**THESE NOTES ARE ONLY BEING OFFERED AND SOLD TO LENDER MEMBERS WHO ARE RESIDENTS OF THE STATE OF CALIFORNIA AND WHO SATISFY THE FINANCIAL SUITABILITY REQUIREMENTS SET FORTH IN THIS PROSPECTUS.**

# PROSPER MARKETPLACE CA, INC.

**$250,000,000 Prosper Borrower Payment Dependent Notes**
**$250,000,000 Open Market Borrower Payment Dependent Notes**

This is a limited public offering being made to lender members of Prosper Marketplace CA, Inc., or Prosper, who are residents of the State of California, of up to $250,000,000 in principal amount of Prosper Borrower Payment Dependent Notes, or “Prosper Borrower Notes,” and up to $250,000,000 in principal amount of Open Market Borrower Payment Dependent Notes, or “Prosper Open Market Notes” issued by Prosper. The Prosper Borrower Notes and the Prosper Open Market Notes are collectively referred to as the “Notes” in this Prospectus.

We will issue the Notes in a series, with each series of Notes dependent for payment on payments we receive on a specific borrower loan described in a listing posted on our peer-to-peer online credit auction platform, which we refer to as our “platform.” Two types of listings appear on our platform: (1) listings posted by individual consumer members of Prosper requesting individual consumer loans, which we refer to as “Prosper borrower loans,” and (2) listings posted by financial institutions registered with Prosper setting forth the terms of existing loans and retail installment sale contracts owned by the financial institutions and offered for sale to Prosper, which we refer to collectively as “open market loans.” The Prosper Borrower Notes are dependent for payment on Prosper borrower loans, and the Prosper Open Market Notes are dependent for payment on open market loans.

Important terms of the Notes include the following, each of which is described in detail in this prospectus:

- Only residents of the State of California and who satisfy the suitability requirements set forth on page ii of the prospectus may purchase the Notes.
- Our obligation to make payments on a Note will be limited to an amount equal to the lender member’s pro rata share of amounts we receive with respect to the corresponding borrower loan for that Note, net of any servicing fees. We do not guarantee payment of the Notes or the corresponding borrower loans.
- The Notes are special, limited obligations of Prosper only and are not obligations of the borrowers under the corresponding borrower loans, or of the financial institutions that offer to sell open market loans on our platform.
- The Prosper Borrower Notes will bear interest from the date of issuance, have a fixed rate, be payable monthly and have an initial maturity of three years from issuance, which we may change from time to time.
- The Prosper Open Market Notes will bear interest from the date of issuance, have a fixed rate, be fully amortizing and have an initial maturity of at least three months.
- A lender member’s recourse will be extremely limited in the event that borrower information is inaccurate for any reason.

We will offer Notes to our lender members at 100% of their principal amount. The Notes will be offered only through our website and are offered only to lender members who are residents of California. There will be no underwriters or underwriting discounts.

The Notes will be issued in electronic form only and will not be listed on any securities exchange. The Notes will not be transferable. Therefore, lender members must be prepared to hold their Notes to maturity.

**This offering is highly speculative and the Notes involve a high degree of risk. Investing in the Notes should be considered only by persons who can afford the loss of their entire investment. See “Risk Factors” on page 20.**

**The Securities and Exchange Commission has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. The Commissioner of Corporations of the State of California Does Not Recommend or Endorse the Purchase of These Securities. Any representation to the contrary is a criminal offense.**

**The date of this prospectus is April 28, 2009**

**TABLE OF CONTENTS**

## ABOUT THIS PROSPECTUS

This prospectus describes our offering of our Borrower Payment Dependent Notes, which we are offering in two classes: Prosper Borrower Payment Dependent Notes, or "Prosper Borrower Notes," and Prosper Open Market Borrower Payment Dependent Notes, or "Prosper Open Market Notes." The Prosper Borrower Notes and Prosper Open Market Notes are collectively referred to in this prospectus as the "Notes." This prospectus speaks only as of the date of this prospectus.

Unless the context otherwise requires, we use the terms "Prosper," "the Company," "our company," "we," "us" and "our" in this prospectus to refer to Prosper Marketplace CA, Inc., a California corporation. The term "Prosper Inc." or "our parent" refers to Prosper Marketplace, Inc., a Delaware corporation and our sole shareholder.

## SUITABILITY REQUIREMENTS

The Notes are highly risky and speculative. Investing in the Notes should be considered only by persons who can afford the loss of their entire investment. Our platform currently allows lender members to bid as little as $50 and as much as the full amount of any particular listing, up to an aggregate amount of $5,000,000 for individuals and $50,000,000 for institutions.

### Resident in State of California

A lender member will only be considered a resident of the State of California, if at the time of the offer and sale of the Notes:

- if an individual, the lender member has his or her principal residence in the State of California; and
- if a corporation, partnership, trust or other form of business organization, the lender member has its principal office within the State of California.

### Financial Suitability Requirements

A lender member who is a resident of the State of California as set forth above, may only purchase the Notes if the lender member also satisfies the following minimum financial suitability standards.

- Each individual lender member (a husband and wife are treated together as one lender member) must have an annual gross income of at least $75,000 during the last tax year and will have (based on a good faith estimate) a minimum gross income of $75,000 during the current tax year, or, in the alternative, have a minimum net worth of $200,000 and, in either case, the lender member's aggregate investment in the Notes may not exceed 10% or more of the lender member's net worth; or
- Each individual lender member is a "small investor" who has not purchased, including the proposed purchase of the Note, more than $2,500 of Notes issued by Prosper in the 12 months preceding the proposed sale. A "small investor" means either an individual (including a husband and wife counted as a single person) or self-employed individual retirement plan of an individual or an individual retirement account of an individual.

Net worth is determined exclusive of home, home furnishings and automobiles and lender members may not value assets included in the computation of net worth at more than their fair market value.

### Lender Member Representations, Warranties and Liability

To become a lender member, investors must first execute a residency and suitability questionnaire and the lender registration agreement, under which lender members are required to represent and warrant, under penalty of perjury, that they are (1) residents of the State of California, (2) satisfy the applicable minimum financial suitability standards set forth above, and (3) if a corporation, partnership, trust or other form of business organization, were not organized for the specific purpose of acquiring the Notes, or if so organized, that all of the beneficial owners of the entity are residents of the State of California and satisfy the above suitability requirements. Lender members who fail to satisfy any such requirements will not be permitted to purchase Notes.

**Prosper is offering the Notes pursuant to an exemption provided by Section 3(a)(11) of the Securities Act of 1933 (the "Securities Act"), which only permits offers and sales to persons residing in a single state—the State of California. We will rely on your representations and warranties to us contained in the residency and suitability questionnaire and the lender registration agreement to ensure our compliance with the requirements of Section 3(a)(11) and the suitability requirements required by the California Department of Corporations. If you breach any of your representations and warranties to us, Prosper may lose the exemption provided by Section 3(a)(11) for all Notes sold on the platform to all lender members and you will be liable to Prosper for any damages caused by a breach of your representations and warranties, which likely will greatly exceed the purchase price of the Notes you have purchased.**

## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus. You should read the following summary together with the more detailed information appearing in this prospectus, including our financial statements and related notes, and the risk factors beginning on page 20, before deciding whether to purchase our Notes.*

Prosper provides a peer-to-peer online credit auction platform, which we refer to as our "platform," that enables its borrower members to borrow money, its financial institution members who own existing loans and retail installment sale contracts to list those loans and contracts for sale, and its lender members to purchase Notes issued by Prosper, the proceeds of which facilitate the funding or sale of specific loans made to borrowers.

### About the Platform

Our platform is an online auction-style marketplace that permits our lender members to bid on listings and purchase from Prosper Notes that are dependent for payment on payments we receive on the corresponding borrower loans described in the listing. Two types of listings appear on our platform: (1) listings posted by individual consumer members of Prosper requesting individual consumer loans, which we refer to as "Prosper borrower listings" and "Prosper borrower loans," respectively and (2) listings posted by financial institutions registered with Prosper setting forth the terms of existing loans and retail installment sale contracts owned by the financial institutions and offered for sale to Prosper, which we collectively refer to as "open market listings" and "open market loans," respectively. We refer to borrowers on both Prosper borrower loans and open market loans as "borrowers" and both Prosper borrower loans and open market loans as "borrower loans." We refer to the financial institutions, which may include commercial banks, savings banks, consumer finance companies and other types of financing entities, registered with Prosper and eligible to list open market loans for sale on our platform, as "loan sellers."

Each listing sets forth the desired loan amount, maximum offered interest rate and corresponding yield percentage, or the minimum sale price and corresponding yield percentage, and other information including but not limited to the Prosper Rating and estimated loss rate for the listing, debt-to-income ratio, and certain credit information from the borrower's credit report. Prosper borrower listings will show the borrower's numerical credit score range, as well as the borrower's self-reported annual income range, occupation and employment status, and the borrower's group affiliation, if any. Prosper borrower listings may include photos and the borrower's narrative description of why the loan is being requested, and of the borrower's financial situation. Open market listings set forth a description of the loan or conditional sale contract being offered for sale, including the collateral, if any, securing the borrower loan, and certain credit, income and employment information about the borrower. Prosper borrower members are identified by a Prosper screen name but are not able to disclose in listings their identity or contact information to lenders. Listings are displayed publicly on our platform, although certain information is only viewable by registered lender members.

Each listing will be assigned a proprietary credit rating by Prosper, referred to as the "Prosper Rating." The Prosper Rating is a letter that indicates the level of risk associated with a listing and corresponds to an estimated average annualized loss rate range for the listing. There are currently seven Prosper Ratings, represented by seven letter scores, but this, as well as the loss ranges associated with each, may change over time as the marketplace dictates. For Prosper borrower listings, the Prosper Rating will be derived from two scores: a consumer reporting agency score and an in-house custom score calculated using the historical performance of previous Prosper Inc. borrower loans with similar characteristics. We will use these two scores to determine an estimated loss rate for each listing, which correlates to a Prosper Rating. For open market listings, the loan seller will provide us with a loss rate on the type of loan being offered for sale, and we will translate the loss rate to a Prosper Rating. This new rating system allows Prosper to maintain consistency when assigning a rating to a listing regardless of loan seller, type of credit score used or type of loan being offered for sale. See "About the Platform" for more information.

***The Notes.*** Our lender members will have the opportunity to buy either of the following Notes issued by Prosper: (1) Prosper Borrower Payment Dependent Notes, which are dependent for payment on payments we receive on a Prosper borrower loan, which we refer to as "Prosper Borrower Notes" and (2) Open Market Borrower Payment Dependent Notes, which are dependent for payment on payments we receive on an open market loan, which we refer to as "Prosper Open Market Notes."

Lender members access our platform and, by bidding, make purchase commitments for Notes that are dependent for payment on payments we receive on the corresponding borrower loan for that series and the minimum yield percentage they are willing to receive. By making a bid on a listing, a lender member is committing to purchase from Prosper a Note in the principal amount of the lender's winning bid. The lender members who purchase the Notes will designate that the sale proceeds be applied to facilitate the funding or sale of the corresponding borrower loan listed on our platform. The Notes will be special, limited obligations of Prosper only and not obligations of any borrower.

The Notes are unsecured and holders of the Notes do not have a security interest in the corresponding borrower loans or the proceeds of those corresponding borrower loans—even though, in the case of open market loans, the corresponding open market loan may be secured by personal property. If Prosper were to become subject to a bankruptcy or similar proceeding, the holder of a Note would generally have a general unsecured claim against Prosper that may or may not be limited in recovery to such borrower payments. To limit the risk of Prosper's insolvency, Prosper will grant the trustee under the indenture for the Notes, referred to as the "indenture trustee," a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture. See "Risk Factors—Risks Related to Prosper, Our Platform and Our Ability to Service the Notes."

