselves on helping borrowers get access to and use the credit they deserve to responsibly achieve their goals while enabling investors access to a unique asset.
About LendingClub

LendingClub was founded to transform the banking system to make credit more affordable and investing more rewarding. Today, LendingClub’s online credit marketplace connects borrowers and investors to deliver more efficient and affordable access to credit. Through its technology platform, LendingClub is able to create cost efficiencies and passes those savings onto borrowers in the form of lower rates and to investors in the form of solid returns. LendingClub is based in San Francisco, California.

About Marketplace Insights

LendingClub’s Marketplace Insights series shares periodic insights into the LendingClub marketplace—how it works and how it performs. For all issues of Marketplace Insights, please see blog.lendingclub.com.

For data on all loans issued since LendingClub was founded 10 years ago, please see here.
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