Prosper will pay principal and interest on each series of Notes in an amount equal to each such Note's *pro rata* portion of the principal and interest payments, if any, Prosper receives on the corresponding borrower loan, net of Prosper's servicing fee of 1% for Prosper Borrower Notes and 0.5% for Prosper Open Market Notes. In addition, the loan seller of open market loans charges a servicing fee, which is deducted from principal and interest payments it receives on the open market loans. Prosper will also pay to lender members any other amounts Prosper receives on each corresponding borrower loan, including late fees and prepayments, subject to the servicing fee, except that Prosper will not pay to lender members any non-sufficient funds fees for failed borrower payments or collection fees we, a loan seller or a third-party collection agency charge. In addition, late fees may be retained by the loan seller servicing the open market loan.

Under the lender member registration agreement, in the event of a material default under a series of Notes that is due to verifiable identity theft of the named borrower's identity, Prosper will repurchase the Notes from the lender members. In the event we breach any of our other representations and warranties in the lender member registration agreement, and such breach materially and adversely effects a series of Notes, we will either indemnify the lender members, repurchase that series of Notes or cure the breach. See "About the Platform—Prosper's Note Repurchase and Indemnification Obligations." See "About the Platform—Prosper's Note Repurchase and Indemnification Obligations."

***Prosper Borrower Loans.*** Our platform allows our borrower members to request loans by posting listings on the platform indicating a requested loan amount and the maximum interest rate they are willing to pay. All Prosper borrower loans are unsecured obligations of individual Prosper borrower members with a fixed interest rate and a loan term currently set at three years, which Prosper anticipates extending in the near future to between three months to seven years. All Prosper borrower loans will have specified minimum and maximum principal amounts (currently between $1,000 to $25,000). Lender members may access our platform and bid by indicating a minimum yield percentage that they are willing to accept. If at the end of the auction bidding period the listing receives bids totaling the loan amount requested by the borrower member, a loan will be made to the borrower at the interest rate determined from the auction bidding process.

All Prosper borrower loans made to California residents will be funded by Prosper, under its California Finance Lenders License, and all Prosper borrower loans made to non-California residents will be funded by WebBank, a Federal Deposit Insurance Corporation ("FDIC") insured, Utah-chartered industrial bank. After funding a loan to a non-California resident, WebBank sells and assigns the loan to Prosper, without recourse to WebBank, in exchange for the principal amount of the borrower loan. The final yield percentage determined from the auction bidding process is the interest rate that will be set forth in the Prosper Borrower Note corresponding to the Prosper borrower loan. WebBank has no obligation to purchasers of the Notes. For all Prosper borrower loans, Prosper verifies the borrower member's identity against data from consumer reporting agencies and other identity and anti-fraud verification databases. Prosper borrower listings are posted without our obtaining any documentation of the borrower's ability to afford the loan. In limited instances, we verify the income, employment, occupation or other information provided by Prosper borrower members in listings. This verification is normally done after the listing has been created and bidding has ended, but before the loan is funded, and therefore the results of our verification are not reflected in the Prosper borrower listings. Prosper borrower loans will be serviced by Prosper. As of December 31, 2008, 5,753 borrower loans originated by our parent had entered collection proceedings. Of these borrower loans, 27.5% have been greater than 15 days past due at any one time; 23.5% have been greater than 30 days past due at any one time; and borrower members under 277 borrower loans have failed to make a single payment. See "About the Platform."

***Open Market Loans.*** Our platform permits loan sellers to offer open market loans for sale by posting listings on the platform indicating an initial sale price of the loan and the yield percentage that corresponds to the sale price. Open market loans have a fixed interest rate, maturities of at least three months and may be unsecured or secured by personal property. Open market loans are existing loans that are owned by the loan seller that posted the listing, whether or not such loan seller originally made the loan. Open market loans may include existing consumer loans or retail installment sale contracts as well as small business loans, where the borrower is a business entity, not an individual (although one or more individuals may be a guarantor of the loan). Open market loans will be serviced, both before and after any default, by the loan seller. In servicing open market loans the loan seller is contractually obligated to use commercially reasonable efforts to service and collect the loans in accordance with industry standards customary for loans of the same general type and character as the open market loans.

Lender members may bid on open market listings by indicating a minimum yield percentage that they are willing to accept. The initial sale price set by the loan seller may be equal to, greater than or less than the outstanding balance of the open market loan listed for sale. Similarly, the initial yield percentage may be equal to, greater than or less than the interest rate the borrower is obligated to pay on the open market loan listed for sale. The sale price and the yield are inversely related. As the yield is bid down, the sale price for the loan will increase. Prosper's bidding algorithm will take this into account, so if the current yield on a listing decreases as a result of bidding by lender members, the sale price will increase to an amount sufficient to produce the new yield, and additional bids will be allowed in to be applied toward the incremental increase in the sale price.

At the close of the auction bidding period, if the listing receives bids totaling the sale price of the open market loan at the winning yield percentage, the loan seller sells and assigns the loan to Prosper, without recourse to the loan seller, in exchange for the sale price of the open market loan as determined by the auction bidding process. The final yield percentage determined from the auction bidding process is the interest rate that will be set forth in the Prosper Open Market Note corresponding to the open market loan described in the listing. Loan sellers offering open market loans for sale on the platform have no obligation to purchasers of the Notes. Prosper Open Market Notes are not obligations of the borrowers on the open market loans, or of the loan sellers offering to sell open market loans on the platform. We will not verify the information provided by loan sellers in open market listings but will represent and warrant to the holders of Prosper Open Market Notes that the loan seller has made commercially reasonable efforts to authenticate and verify the identity of the borrower under the corresponding open market loan. Prosper will also perform a due diligence review on each loan seller prior to permitting the loan seller to list open market loans for sale on the platform. See "About the Platform."

***Lender Member Portfolio Plans.*** Lender members may bid by creating a "portfolio plan" indicating the aggregate amount of funds to be bid on listings that meet specified criteria, including the maximum amount that may be bid on one listing, the type of listing, the minimum yield percentage the lender member is willing to receive and the specific borrower or loan criteria, such as the Prosper Rating, estimated loss rate, credit characteristics, group affiliation or debt-to-income ratio. Lender members may have more than one portfolio plan in place at once and may make manual bids while one or more portfolio plans are in place. See "About the Platform—How to Bid to Purchase Notes."

**Corporate Information**

We were incorporated in the State of California on April 3, 2009 and have not conducted operations prior to the date of this prospectus. We are a wholly-owned subsidiary of Prosper Marketplace, Inc., a Delaware corporation, which we refer to as "Prosper Inc." or our "parent," which was incorporated in the State of Delaware in March 2005 and operated our platform prior to our organization. Our principal executive offices are located at 111 Sutter Street, 22nd Floor, San Francisco, California 94104. Our telephone number at this location is (415) 593-5400. Our website address is *www.prosper.com.* The information contained on our website is not incorporated by reference into this prospectus.

Prior to our organization, Prosper Inc. operated our platform and facilitated the sale of promissory notes from February of 2006 until October 16, 2008. From October 16, 2008 until the date of this prospectus, Prosper Inc. did not offer lender members the opportunity to make any purchases on its platform. The operation of our platform during this period differed from the structure described in this prospectus, and Prosper Inc. did not offer Notes. Instead, it allowed lender members to purchase, and take assignment of, borrower loans directly. Under that structure the borrower loans were evidenced by individual promissory notes in the amount of each lender member's winning bid, which notes were thereafter sold and assigned to each lender member with a winning bid, subject to our right to service the borrower loans. In addition, Prosper Inc. previously assigned one of seven letter credit grades based on the borrower's credit score and displayed the borrower's credit grade in the listing posted on our platform. On the effective date of this prospectus, however, each listing will be assigned a Prosper Rating, which is not comparable to the credit grades previously assigned to listings by Prosper Inc. We have entered into an administration agreement with our parent under which Prosper Inc. has agreed to provide us with all services necessary to operate the platform and to fund our operations until we achieve profitability.

## THE OFFERING

| | |
|---|---|
| **Issuer** | Prosper Marketplace CA, Inc. |
| **Securities offered** | Prosper Borrower Payment Dependent Notes, or "Prosper Borrower Notes," issued in series, with each series dependent for payment on payments Prosper receives on a specific Prosper borrower loan.<br><br>Open Market Borrower Payment Dependent Notes, or "Prosper Open Market Notes," issued in series, with each series dependent for payment on a specific open market loan. The Prosper Open Market Notes and the Prosper Borrower Notes are collectively referred to as the "Notes." |
| **Offering price** | 100% of principal amount of each Note. |
| **Residents of California** | The offer and sale of the Notes is being made only to lender members who are a resident o the State of California. A lender member will only be considered a resident of the State of California, if at the time of the offer and sale of the Notes:<br>• if an individual, the lender member has his or her principal residence in the State of California; and<br>• if a corporation, partnership, trust or other form of business organization, the lender member has its principal office within State of California. |
| **Financial suitability** | Either (a) each individual lender member (a husband and wife are treated together as one lender member) must have an annual gross income of at least $75,000 during the last tax year and will have (based on a good faith estimate) a minimum gross income of $75,000 during the current tax year, or, in the alternative, have a minimum net worth of $200,000 and, in either case, a lender member's aggregate investment in the Notes may not exceed 10% of more of the lender member's net worth (exclusive of home, home furnishings and automobiles), or (b) each individual lender member is a "small investor" who has not purchased, including the proposed purchase of the Note, more than $2,500 of Notes issued by Prosper in the 12 months preceding the proposed sale. A "small investor" means either an individual (including a husband and wife counted as a single person) or self-employed individual retirement plan of an individual or an individual retirement account of an individual. |
| **Initial maturity date** | *Prosper Borrower Notes.* Maturities currently are for three years and match the maturity date of the corresponding Prosper borrower loan. Prosper anticipates in the near future extending available loan terms to between three months to seven years at which time the Prosper Borrower Notes will have terms between three months to seven years.<br><br>*Prosper Open Market Notes.* Open market loans have maturities of at least three months and match the remaining term of the corresponding open market loan. |
| **Final maturity date/ Extension of maturity date** | The final maturity date of each Note is the date that is one year after the initial maturity date. Each Note will mature on the initial maturity date, unless any principal or interest payments in respect of the corresponding borrower loan remain due and payable to Prosper upon the initial maturity date, in which case the maturity of the Note will be automatically extended to the final maturity date. If there are any amounts under the corresponding borrower loan still due and owing to us after the final maturity date, we will have no further obligation to make payments on the Notes of the series even if we receive payments on the corresponding borrower loan after the final maturity date. However, because we or the loan seller may, in our sole discretion and subject to our servicing standard, amend, modify, sell to a third-party debt purchaser or charge-off the borrower loan at any time after the 31st day of its delinquency, and we generally will charge-off a loan after it becomes more than 120 days past due, a borrower loan may never reach the final maturity date. |
| **Interest rate** | *Prosper Borrower Notes.* Each series of Prosper Borrower Notes will have a stated, fixed interest rate equal to its yield percentage determined through the auction bidding process, which is the interest rate for the corresponding borrower loan, net of servicing fees.<br><br>*Prosper Open Market Notes.* Each series of Prosper Open Market Notes will have a stated, fixed |

interest rate equal to its yield percentage determined through the auction bidding process, which is the interest rate for the corresponding borrower loan, net of servicing fees.

**Setting interest rate for Prosper Borrower Notes** ............ Interest rates vary among the Prosper Borrower Notes, but each series of Notes that corresponds to a single Prosper borrower loan will have the same interest rate. Interest rates borrowers pay and the interest rates set forth in Prosper Borrower Notes are determined in an auction format. Prosper borrower members list the maximum interest rate they are willing to pay. The listings also display the yield percentage, which is the lender member's effective yield, net of servicing fees. Lender members bid a minimum yield percentage they are willing to accept through the auction format discussed above. If by the end of the auction bidding period a listing receives purchase commitments in an aggregate amount equal to the corresponding Prosper borrower loan being requested, then the interest rate is fixed for the term of the Notes at the minimum yield percentage acceptable to all lender members who are the winning bidders for the Prosper Borrower Notes. To the extent there are multiple bids at the same yield percentage in an aggregate amount in excess of the requested loan amount, the bids placed earliest in time take precedence over later bids. The final yield percentage is determined at the end of a seven-day auction bidding period, but Prosper borrower members may elect to end the listing at any time after the listing receives bids totaling the requested loan amount. Prosper borrower members may also elect to forego the potential benefits of continued auction bidding and designate their listing for "automatic funding," in which case the bidding period will end automatically as soon as the listing receives bids totaling the amount requested in the listing, and the interest rate on the Prosper Borrower Notes will be fixed at the minimum yield percentage acceptable to all lender members who are winning bidders. See "About the Platform—How to Bid to Purchase Notes."

**Setting Interest Rate for Prosper Open Market Notes** ....... Interest rates vary among the Prosper Open Market Notes, but each series of Notes that corresponds to a single open market loan will have the same interest rate. Interest rates set forth in Prosper Open Market Notes are determined in an auction format. Loan sellers list the sale price for the open market loan and the yield percentage that corresponds to the sale price, the remaining principal balance of the loan and the interest rate the borrower is obligated to pay on the loan. The actual bidding process focuses on the projected "yield to maturity" of the remaining payments of the open market loan. Lender members bid a minimum yield percentage that they are willing to accept through the auction format discussed above. The final yield is the minimum yield for which there is sufficient participation among bidders to accommodate the final sale price at the end of the auction period. To the extent there are multiple bids at the same yield percentage in an aggregate amount in excess of the sale price, the bids placed earliest in time take precedence over later bids. As the yield is bid down, the sale price for the loan will increase. Prosper's bidding algorithm will take this into account, so as the current yield percentage on a listing decreases, the sale price will increase to an amount sufficient to produce the new yield percentage, and additional bids will be allowed in to be applied toward the incremental increase in the sale price. See "About the Platform—How to Bid to Purchase Notes."

**Payments on the Notes** ................ We will pay principal and interest on any Note a lender member purchases in an amount equal to the lender member's *pro rata* portion of the principal and interest payments, if any, we receive on the corresponding borrower loan, net of servicing fees and other charges. See "—Servicing Fees and Other Charges." Each Note will provide for monthly payments over a term equal to the corresponding borrower loan. On Prosper Borrower Notes the payment dates will fall on the sixth day after the due date for each installment of principal and interest on the corresponding borrower loan. On Prosper Open Market Notes the payment dates will fall on the sixteenth (16th) day of each month. See "Summary of Material Agreements—Indenture as Form of Notes" for more information.

**Prosper borrower loans** .............. Lender members will designate Prosper to apply the proceeds from the sale of each series of Prosper Borrower Notes to the purchase of a corresponding Prosper borrower loan of an individual consumer who is a Prosper borrower member.

Each Prosper borrower loan is a fully amortizing consumer loan made by either Prosper to individual Prosper borrower members that are California residents, or WebBank to individual Prosper borrower members that are non-California residents. Prosper borrower loans currently have a term of three years, but Prosper anticipates in the near future extending available loan terms to between three months to seven years. Prosper borrower members may request loans within specified minimum and maximum principal amounts (currently between $1,000 and $25,000), which are subject to change from time to time. WebBank subsequently assigns the borrower loans made by WebBank to Prosper without recourse to WebBank in exchange for the principal amount of the borrower loan. Prosper borrower loans are repayable in monthly installments and are unsecured and unsubordinated. Prosper borrower loans may be repaid at any time by Prosper borrower members without prepayment penalty. Prosper verifies the borrower member's identity against data from consumer reporting agencies and other identity and anti-fraud verification databases. Prosper borrower listings are posted without our obtaining any documentation of the borrower member's ability to afford the loan. In limited instances, we verify the income, employment, occupation or other information provided by Prosper borrower members in listings. This verification is normally done after the listing has been created and bidding has ended, but before the loan has funded, and therefore the results of our verification are not reflected in the listings. Prosper is responsible for servicing the Prosper borrower loans. See "About the Platform" for more information.

**Open market loans**...................... Lender members will designate Prosper to apply the proceeds from the sale of each series of Prosper Open Market Notes to the purchase of a corresponding open market loan listed for sale on our platform.

Open market loans described in open market listings are existing loans that are owned by the loan seller that posted the listing, whether or not such loan seller originally made the loan, and may include secured or unsecured loans, but may not include real estate secured loans at this time. Open market loans may include existing consumer loans or retail installment sale contracts as well as small business loans, where the borrower is a business entity, not an individual (although one or more individuals may be a guarantor of the loan). Once approved by Prosper, loan sellers can offer to sell loans involving borrowers of any level of creditworthiness, including non-prime and sub-prime borrowers. All open market loans listed on the platform must be current and have fixed (as opposed to adjustable) interest rates, and have maturities of three months or more. Open market loans may have outstanding principal amounts in excess of the maximum amount a borrower member may request on the platform, and may be repayable more or less frequently than monthly, and may or may not allow the borrower to prepay the loan without prepayment penalty. All open market loans are sold and assigned by the loan seller to Prosper, without recourse to the loan seller, at the end of the auction bidding period, if successful, at which time the proceeds of the sale of the open market loan from the loan seller to Prosper are paid to the loan seller. The loan seller does not retain any interests in the open market loan other than the right to service the open market loans. Open market loans will be serviced, both before and after default, by the loan seller (although our loan purchase agreement with the loan seller may provide that we have the right, in our discretion, to take over servicing in the event of the loan seller's default on its servicing obligations). In servicing borrower loans the loan seller will use commercially reasonable efforts to service and collect the borrower loans in accordance with industry standards customary for loans of the same general type and character as the borrower loans. The loan seller is obligated to forward to Prosper any principal and interest payments, including prepayments, it receives on open market loans, except that non-sufficient funds fees or collection fees will be retained by the loan seller as additional servicing compensation, and late fees may be retained by the loan seller. See "About the Platform" for more information.

**Security Interest—Ranking**........ The Notes will not be contractually senior or contractually subordinated to any other indebtedness of Prosper. All Notes will be unsecured special, limited obligations of Prosper. The Notes do not restrict Prosper's incurrence of other indebtedness or the grant or imposition of liens or security interests on the assets of Prosper and holders of the Notes do not have a security interest in the corresponding borrower loan or the proceeds of that loan. In addition, Prosper Open Market Notes will not be secured by any collateral, even though the corresponding open market loan may be secured by personal property. Any security interest under an open market loan will be held by Prosper. In the event of a default under an open market loan, the loan seller, as servicer, would have the right to foreclose on the collateral securing the open market loan and is obligated to forward any proceeds from its collection efforts to Prosper, net of servicing fees and other charges. The holders of the Prosper Open Market Notes do not have the right to take any action

| | |
|---|---|
| | under the security interest or to require that Prosper or the loan seller take such action. See "About the Platform—Loan Servicing and Collection." |
| | In the event of a bankruptcy or similar proceeding of Prosper, the relative rights of a holder of a Note, as compared to the holders of unsecured indebtedness of Prosper are uncertain. To limit the risk of Prosper's insolvency, Prosper will grant the indenture trustee a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture. Only the indenture trustee, not the holders of the Notes, will have a security interest in the above collateral. See "Risk Factors—Risks Related to Prosper, Our Platform and Our Ability to Service the Notes" for more information. |
| **Servicing fees and Other Charges** ....................................... | We receive a servicing fee equal to an annualized rate of 1.0% for Prosper Borrower Notes, and 0.5% for Prosper Open Market Notes, of the outstanding principal balance of the corresponding borrower loan, which we deduct from each lender member's share of the borrower loan payments. In addition, the loan seller of the open market loans charges a servicing fee at an annualized rate, which will vary depending on the particular loan seller and loan type, but in all instances will be added to Prosper's servicing fee and the total servicing fee will be deducted from principal and interest payments received on the open market loan. Listings set forth the servicing fee charged by Prosper and, if applicable, the loan seller. Because servicing fees reduce the effective yield to lenders, the yield percentage displayed in listings, which is the rate lenders must bid, is net of servicing fees.<br><br>Any non-sufficient fund fees charged to a borrower's account will be retained by Prosper or the loan seller as additional servicing compensation. If a borrower loan enters collection, we, the loan seller or the collection agency will charge a collection fee of between 15% and 30% of any amounts that are obtained, in addition to any legal fees incurred in the collection effort. The collection fee will vary dependent upon the collection agency used. The collection fees charged by the various collection agencies can be accessed through a hyperlink on the bidding page on our platform. These fees will correspondingly reduce the amounts of any payments lender members receive on the Notes and are not reflected in the yield percentage displayed in listings.<br><br>We will pay you any late fees we receive on Prosper borrower loans. Late fees received by loan sellers on open market loans may be retained by the loan seller servicing the open market loan, depending on the particular loan seller's servicing guidelines, which will be set forth in the description of the loan seller displayed on the Prosper website. |
| **Use of proceeds**............................ | We will use the proceeds of each series of Notes to purchase the corresponding borrower loan obtained by the Prosper borrower member or sold by a loan seller on our platform. |
| **Electronic form and transferability**.............................. | The Notes will be issued in electronic form only and will not be listed on any securities exchange. The Notes will not be transferable. Therefore, lender members must be prepared to hold their Notes to maturity. |
| **U.S. federal income tax consequences** ............................... | Although the matter is not free from doubt, we intend to treat the Notes as our debt instruments that have original issue discount ("OID") for U.S. federal income tax purposes. Accordingly, if you hold a Note, you will be required to include OID currently as ordinary interest income for U.S. federal income tax purposes (which may be in advance of interest payments on the Note) if the Note has a maturity date of more than one year, regardless of your regular method of tax accounting. If the Note has a maturity of one year or less, if you are a cash-method taxpayer, in general, you will not have to include OID currently in income on your Note unless you elect to do so, and if you are an accrual-method taxpayer, in general, you will have to include OID currently in income on your Note. You should consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes). See "Material U.S. Federal Income Tax Considerations" for more information. |

## QUESTIONS AND ANSWERS

**Q: Who is Prosper?**

**A:** Prosper provides a peer-to-peer online credit auction platform that enables its borrower members to borrow money, its loan seller members to sell open market loans, and its lender members to purchase Notes issued by Prosper, the proceeds of which facilitate the funding or sale of specific loans made to borrowers.

**Q: What is our platform?**

**A:** Our platform is an online auction-style marketplace that permits our lender members to bid on listings and purchase from Prosper Notes that are dependent for payment on payments we receive on the corresponding borrower loans described in the listings. Two types of listings appear on our platform: (1) listings posted by individual consumer members of Prosper requesting individual consumer loans, which we refer to as "Prosper borrower listings" and "Prosper borrower loans," respectively; and (2) listings posted by financial institutions registered with Prosper setting forth the terms of existing loans and retail installment sale contracts owned by the financial institutions and offered for sale to Prosper, which we collectively refer to as "open market listings" and "open market loans," respectively. We refer to the financial institutions, which may include commercial banks, savings banks, consumer finance companies and other types of financing entities, registered with Prosper and eligible to list open market loans for sale on our platform, as "loan sellers." Each listing sets forth the desired loan amount or sale price, borrower interest rate, yield percentage, and other information including but not limited to the Prosper Rating and estimated loss rate for the listing, debt-to-income ratio, and certain credit information from the borrower's credit report. Prosper borrower listings will show the borrower's numerical credit score range, as well as the borrower's self-reported annual income range, occupation and employment status, and the borrower's group affiliation, if any. Open market listings set forth a description of the loan or conditional sale contract being offered for sale, including the collateral, if any, securing the borrower loan, and certain credit, income and employment information about the borrower. Prosper borrower members are identified by a Prosper screen name but are not able to disclose in listings their identity or contact information to lenders. Listings are displayed publicly on our platform, although certain information is only viewable by registered lender members.

**Q: Who is WebBank?**

**A:** WebBank is an FDIC-insured Utah-chartered industrial bank that is authorized or permitted to make loans in the states where Prosper borrower members reside, and makes all Prosper borrower loans to non-California residents originated through our platform. All Prosper borrower loans made to California residents originated through our platform will be funded by Prosper, under our California Finance Lenders License

**Q: Who are loan sellers?**

**A:** We refer to the financial institutions, which may include commercial banks, savings banks, consumer finance companies and other types of financing entities, registered with Prosper and eligible to list open market loans for sale on our platform, as "loan sellers." All loan sellers are incorporated in California and conduct the principal amount of their business in California.

**Q: What is a Prosper borrower listing?**

**A:** A Prosper borrower listing is a request by a Prosper borrower member for a Prosper borrower loan in a specified amount, at an interest rate equal to the maximum interest rate set forth in the listing, and the yield percentage, which is the lender member's effective yield, net of servicing fees. In addition to the Prosper borrower's requested loan amount and maximum interest rate, listings will show the Prosper Rating and estimated loss rate for the listing, and will also show the borrower's numerical credit score range, as well as the debt-to-income ratio, summary information from the borrower's credit report, and self-reported occupation, employment status and range of income, and may include photos and the borrower's narrative description of why the loan is being requested, and of the borrower's financial situation. Prosper borrower listings may also contain questions asked by lender members about the listing and the borrower member's response to the questions. Prosper borrower listings may only be created by individuals registered as borrowers on our platform. Prosper borrower listings are displayed publicly on our platform, although certain information is only viewable by registered lender members. The specific numerical credit score received from the credit reporting agency is not displayed or disclosed to anyone (including the borrower).

**Q: What is an open market listing?**

**A:** An open market listing is a listing posted by a loan seller on our platform that describes an existing loan or conditional sale contract owned by the loan seller upon which a series of Prosper Open Market Notes will be dependent for payment. Open market listings display the sale price for the open market loan, the yield percentage that corresponds to the sale price, the remaining principal balance of the loan and the interest rate the borrower is obligated to pay on the loan. The listing will describe the open market loan being offered for sale, including the name of the loan seller, the loan type, the origination date, remaining loan term, payment frequency and payment amount. Listings in the open market will also show the Prosper Rating and estimated loss rate for the listing, and the borrower's credit score range and credit, employment and income attributes at origination, if available and as provided by the loan seller. The borrower's current credit score range may also be displayed. The Prosper Rating in open market listings is based on the estimated loan loss rate as of the time the open market loan was originated and is provided by the loan seller. The loan seller's estimated loss rate is based on the historical performance of loans with similar characteristics. In addition, open market listings set forth the servicing fee payable to the loan seller and to Prosper under the loan. Finally, the open market listing will contain information regarding the status of the loan, including the current balance, a history of timeliness of payments to date and maturity date for the loan. Open market listings are formatted into a listing similar in design to Prosper borrower listings, but with additional information that will make these listings easily identifiable.

**Q: How do open market listings differ from Prosper borrower listings?**

**A:** Open market loans have been underwritten by the credit standards of the loan seller, and all borrower information set forth in the open market listing, including the expected loss rates, are supplied by the loan seller to Prosper. We do not verify the information provided by loan sellers in open market listings, including the identity of the borrower, but represent and warrant to the holders of Prosper Open Market Notes that the loan seller has made commercially reasonable efforts to authenticate and verify the identity of the borrower under the corresponding open market loan.

On open market listings, the Prosper Rating and credit details of the borrower represent the borrower's credit as of the time the open market loan was originated, not at the time the open market listing is posted on our platform. Accordingly, much of the borrower's credit information could be outdated, although the borrower's current credit score range at the time of the listing may be displayed in certain open market listings.

In determining the Prosper Rating for open market loans, Prosper will rely on projected loss rates supplied by the loan seller. Prosper believes that the loan sellers will likely have a sufficient loan repayment history to make meaningful estimated loss projections. If they do not, the loan seller will determine a projected loss rate using historical loss rates for credit obligations similar to the loan being offered for sale, based on comparable portfolios or from nationwide loss rate information from consumer reporting agencies.

**Q: What are Prosper borrower loans?**

**A:** Prosper borrower loans are unsecured obligations of individual borrower members with an interest rate determined in an auction format. Prosper borrower loans currently have a term of three years, but Prosper anticipates in the near future extending available loan terms to between three months to seven years. Each Prosper borrower loan made to a non-California resident is originated through our platform, funded by WebBank and sold and assigned to Prosper after it is made in exchange for the principal amount of the corresponding borrower loan. All Prosper borrower loans made to California residents will be funded by Prosper, under its California Finance Lenders License. Prosper borrower members may request loans within specified minimum and maximum principal amounts, currently between $1,000 and $25,000. Prosper borrower loans are repayable in monthly installments and are unsecured and unsubordinated. Prosper borrower loans may be repaid at any time by Prosper borrower members without prepayment penalty. A Prosper borrower loan will be made to a borrower member only if the borrower's listing has received bids totaling the full amount of the requested loan.

**Q: What are open market loans?**

**A:** Open market loans described in open market listings are existing loans that are owned by the loan seller that posted the listing, whether or not such loan seller originally made the loan, and may include secured or unsecured loans. Open market loans may include existing consumer loans or retail installment sale contracts as well as small business loans, where the borrower is a business entity, not an individual (although one or more individuals may be a guarantor of the loan). Once approved by Prosper, loan sellers can offer to sell loans involving borrowers of any level of creditworthiness, including non-prime and sub-prime borrowers. All open market loans listed on the platform must be current and must have fixed (as opposed to adjustable) interest rates, and must have maturities of three months or more. Open market loans may include secured or unsecured loans, but may not include real estate secured loans at this time. Open market loans may have outstanding principal amounts in excess of the maximum amount a borrower member may request on the platform, and may be repayable more or less frequently than monthly, and may or may not allow the borrower to prepay the loan without prepayment penalty. Each open market loan will have a fixed interest rate and maturities of at least three months. All open market loans are sold and assigned by the loan seller to Prosper, without recourse to the loan seller, at the end of the auction bidding period, if successful. Open market loans will be serviced, both before and after default, by the loan seller. Our loan purchase agreement with the loan seller may provide that we have the right, in our discretion, to take over servicing in the event of the loan seller's default on its servicing obligations.

**Q: Do lender members make loans directly to Prosper borrower members or purchase open market loans directly from loan sellers?**

**A:** No. Lender members do not make loans directly to Prosper borrower members or purchase open market loans directly from loan sellers. Instead, lender members purchase Notes issued by Prosper, the proceeds of which are designated by the lender members who purchase the Notes to facilitate the funding or sale of the borrower loan described in the listing. We use all proceeds we receive from issuances of the Notes to purchase the corresponding borrower loans. Even though lender members do not make loans directly to Prosper borrower members, or purchase loans directly from loan sellers, the lender members will nevertheless be wholly dependent on the borrowers for repayment of the Notes. If a borrower defaults on the payment obligations under the borrower loan, Prosper will not have any obligation to make payments to the holders of Notes dependent for payment on that borrower loan.

**Q: Who are our lender members?**

**A:** Our lender members are individuals and institutions that have the opportunity to buy our Notes. Lender members must be residents of California and satisfy certain financial suitability requirements. See "Suitability Requirements." Lender members must register on our website. During lender registration, potential lender members must agree to a credit profile authorization statement for identification purposes, a tax withholding statement and the terms and conditions of the Prosper website, and must enter into a residency and suitability questionnaire and a lender member registration agreement with Prosper, which will govern the terms under which a lender member may purchase Notes from Prosper.

**Q: What is a bid?**

**A:** A bid on a listing is a lender member's commitment to purchase a Note in the principal amount of the lender member's bid. A borrower loan will be made or purchased if the listing has received bids totaling the full amount of the requested loan or sale price. Lender members "bid" the amount they are willing to commit to the purchase of a Note that is dependent for payment on payments we receive on the borrower loan described in the listing, and the minimum yield percentage the lender member is to receive. The yield percentage displayed in listings is the lender member's effective yield, net of servicing fees. Lenders must have funds in the amount of the bid in the Lender member's funding account at the time the bid is made. Currently, a bid may be between $50 and the full amount of the requested loan amount or sale price described in the listing. Once a bid is placed, it is irrevocable, and during the time a bid is a "winning" bid on the listing, the amount of the bid is not permitted to be withdrawn from the lender member's funding account. Lender member bids become "winning" bids if such bids are in the group of bids for Notes that, in an aggregate, correspond to the requested loan amount or sale price of the corresponding borrower loan and are in the lowest yield percentage among all bids placed against the listing.

To the extent there are multiple bids at the same yield percentage in an aggregate amount in excess of the requested loan amount or sale price, the bids placed earliest in time take precedence over later bids. When the total amount of all bids placed in the auction equals or exceeds the requested loan amount or initial sale price, further bids have to be placed at least 0.05% below the current winning yield percentage. It is possible that only a portion of a lender member's bid is winning on a listing. Depending on the amount of the winning bids at the end of the auction period, there may be a winning bidder on a listing with a winning bid of less than $50. There may be only one partial winning bidder.

**Q: How are interest rates and payments calculated on the Notes?**

**A:** The interest rate on a Borrower Payment Dependent Note is the rate determined by our platform's auction bidding system for the borrower loan that corresponds to the Note. The interest rate on a Prosper borrower loan is the minimum yield percentage for which there is sufficient participation among bidders, at the end of the auction period, to accommodate the requested loan amount set forth in the listing. The final yield percentage determined from the auction bidding process on a listing is the interest rate that will be set forth in the Note corresponding to the borrower loan described in the listing. The interest rate on a Prosper open market loan is the minimum yield for which there is sufficient participation among bidders to accommodate the final sale price at the end of the auction period. Payments are in an amount sufficient to amortize the Note amount over the term of the Note at the interest rate set forth in the Note.

**Q: What is a Portfolio Plan?**

**A:** Lender members may bid by creating a "portfolio plan" indicating the aggregate amount of funds to be bid on listings that meet specified criteria, including the maximum amount that may be bid on one listing, the minimum yield percentage the lender member is willing to receive and the specific borrower or loan criteria such as the Prosper Rating, estimated loss rate or credit score range of borrowers, credit, income and employment characteristics, group affiliations or debt-to-income ratio. Lender members may have more than one portfolio plan in place at once and may make manual bids while one or more portfolio plans are in place.

**Q: How does the bidding process work for Prosper borrower listings?**

A: A bid on a Prosper borrower listing is a lender member's binding commitment to purchase a Prosper Borrower Payment Dependent Note in the principal amount of the lender member's bid, should the listing receive bids totaling the full amount of the requested loan. Lender members bid the amount they are willing to commit to purchase a Prosper Borrower Note dependent for payment on payments we receive on a borrower loan described in the listing, and the minimum yield percentage they are willing to receive. A Prosper borrower loan will be not made unless the listing has received bids totaling the full amount of the requested borrower loan. Servicing fees will reduce the effective yield on Prosper borrower loans below the interest rate the borrower member pays on the Prosper borrower loan. The final yield percentage determined from the auction bidding process on a Prosper borrower listing is the interest rate that will be set forth in the Prosper Borrower Payment Dependent Note corresponding to the borrower loan requested in the Prosper borrower listing.

**Q: How does the bidding process differ for open market listings?**

**A:** The bidding process for open market listings focuses on the projected "yield to maturity" of the remaining payments of the loan. The loan seller offering the loan for sale sets an initial sale price and an initial yield percentage. The yield percentage is calculated as the internal rate of return of the anticipated cash flows, net of servicing fees assessed by Prosper and the loan seller, assuming all loan payments are made as scheduled. The initial sale price may be equal to, greater than or less than the outstanding balance of the loan being offered for sale. Similarly, the initial yield percentage may be equal to, greater than or less than the interest rate the borrower is obligated to pay on the open market loan being offered for sale. The sale price and the yield percentage are inversely related. An open market loan sold at a higher price than the outstanding principal balance will result in a yield percentage lower than the borrower's interest rate and means the loan was sold at a premium. An open market loan sold at a lower price than the outstanding principal balance will result in a yield percentage higher than the borrower's interest rate (provided the lower price is low enough to offset the effect of the reduction in the effective yield resulting from the assessment of servicing fees) and means the loan was sold at a discount.

Lender members bid a minimum yield percentage that they are willing to accept. The current yield percentage as set forth in an open market listing at any given time during the duration of the listing is the minimum yield percentage for which there is sufficient participation among bidders to accommodate any corresponding increase in the sale price. The final yield percentage is the minimum yield percentage for which there is sufficient participation among bidders to accommodate the final sale price at the end of the auction period. To the extent there are multiple bids at the same yield percentage in an aggregate amount in excess of the sale price, the bids placed earliest in time take precedence over later bids. As the yield percentage is bid down, the sale price for the loan will increase. Prosper's bidding algorithm will take this into account, so as the current yield on a listing decreases, the sale price will increase to an amount sufficient to produce the new yield percentage, and additional bids will be allowed in to be applied toward the incremental increase in the sale price.

When bidding commences on the listing, a lender member may place a bid by specifying an amount to invest and the lowest estimated yield percentage the lender member is willing to receive. If the total amount of all bids placed is less than the initial sale price, new bids can be placed at or below the initial yield percentage. If the listing receives sufficient bids to match the sale price of a loan at the winning yield percentage prior to the end of the auction, once ended, Prosper will purchase that loan from the listing loan seller. The final yield percentage determined from the auction bidding process on an open market listing is the interest rate that will be set forth in the Prosper Open Market Note corresponding to the open market loan described in the listing.

**Q: What are our Prosper Borrower Payment Dependent Notes?**

**A:** Our lender members may purchase Prosper Borrower Payment Dependent Notes, or "Prosper Borrower Notes," from Prosper. We will issue the Prosper Borrower Notes in a series, with each series dependent for payment on payments we receive on a specific Prosper borrower loan. The proceeds of each series of Notes are used to purchase the corresponding Prosper borrower loan upon which that series of Notes is dependent for payment. Each series of Prosper Borrower Notes will have a stated interest rate equal to the final yield percentage as determined from the auction bidding process. The interest rate on the Note will be lower than the interest rate on the corresponding Prosper borrower loan because the yield percentage takes into account Prosper's servicing fees for servicing the corresponding Prosper borrower loan. We will pay principal and interest on any Prosper Borrower Note in an amount equal to your pro rata portion of the principal and interest payments, if any, we receive on the corresponding Prosper borrower loan, net of our servicing fee of 1.0%. We will also pay you any other amounts we receive on the Prosper borrower loans, including late fees and prepayments, subject to our servicing fee, if any, except that we will not pay you any non-sufficient funds fees or collection fees we or a third-party collection agency charge. The Prosper Borrower Notes are special, limited obligations of Prosper only and not the borrowers. The Prosper Borrower Notes will be unsecured and do not represent an ownership interest in the corresponding borrower loans.

**Q: What are our Open Market Borrower Payment Dependents Notes?**

**A:** Our lender members may purchase Open Market Borrower Payment Dependent Notes, or "Prosper Open Market Notes," from Prosper. We will issue the Prosper Open Market Notes in a series, with each series dependent for payment on payments we receive on a specific open market loan. The proceeds of each series of Prosper Open Market Notes are used to purchase the corresponding open market loan upon which that series of Notes is dependent for payment. Each series of Prosper Open Market Notes will have a stated interest rate equal to the final yield percentage as determined from the auction bidding process, which may be higher than or lower than the interest rate of the corresponding open market loan. We will pay principal and interest on any Prosper Open Market Note in an amount equal to your pro rata portion of the principal and interest payments, if any, we receive on the corresponding open market loan, net of our servicing fee of 0.5% and the servicing fee charged by the loan seller servicing the open market loans. Servicing fees are deducted from principal and interest payments received on the open market loans. We will also pay you any other amounts we receive from the loan seller on the open market loans, including late fees, if not retained by the loan seller, and prepayments, subject to servicing fees, except that we will not pay you any non-sufficient funds fees or collection fees we, the loan seller or a third-party collection agency charge. The Notes are special, limited obligations of Prosper only and not the borrowers. The Notes will be unsecured and do not represent an ownership interest in the corresponding borrower loans.

**Q: What are the material differences between Prosper Borrower Notes and Prosper Open Market Notes?**

**A:** Prosper Borrower Notes are dependent for payment on a Prosper borrower loan, whereas Prosper Open Market Notes are dependent for payment on an open market loan. Prosper borrower loans are loans originated through our platform to a Prosper borrower member that get funded after the bidding auction period ends, whereas open market loans are loans that already exist and are being offered for sale on the platform. All open market loans must be current and must have fixed (as opposed to adjustable) interest rates, and must have maturities of three months or more. Open market loans may include secured or unsecured loans, but may not include real estate secured loans at this time. Because open market loans have already been funded and in most instances will have one or more payments made on the loan, as compared to Prosper Borrower Notes, Prosper Open Market Notes may have a significantly lower risk of identity theft or early payment default.

Unlike Prosper borrower loans, open market loans listed on our platform may be secured. Although the open market loan upon which a Open Market Note is dependent for payment may be secured by personal property, the Prosper Open Market Notes will still be an unsecured obligation of Prosper. The loan seller is obligated to forward to Prosper any amounts it receives on the open market loan, including net amounts received upon the sale of the collateral securing an open market loan, subject to its servicing fees. The holders of the Prosper Open Market Notes, however, do not have any right to enforce the security interest themselves or to require that the loan seller do so. Any recoveries based on the liquidation of the collateral by the loan seller, will likely limit your losses in the event of borrower default.

Open market loans will be serviced, both before and after default, by the loan seller, although our loan purchase agreement with the loan seller may provide that we have the right, in our discretion, to take over servicing in the event of the loan seller's default on its servicing obligations. Prosper borrower loans will be serviced, both before and after default, by Prosper.

In addition to the above information, the holders of Prosper Open Market Notes may be exposed to risks different than those experienced by holders of Prosper Borrower Notes. See "Risk Factors—Additional Risks for Prosper Open Market Notes." for more information.

**Q: How are the Notes being offered?**

**A:** We are offering the Notes directly to lender members only through our website for a purchase price of 100% of the principal amount of the Notes. We are not using any underwriters, and there will be no underwriting discounts.

**Q: Will I receive a certificate for my Notes?**

**A:** No. The Notes are issued only in electronic form. This means that each Note will be stored on our website. You can view a record of the Notes you own and the form of your Notes online and print copies for your records by visiting your secure, password-protected webpage in the "My Account" section of our website.

**Q: Will the Notes be listed on an exchange?**

**A:** No. The notes will not be listed on any securities exchange.

**Q: Will I be able to sell my Notes?**

**A:** The Notes will not be transferable. Therefore, lender members must be prepared to hold their Notes to maturity.

**Q: Who are Prosper borrower members?**

**A:** Any natural person at least 18 years of age who is a U.S. resident in a state where loans through the platform are available, with a bank account and a social security number that has registered with Prosper and passed our anti-fraud and identity verification process may be a Prosper borrower member. Prosper currently allows Prosper borrower members to post listings on our platform regardless of their income. Prosper reserves the right to restrict access to our platform by setting minimum credit or other guidelines for borrowers. Currently, a borrower must have a credit score of at least 640 (before October 16, 2008, the minimum for Prosper Inc. was 520) in order to post a listing on our platform, except that the minimum is 600 for borrower members who (1) had previously obtained a Prosper loan or loan through our parent and paid off the loan in full, or (2) are seeking a second loan and otherwise eligible for a second loan. In the future, Prosper may allow borrowers with a credit score below 640 to post listings and obtain Prosper borrower as long as bids are made primarily from friends and family.

**Q: Does Prosper verify the listing information provided by Prosper borrower members?**

**A:** When a borrower registers on our platform, we obtain his or her social security number, state driver's license or state identification card number and bank account information in an effort to verify the borrower's identity against data from consumer reporting agencies and other identity and anti-fraud verification databases. Except for our verification of the Prosper borrower member's identity, Prosper borrower listings are posted without our obtaining any documentation of the borrower's ability to afford the loan. In limited instances, we verify the income, employment, occupation or other information provided by Prosper borrower members in listings. This verification is normally done after the listing has been created and bidding has ended, but before the loan is funded, and therefore the results of our verification are not reflected in the Prosper borrower listings.

**Q: Does Prosper verify the listing information provided by loan sellers for open market loans?**

**A:** The information in open market listings describing the borrower loan for sale is provided by the loan seller and is not verified by Prosper. Prosper represents and warrants to the holders of each series of Notes, that the loan seller has made commercially reasonable efforts to authenticate and verify the identity of the borrower under the corresponding open market loan upon which a series of Notes is dependent for payment.

**Q: Are the Notes secured by any collateral?**

**A:** No. All Notes will be unsecured special, limited obligations of Prosper. The Notes do not restrict Prosper's incurrence of other indebtedness or the grant or imposition of liens or security interests on the assets of Prosper and holders of the Notes do not have a security interest in the corresponding borrower loan or the proceeds of that loan. In addition, Prosper Open Market Notes will not be secured by any collateral, even if the corresponding open market loan is secured by personal property. Any security interest under an open market loan will be held by Prosper. In its master purchase agreement with Prosper, the loan seller will represent and warrant to Prosper that it has perfected its right to the collateral under a secured open market loan listed for sale on our platform. In the event of a default under an open market loan, the loan seller, as servicer, would have the right to foreclose on the collateral securing the open market loan and is obligated to forward any proceeds from its collection efforts to Prosper, net of servicing fees and other charges. The holders of the Prosper Open Market Notes do not have the right to take any action under the security interest or to require that Prosper or the loan seller take such action.

To limit the risk of Prosper's insolvency, Prosper will grant the indenture trustee a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture. Only the indenture trustee, not the holders of the Notes, will have a secured claim to the above collateral.

**Q: Who can be a lender member and place bids on our platform?**

**A:** Any natural person at least 18 years of age who is a California resident with a bank account and a social security number who meets the financial suitability requirements or an institution with its principal office in California with a taxpayer identification number can be a lender member and place bids on our platform. In order to bid on a listing, a lender member must have funds on deposit in a Prosper funding account in at least the amount of the lender member's bid.

**Q: Can any person list open market loans for sale on our platform?**

**A:** No. Prior to approving a loan seller to list loans for sale, Prosper undertakes a due diligence process of the candidate institution. Our objective is to confirm that the information provided by the loan seller will accurately describe the loan being listed for sale, and to establish service level agreements and reports to monitor critical processes on an ongoing basis. This monitoring process includes both monthly reports and periodic on-site audits. During this process we review the credit quality, underwriting and loss expectation of the open market loans. We also review the loan seller's processes with respect to loan origination, chain of title, documentation, balance calculation, record keeping system, servicing and collections, dispute resolution and end-of-loan procedures. A description of the loan seller is posted on the Prosper website for lender members to review. See "About the Platform—Platform Listings." Additional status information will be posted on the Prosper website periodically so that lender members can monitor the performance of open market loans sold by particular loan sellers. The same information regarding the loan seller would appear for both loan sellers that originated the open market loans being offered for sale, and loan sellers that as aggregators of loans originated by other lenders.

**Q: Does Prosper or WebBank participate in the platform as a lender member?**

**A:** No, neither Prosper nor WebBank participates in our platform as a lender member. The directors or executive officers of Prosper have in the past and may in the future participate in their individual capacities as lender members on our platform. WebBank is the originating lender on all Prosper borrower loans made to non-California residents through our platform, and then sells and assigns the Prosper borrower loans to Prosper. Prosper is the originating lender on all Prosper borrower loans made to California residents.

**Q: Do lender members need to be licensed as a consumer lender or finance company?**

**A:** Our platform is designed and structured in a manner such that the activities performed by lender members on our platform do not trigger state lending or finance company licensing requirements. States that have lending or finance company licensing laws normally require a lending license for persons who engage in the business of making loans. All Prosper borrower loans made to California residents originated on our platform are made by Prosper from Prosper's own funds under its California Finance Lenders License, and Prosper is the named lender on all promissory notes representing Prosper borrower loans. All Prosper borrower loans made to non-California residents are made by WebBank from WebBank's own funds, and WebBank is the named lender on all promissory notes representing Prosper borrower loans. Prosper performs its identity and anti-fraud verification process on all Prosper borrower loans and services the Prosper borrower loans. WebBank is the originating lender and has authority to make Prosper borrower loans in all states except California where loans through the platform are available. Persons who register as lender members do not lend money, but rather purchase Notes issued by Prosper. The proceeds of the sale of Notes are not disbursed to borrowers. See "Government Regulation—Regulation and Consumer Protection Laws" for more information and "Risk Factors—Risks Inherent in Investing in the Notes" for more information.

**Q: Can Prosper borrower members have more than one loan outstanding at any one time?**

**A:** Yes. Prosper borrower members may have up to two Prosper borrower loans originated through the platform outstanding at any one time, provided that the aggregate outstanding principal balance of both Prosper borrower loans does not exceed the then-current maximum allowable loan amount for Prosper borrower loans (currently $25,000). Currently, to be eligible to obtain a second Prosper borrower loan while an existing loan is outstanding, the Prosper borrower member must satisfy additional criteria. See "About the Platform—Platform Participants, Registration Requirements and Minimum Credit Criteria," for more information.

**Q: How much money can lender members bid on our platform?**

**A:** Our platform currently allows lender members to bid as little as $50 and as much as the full amount of any particular listing, up to an aggregate amount of $5,000,000 for individuals and $50,000,000 for institutions.

**Q: What is a Prosper Rating?**

**A:** Each listing will be assigned a proprietary credit rating by Prosper, referred to as the Prosper Rating. The Prosper Rating is a letter that indicates the level of risk associated with a listing and corresponds to an estimated average annualized loss rate range for the listing. There are currently seven Prosper Ratings, represented by seven letter scores, but this, as well as the loss ranges associated with each, may change over time as the marketplace dictates. For Prosper borrower listings, the Prosper Rating will be derived from two scores: a consumer reporting agency score and an in-house custom score calculated using the historical performance of previous Prosper Inc. borrower loans with similar characteristics. The use of these two scores will determine an estimated loss rate for each listing, which correlates to a Prosper Rating. For open market listings, the loan seller will provide us with a loss rate on the type of loan being offered for sale, and we will translate the loss rate to a Prosper Rating. If the loan sellers do not have a sufficient loan repayment history to make meaningful estimated loss projections, the loan seller will determine a projected loss rate using historical loss rates for credit obligations similar to the one being offered for sale, based on comparable portfolios or from nationwide loss rate information from consumer reporting agencies. This new rating system will allow Prosper to maintain consistency when assigning a rating to the listing regardless of loan seller, type of credit score used or type of loan being offered for sale. See "About the Platform—Prosper Rating Assigned to Listings," for more information.

**Q: Under what circumstances is Prosper required to offer to repurchase the Notes or indemnify lender members?**

**A.** Under the lender registration agreement, in the event of a material default under a series of Prosper Borrower Notes and Prosper Open Market Notes due to verifiable identity theft of the named borrower's identity, Prosper will repurchase the Notes and credit the lender members' accounts with the remaining unpaid principal balance of the Notes. The determination of whether verifiable identity theft has occurred is in our sole discretion. In the event we breach any of our other representations and warranties in the lender member registration agreement, and such breach materially and adversely effects a series of Notes, we will either indemnify the lender members, repurchase the series of Notes or cure the breach. The limited circumstances where this may occur include the failure of the corresponding borrower loan to comply at origination in material respects with applicable federal and state law or if the listing describing the Note contains a Prosper score different from the score calculated by Prosper for that listing, or Prosper incorrectly applied its formula to determine the Prosper score, resulting in a Prosper Rating different from the Prosper Rating that should have appeared in the listing. Prosper is not, however, under any obligation to cure, indemnify or repurchase a series of Notes because of the Prosper score or Prosper Rating for any other reason. In addition, in the event the loan seller is required to repurchase an open market loan from Prosper under the terms of the master purchase agreement, upon our receipt of the repurchase price we will distribute the gross proceeds to the holders of the Notes dependent for payment on that open market loan.

See "About the Platform—Prosper's Note Repurchase and Indemnification Obligations."

**Q: Why did Prosper revise its credit grading system?**

**A:** The goal of the new Prosper Rating system is to have our ratings align with loss rate tiers, rather than simply with credit score tiers, to facilitate understanding among lender members and to maintain consistency across listings regardless of loan seller, type of credit score used or type of loan. This is particularly important because with the introduction of open market listings on our platform, loan sellers will be using a number of different credit scores.

**Q: What is a debt-to-income ratio?**

**A:** Part of a borrower's credit profile displayed in listings is a debt-to-income ratio (or DTI). DTI is a measurement of the borrower's ability to take on additional debt. This number takes into consideration how much debt the borrower has or will have, including the borrower loan. The DTI is expressed as a percentage and is calculated by dividing the borrower's monthly income into his or her monthly debt payments, including the debt resulting from the borrower loan being requested or sold. On Prosper borrower listings, debt amounts are taken from the borrower's credit report without verification and exclude monthly housing payments, and the borrower's income is self-reported and not verified by Prosper. Depending upon how the loan seller calculates DTI, the DTI displayed in open market listings may include the borrower's housing payments and may be calculated based on joint debt and income of the borrower and his or her spouse or co-borrower. The DTIs on open market listings are provided by the loan seller and are not verified by Prosper, although loan sellers may verify debt and income amounts used in calculating the DTI. A description of the loan seller's verification practices will be accessible from a link on the open market listing, and will indicate whether the loan seller verifies the borrower's debt or income information used in calculating the DTI.

**Q: How do lender members receive payments on the Notes?**

**A:** All payments on the Notes are processed through our platform. If and when we make a payment on a Note, the payment will be deposited in the lender member's Prosper account. Lender members may elect to have available balances in their Prosper account transferred to their bank account at any time, subject to normal execution times for such transfers (generally 2-3 days). For open market loans, we will transfer borrower payments to the funding account of the lender members who own Notes corresponding to the borrower loan on the sixteenth (16th) day of each month following receipt of such payments from the loan seller servicing the open market loan. Because the delay between the time a loan seller receives a borrower payment and the time the payment is transferred to the lender member's funding account may reduce the lender's effective yield, this delay is taken into account when Prosper calculates the yield percentage displayed in the open market listing relating to the open market loan.

**Q: What are the fees and charges withheld from borrower loan payments and retained by Prosper or the loan seller?**

**A:** Servicing fees charged by Prosper and the loan seller, if applicable, are deducted from loan payments received on borrower loans, and reduce the lenders' effective yield. This reduction will be automatically taken into account by our platform in calculating the yield percentage displayed in listings. See "About the Loan Platform—Loan Servicing and Collection" for more information.

Any non-sufficient fund fees charged a borrower's account will be retained by Prosper or the loan seller and will not be remitted to you. If collection action is taken in respect of a borrower loan, we, the loan seller or the collection agency will charge a collection fee of between 15% and 30% of any amounts that are obtained and in addition any legal fees incurred in the collection effort. The collection fee will vary dependent upon the collection agency used. In addition, any legal fees incurred in connection with collection efforts will be deducted from any borrower loan payments Prosper receives. These fees will correspondingly reduce the amounts of any payments lender members receive on the Notes.

You will receive all other amounts Prosper receives on borrower loans, including late fees and prepayments, subject to our servicing fees. For open market loans, the loan seller may retain the late fees.

**Q: What happens if a borrower misses a payment or does not repay the borrower loan?**

**A:** Borrowers who miss payments face the same consequences as they would if they missed payments on any similar form of bank or other commercial credit obligation, including in most cases the reporting of late payments to consumer reporting agencies. Borrowers may also incur late fees for missed or delinquent payments, to the extent allowed by applicable law. Late fees collected by Prosper on Prosper borrower loans are passed on to the lender members who own the Notes dependent for payment on that borrower loan. Late fees received by loan sellers on open market loans may be retained by the loan seller servicing the open market loan, depending on the particular loan seller's servicing guidelines, which will be set forth in the description of the loan seller displayed on the Prosper website.

***Prosper borrower loans.*** We are obligated to use commercially reasonable efforts to service and collect Prosper borrower loans, in good faith, accurately and in accordance with industry standards customary for servicing loans such as the borrower loans. When a borrower's payment is late on a Prosper borrower loan, we communicate directly with the borrower to encourage repayment. We normally refer borrower loans that become 30 days past-due to a nationally-licensed collection agency, which makes further attempts to collect delinquent amounts and have the borrowers bring the account current. We may, in our sole discretion and subject to our servicing standard, refer a Prosper borrower loan to a collection agency at any time, or elect to initiate legal action to collect a Prosper borrower loan or sell a Prosper borrower loan to a third party debt buyer at any time. We may also work with the borrower member to structure a new payment plan for the Prosper borrower loan without the consent of any holder of the Notes corresponding to the Prosper borrower loan. Borrower loans that become 120 days past due are charged off. Depending on market conditions, we either sell charged off loans to an unaffiliated third party debt purchaser or continue to collect on those accounts, and we may in our discretion institute legal proceedings to collect the debt. In servicing Prosper borrower loans we may, in our discretion, utilize affiliated or unaffiliated third party loan servicers, collection agencies or other agents or contractors. We report loan delinquencies and charge-offs to consumer reporting agencies, which negatively impacts the borrower's credit file. Borrowers whose loans are charged off are not permitted to post any further listings on our platform. See "About the Platform—Loan Servicing and Collection" for more information.

***Open market loans.*** Open market loans will be serviced, both before and after default, by the loan seller (although our loan purchase agreement with the loan seller may provide that we have the right, in our discretion, to take over servicing in the event of the loan seller's default on its servicing obligations). In servicing open market loans the loan seller is contractually obligated to use commercially reasonable efforts to service and collect the open market loans in accordance with industry standards customary for loans of the same general type and character as the open market loans. The loan seller may, in its sole discretion and subject to the agreed-upon servicing standards, refer a borrower loan to a collection agency at any time, or elect to initiate legal action to collect a borrower loan, repossess or foreclose upon any collateral securing a borrower loan, or sell a borrower loan to a third party debt buyer at any time. Any amounts received from borrowers will be forwarded to Prosper by the loan seller, subject to servicing fees. In servicing borrower loans the loan seller may, in its discretion, utilize affiliated or unaffiliated third party loan servicers, repossessors, collection agencies or other agents or contractors.

**Q: What guarantees do lender members have that a Note will be paid?**

**A:** There are no guarantees that a Note will be paid. See "Risk Factors—Risks Related to Borrower Default" for more information.

**Q: Can lender members collect on late payments themselves?**

**A:** No. Under the lender registration agreement, each lender member agrees that under no circumstances may a lender member attempt collection of a late payment, or any amounts owing on a borrower loan corresponding to their Note, themselves. Lender members must depend on Prosper, the loan seller or third-party collection agents to pursue collection on delinquent Prosper borrower loans or open market loans. If collection action must be taken in respect of a borrower loan, we, the loan seller or the collection agency will charge a collection fee of between 15% and 30% of any amounts that are obtained. These fees will correspondingly reduce the amounts of any payments lender members receive on the Notes.

**Q: What happens if a borrower repays early?**

**A:** Prosper borrower members are permitted to make extra payments on, or prepay, their Prosper borrower loans in part or in their entirety at any time without penalty. In general, borrowers under open market loans have similar rights. Depending on the particular loan type in question, borrowers on open market loans may or may not be permitted to prepay the loan without penalty. In the event of a prepayment of the entire remaining unpaid principal amount of a borrower loan on which Notes are dependent for payment, lender members will receive their pro-rata share of such prepayment, net of servicing fees, and interest will stop accruing after the date on which such prepayment is received by us. If a borrower partially prepays a borrower loan, we will pay lender members their share of the prepayment amount we receive, net of servicing fees, and the amount of the prepayment will reduce the principal amount on the Note. See "Risk Factors—Risks Inherent in Investing in the Notes" for more information.

**Q: How are the Notes treated for United States federal income tax purposes?**

**A:** Although the matter is not free from doubt, we intend to treat the Notes as our debt instruments that have original issue discount ("OID") for U.S. federal income tax purposes. Accordingly, if you hold a Note, you will be required to include OID currently as ordinary interest income for U.S. federal income tax purposes (which may be in advance of interest payments on the Note) if the Note has a maturity date of more than one year, regardless of your regular method of tax accounting. If the Note has a maturity of one year or less, if you are a cash-method taxpayer, in general, you will not have to include OID currently in income on your Note unless you elect to do so, and if you are an accrual-method taxpayer, in general, you will have to include OID currently in income on your Note. You should consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes). See "Material U.S. Federal Income Tax Considerations" for more information.

**Q: What is a group?**

**A:** A group can be any collection of people with common interests, including social, cultural, ethnic, professional, educational, athletic, religious, or any other official or unofficial affiliation. Groups may consist of Prosper borrower members, lender members or registered Prosper users who have not taken a role, or any combination of the above. Groups allow people to join together for the common goal of borrowing money at better rates and give borrowers an additional incentive — the borrower's reputation in the group — to meet their obligation to repay a borrower loan. Prosper does not approve or verify the group membership criteria and any claims of group affiliation by Prosper borrower members or lender members may be erroneous.

**Q: What are the benefits of group membership?**

**A:** Prosper borrower listings identify the group, if any, to which the borrower belongs. Prosper believes that a borrower's identification with a group may attract bids from lender members with similar interests, resulting in Prosper borrower loans with potentially lower interest rates for the group's borrowers, or a greater likelihood of loan funding. As discussed above, Prosper does not verify the group membership criteria and any claims of group affiliation by Prosper borrower members or lender members may be erroneous.

**Q: Do groups or group leaders guarantee the Prosper borrower loans requested by their members?**

**A:** No. Neither groups nor group leaders guarantee their members' obligations under any borrower loan in any way, nor do group members guarantee the Prosper borrower loans of fellow group members. Borrowers are fully responsible for their own credit obligations.

**Q: Do groups or group leaders make bidding decisions or set rates for Prosper borrower loans requested by their members?**

**A:** No. Neither groups nor group leaders make bidding decisions or set interest rates, although members of groups who are lender members can affect rates by bidding on their fellow group members' listings.

**Q: How is Prosper regulated?**

**A:** The servicing of Notes and the corresponding borrower loans is subject to state and federal regulation. Loans made by Prosper are made using its California Finance Lenders License. Prosper and the borrower loans originated or sold on our platform must comply with applicable state laws, including licensing and disclosure requirements. In addition, in connection with the origination, purchase and servicing of borrower loans, we must comply with the federal Consumer Credit Protection Act, including, as applicable, the Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act and Electronic Fund Transfer Act, as well as the federal Electronic Signatures in Global and National Commerce Act (ESIGN) and other federal and state laws governing privacy and data security and prohibiting unfair or deceptive business practices. We are subject to examination, supervision, and potential regulatory investigations and enforcement actions by state and federal agencies, such as the Federal Trade Commission, that administer the federal consumer protection laws. See "Government Regulation—Regulation and Consumer Protection Laws" for more information.

**Q: How is WebBank regulated?**

**A:** WebBank's lending activities are subject to state and federal regulation. WebBank and the borrower loans it makes must comply with applicable state lending laws, to the extent such laws are not preempted by federal law applicable to state-chartered industrial banks. In addition, WebBank must comply with the federal Consumer Credit Protection Act, including, as applicable, the Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act and Electronic Fund Transfer Act, as well as the federal Electronic Signatures in Global and National Commerce Act (ESIGN) and other federal and state laws governing privacy and data security and prohibiting unfair or deceptive business practices. WebBank is subject to examination, supervision, and potential regulatory investigations and enforcement actions by state agencies that regulate Utah-chartered industrial banks, and federal agencies, such as the FDIC, that regulate industrial banks and administer the federal consumer protection laws. See "Government Regulation—Regulation and Consumer Protection Laws" for more information.

**Q: How does Prosper make money from our platform?**

**A:** Each time a Prosper borrower loan is funded, the borrower is charged a transaction fee equal to a specified percentage (currently 3.0%) of the amount of the Prosper borrower loan, subject to a specified minimum fee (currently $75). Each time an open market loan is sold, the loan seller is charged a transaction fee equal to a specified percentage of the sale price of the open market loan, subject to a minimum transaction fee. Transaction fees on Prosper borrower loans and open market loans are subject to change from time to time. The transaction fee on Prosper borrower loans is paid by the borrower out of the proceeds of the Prosper borrower loan at the time the borrower loan is funded. The transaction fee is retained by Prosper for loans made by Prosper to California residents, paid to WebBank for loans made to non-California residents, and Prosper receives amounts equal to the transaction fees as compensation for loan origination activities. The transaction fee on open market loans is paid out of the proceeds from the sale of the open market loans. In addition, Prosper currently charges lender members a servicing fee equal to an annualized rate of 1.0% for Prosper Borrower Notes and 0.5% for Prosper Open Market Notes, of the outstanding principal balance of the corresponding borrower loan, which we deduct from each lender member's share of the borrower loan payments.

**Q: Are there any risks associated with an investment in the Notes?**

**A:** Yes. The Notes are highly risky and speculative. Investing in the Notes should be considered only by persons who can afford the loss of their entire investment. In addition, the holders of Prosper Open Market Notes may be exposed to risks different than those experienced by holders of Prosper Borrower Notes. See "Risk Factors—Risks Inherent in Investing in the Notes" and "Risk Factors—Additional Risks for Prosper Open Market Notes" for more information.

**Q: Will lender members receive payments on the Notes in the event Prosper declares bankruptcy or otherwise experiences financial distress?**

**A:** If Prosper were to become subject to a bankruptcy or similar proceeding, the rights of the holders of the Notes could be uncertain, and payments on the Notes may be limited, suspended or stopped even if the borrowers are making payments on the corresponding borrower loans. The Notes are unsecured and holders of the Notes do not have a security interest in the corresponding borrower loans or the proceeds of those corresponding borrower loans. The recovery, if any, of a holder on a Note may be substantially delayed. Even funds held by Prosper in an account for the benefit of the holders of Notes may potentially be at risk. To limit the risk of Prosper's insolvency, Prosper will grant the indenture trustee a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture. Only the indenture trustee, not the holders of the Notes, will have a secured claim to the above collateral. See "Risk Factors—Risks Related to Prosper, Our Platform and Our Ability to Service the Notes" for more information.

**Q: What if Prosper were to go out of business?**

**A:** If Prosper were to go out of business no new borrower loans would be created and, we would assign our servicing obligations to a suitable third party loan servicer. All existing Notes would be serviced to completion by such third party loan servicer. The third party loan servicer would take over the administrative responsibilities related to the Notes such as the collection and transfer of borrower loan payments, providing timely payment notices, monthly lender member statements and required tax documentation, overseeing the collection of delinquent Prosper borrower loans, and reporting payment performance to consumer reporting agencies. Prosper Inc. will act as back-up servicer and if it is unable to do so, Prosper Inc. has entered into a back-up servicing agreement with a loan servicing company that is willing and able to transition servicing responsibilities in the event Prosper Inc. can no longer do so. The third party is a financial services company that has extensive experience and knowledge entering into successor loan servicing agreements. As well, they will provide monthly investor reports on our loan servicing activity that will be available to Note holders. If Prosper is unable to assign its servicing obligations to a suitable third party loan servicer, borrowers would still be obligated to make payments on their borrower loans, but lender members' ability to receive payments on the Notes may be substantially impaired. See "Risk Factors—Risks Related to Prosper, Our Platform and Our Ability to Service the Notes" for more information.

**Q: What if WebBank were to go out of business?**

**A:** If WebBank were to go out of business and Prosper was unable to identify and reach agreement with a suitable state-chartered or federally-chartered bank to take the place of WebBank, Prosper borrower loans would only be available to California borrowers. . See "Risk Factors—Risks Relating to Compliance and Regulation—We rely on our agreement with WebBank to originate loans to borrower members on a uniform basis throughout the United States" for more information.

**Q: What if a loan seller of an open market loan were to go out of business?**

**A:** Open market loans will be serviced by the loan seller and not by Prosper. Should a loan seller suspend its operations, there could be delays in the receipt of funds as Prosper undertakes servicing operations for the open market loans, as provided in the master loan purchase agreement between Prosper and the loan seller. In addition, in the event of a bankruptcy or similar proceeding of a loan seller, the relative rights of Prosper to receive payments under open market loans, as compared to the holders of unsecured indebtedness of the loan seller are uncertain. See "Risk Factors—Additional Risks for Prosper Open Market Notes" for more information.

## RISK FACTORS

*Our Notes involve a high degree of risk. You should carefully consider the risks described below before making a decision to invest in the Notes. If any of the following risks actually occurs, you might lose all or part of your investment in the Notes. You should also refer to the individual borrower profiles and borrower credit information provided on our platform.*

### Risks Related to Borrower Default

***The Notes are risky and speculative investments for suitable investors only.***

You should be aware that the Notes offered through our platform are risky and speculative investments. The Notes are special, limited obligations of Prosper and depend entirely on payments to Prosper of obligations of borrowers under the corresponding borrower loans. Prosper borrower loans are obligations of individual consumers, and open market loans may include existing consumer loans or retail installment sale contracts as well as small business loans, where the borrower is a business entity, not an individual (although one or more individuals may be a guarantor of the loan). Notes are suitable only for lender members of adequate financial means. If you cannot afford to lose the entire amount of money you plan to bid and commit to purchase on Notes corresponding to borrower loans on our platform, you should not attempt to invest in the Notes. You should not assume that a Note is an appropriate investment for you because it corresponds to a borrower loan listed on our platform.

***Payments on the Notes depend entirely on payments we receive on corresponding borrower loans. If a borrower fails to make any payments on the corresponding borrower loan related to your Note, you will not receive any payments on your Note.***

We will only make payments pro rata on the Notes of a series after we receive a borrower's payment on the corresponding borrower loan, net of servicing fees. We will not pay to lender members any non-sufficient funds fees or collection fees we, a loan seller or a third-party collection agency charge, and on open market loans late fees may be retained by the loan seller servicing the open market loan. If we do not receive payments on the corresponding borrower loan related to your Note, you will not be entitled to any payments under the terms of the Notes, and you will not receive any payments.

***Your recourse will be extremely limited in the event that borrower information is inaccurate for any reason.***

Loan sellers and Prosper borrowers supply a variety of unverified information that is included in the borrower loan listings on our website. At the time a listing is posted on our website, we have not verified any of the information provided to us by Prosper borrowers with respect to Prosper borrower loan or loan sellers with respect to open market loans. This information may be inaccurate or intentionally false. In the limited circumstances where we verify the borrower's stated income or employment status that appears in the listing, such verification is performed after the listing has been posted on our platform. Borrower loan listing and borrower information available on our platform will be statements made in connection with the purchase and sale of securities, and therefore subject to Rule 10b-5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, information set forth in borrower loan listings may be subject to the liability provisions of the Securities Act. In general, Section 10b-5 and the liability provisions of the Securities Act provide the purchaser of securities with a right to bring a claim against the issuer for damages arising from any untrue statement of material fact or failure to state a material fact necessary to make any statements made by the issuer not misleading. In this prospectus, we advise you of the limitations on the reliability of the information provided by Prosper borrowers with respect to Prosper borrower listing and by loan sellers with respect to open market listings. Accordingly, a court could determine that Prosper has advised you of all material facts regarding the information supplied by Prosper borrowers and by loans seller and your recourse in the event this information is false or misleading may be extremely limited under the securities laws because you have been so advised.

***The Notes are special, limited obligations of Prosper only and are not directly secured by any collateral or guaranteed or insured by any third party.***

The Notes will not represent an obligation of borrowers or any other party except Prosper, and are special, limited obligations of Prosper. The Notes are not secured by any collateral and are not guaranteed or insured by any governmental agency or instrumentality or any third party. Although Prosper will grant the indenture trustee a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited, the Note holders do not have a security interest in the borrower loans or the right to payment thereunder. In addition, Prosper Open Market Notes will not be secured by any collateral, even though the corresponding open market loan may be secured by personal property. Any security interest under an open market loan will be held by Prosper. In the event of a default under an open market loan, the loan seller, as servicer, would have the right to foreclose on the collateral securing the open market loan is obligated to forward any proceeds from its collection efforts to Prosper, net of servicing fees and other charges. The holders of the Prosper Open Market Notes do not have the right to take any action under the security interest or to require that Prosper or the servicer take such action.

***The Prosper borrower loans are not secured by any collateral or guaranteed or insured by any third party, and you must rely on Prosper, a loan seller, or a third-party collection agency to pursue collection against any borrower.***

Prosper borrower loans are unsecured obligations of borrower members. They are not secured by any collateral, and they are not guaranteed or insured by any third party or backed by any governmental authority in any way. Prosper and its designated third-party collection agency will, therefore, be limited in their ability to collect on Prosper borrower loans. In addition, while open market loans may be secured, the corresponding Open Market Note is not. Although the loan seller is obligated to forward to Prosper any amounts it receives on the open market loans, including amounts received upon the sale of the collateral securing an open market loan, the holders of Prosper Open Market Notes do not have the right to foreclose on the collateral or to require that the loan seller take such action.

Moreover, borrower loans are obligations of borrowers to Prosper for loans to California residents, and to Prosper as successor to WebBank for loans to non-California residents, not obligations to holders of Notes. Holders of Notes will have no recourse to borrower and no ability to pursue borrowers to collect payments under borrower loans. Holders of Notes may look only to Prosper for payment of the Notes, and Prosper's obligation to pay the Notes is limited as described in this prospectus. Furthermore, if a borrower fails to make any payments on the borrower loan corresponding to a Note, the holder of that Note will not receive any payments on that Note. The holder of that Note will not be able to pursue collection against any borrower and will not be able to obtain the identity of the borrower in order to contact the borrower about the defaulted borrower loan. In addition, as described in this prospectus, in the unlikely event that we receive payments on the corresponding borrower loan relating to your Notes after the final maturity date, you will not receive payments on your Notes after maturity. See "Summary of Material Agreements Indenture and Form of Notes." for more information.

***Some of the borrowers on our platform may have "subprime" credit ratings, are considered higher than average credit risks, and may present a high risk of loan delinquency or default.***

Some of the borrowers on our platform are people who have had difficulty obtaining loans from banks and other financial institutions on favorable terms, or on any terms at all, due to credit problems, limited credit histories, adverse financial circumstances, or high debt-to-income ratios. Therefore, acquiring Notes dependent for payment on payments on the corresponding borrower loans to such borrowers may present a high risk of loan delinquency or default. From November 2005 through October 16, 2008, Prosper Inc. facilitated 28,940 borrower loans with an average original principal amount of $6,172 and an aggregate original principal amount of $178,622,722 on the platform. As of December 31, 2008, of these outstanding loans, 61.1% were current, 16.5% were paid in full, 1.2% were 15 to 30 days late, and 4.8% were more than 30 days late. In addition, of these outstanding loans:

- 7,959 loans, or 27.5%, have ever been more than 15 days past due on at least one occasion;
- 6,814 loans, or 23.5%, have been more than 30 days past due on at least one occasion at one time; and
- 16.5% had defaulted (a borrower loan is considered to have defaulted when it is more than 120 days past due or has filed a bankruptcy which has been discharged).

Selected historical loss rates on the borrower loans originated by Prosper Inc. can be found in this prospectus under the heading "About the Platform—Historical Information About Prosper Inc. Borrowers and Outstanding Borrower Loans." There can be no assurance that such historical loss rates will be indicative of future loss rates or the likelihood of the delinquency or default on any Note of a particular borrower.

***Prospective borrowers are not required to have a maximum debt-to-income ratio.***

We do not require borrowers to have a maximum debt-to-income ratio (or "DTI") in order to have borrower loans listed on our platform. The DTI is a measurement of the borrower's ability to take on additional debt. Because a borrower is not required to have a maximum DTI, our platform may contain borrower loan listings that have a higher risk of default than would otherwise be the case if a maximum DTI was required.

***Borrowers' credit information may be inaccurate or may not accurately reflect the borrower's creditworthiness, which may cause you to lose all or part of the price you paid for a Note.***

We obtain borrower credit information from consumer reporting agencies, and assign Prosper borrower loan requests a Prosper Rating based in part on the borrower's credit score. On open market loans offered for sale on the platform, we obtain credit information on the borrower from the loan seller, and such credit information is normally based on a consumer report obtained by the loan seller from a consumer reporting agency. A credit score that forms a part of the Prosper Rating, assigned to a borrower may not reflect that borrower's actual creditworthiness because the credit score may be based on outdated, incomplete or inaccurate consumer reporting data, and we generally do not verify the information obtained from the borrower's credit report or information provided to us with respect to open market listings. Similarly, the borrower credit data displayed in Prosper borrower listings may be based on outdated, incomplete or inaccurate consumer reporting data from the consumer report obtained on the borrower. Moreover, lender members do not, and will not, have access to financial statements of borrower members or to other detailed financial information about borrower members. In addition, we currently retrieve a subsequent consumer report and credit score for a Prosper borrower member after the previous consumer report is more than 30 days old. Therefore, there is a risk that a borrower may have become delinquent in a payment, defaulted on a debt obligation, taken on more personal debt, or sustained other adverse financial events after the date the last consumer report was retrieved, and the Prosper Rating assigned to the borrower may not accurately reflect the borrower's actual current creditworthiness.

***As the Prosper Rating to be assigned to listings after the date of this prospectus is the result of a new credit grading system developed by Prosper, you should not look at the performance history of our borrower loans with the same letter grade as the Prosper Rating as a valid indication of how the borrower loan upon which a Note is dependent for payment will perform in the future.***

Prosper will implement a new credit grading system on the effective date of this prospectus. Each listing will be assigned a Prosper Rating that indicates the level of risk associated with a listing and corresponds to an estimated average annualized loss rate range for the listing. Initially, the Prosper Rating will be indicated by the same seven letter credit grades previously used to indicate the borrower's credit grade for each borrower loan listed on our platform. The Prosper Rating allows Prosper to maintain consistency when assigning a rating to the borrower regardless of loan seller, type of credit score used or type of loan being offered for sale. For Prosper borrower listings, the Prosper Rating will be derived from two scores: a consumer reporting agency score and an in-house custom score calculated using the historical performance of previous Prosper Inc. borrower loans with similar characteristics. For open market listings, the loan seller will provide us with a loss rate on the type of loan being offered for sale, and we will translate the loss rate to a Prosper Rating. Although the same seven letter credit grades will be used to represent the Prosper Rating, the letter credit grades will not be comparable as they are computed in a different manner and represent a different risk profile. Moreover, Prosper adopted the new credit rating system, in part, due to variations in loss rates among Prosper borrowers with the same credit grade due to variations in the borrower's credit characteristics within a credit score tier. Accordingly, you should not look at the performance history of our borrower loans with a letter grade the same as the Prosper Rating as a valid indication of how the borrower loan upon which a Note is dependent for payment will perform in the future.

***Information supplied by borrowers may be inaccurate or intentionally false.***

Loan sellers and Prosper borrowers supply a variety of unverified information that is included in the borrower loan listings on our website. We do not verify this information, and this information may be inaccurate. We do not verify the borrower information provided to us by loan sellers on open market loans. In addition, we generally do not verify a borrower's stated income, employment status or occupation, and the information borrowers supply may be inaccurate or intentionally false. Prosper borrowers may misrepresent their intentions for the use of borrower loan proceeds. Prosper and WebBank do not verify any statements by Prosper borrowers as to how loan proceeds are to be used and do not confirm after loan funding how loan proceeds were used. All listings are posted on our platform without our verifying the borrower's stated income or employment status that appears in the listing. In the limited cases in which we have selected Prosper borrower members for income and employment verification, the verification is normally done after the listing has been created and bidding has ended but prior to the time the Prosper borrower loan is funded. From the period from September 1, 2007 to August 31, 2008, when our parent conducted pre-funding income and employment verification approximately 56% of these borrowers have provided our parent with satisfactory responses and received a borrower loan; approximately 38% of these borrowers either did not provide satisfactory responses or did not respond, and their listings were cancelled; and approximately 6% of these borrowers either withdrew their listing or failed to receive bids totaling the amount of their requested loan. The identity of borrowers is not revealed to lender members, and lender members also have no ability to obtain or verify borrower information either before or after they purchase a Note. Potential lender members may only communicate with Prosper borrower members through Prosper website postings, and then only on an anonymous and unverified basis. Lender members will not be able to communicate with the borrowers on open market loans. If you rely on false, misleading or unverified information supplied by borrowers in deciding to purchase Notes, you may lose part or all of the purchase price you pay for a Note.

***The Prosper Rating may not accurately set forth the risks of investing in the Notes and no assurances can be provided that actual loss rates for the Notes will come within the expected loss rates indicated by the Prosper Rating.***

In the event that Prosper places the wrong Prosper score or Prosper Rating in a borrower listing under the following circumstances Prosper would offer to indemnify or repurchase the Notes from the lender members in the event of a material default under the borrower loan corresponding to the Note: (1) a Prosper score different from the Prosper score calculated by Prosper for the listing at issue is inserted in that listing, or (2) Prosper incorrectly applied its formula to determine the Prosper score, resulting in a

Prosper Rating different from the Prosper Rating that should have appeared in the borrower listing. Prosper will not, however, be under any obligation to indemnify or repurchase a series of Notes because of any other inaccuracy in the Prosper score or Prosper Rating. For example, the Prosper Rating may be inaccurate because Prosper correctly applied its formula, but the credit bureau information was incorrect, or because the performance was worse than expected. The Prosper Rating is not a recommendation by Prosper to buy, sell or hold the Notes. In addition, no assurances can be provided that actual loss rates for the Notes will fall within the expected loss rates indicated by the Prosper Rating.

***Some borrowers may use our platform to defraud lender members, which could adversely affect your ability to recoup your investment.***

We use identity and fraud checks with external databases to authenticate each Prosper borrower member's identity. No verification is made by Prosper with respect to borrowers on open market loans offered for sale on the platform. Although we use diligent efforts in this regard, there is a risk that our fraud checks could fail and fraud may occur. Additionally, Prosper borrower members may misrepresent their intentions for the Prosper borrower loan proceeds or other information that we do not attempt to verify. While we will repurchase Notes in limited circumstances, such as material default on the corresponding borrower loan resulting from verifiable theft of a borrower's identity, or resulting from the failure of the corresponding borrower loan to comply at origination in material respects with applicable federal and state law, and the loan seller of the open market loans is under a similar obligation to repurchase open market loans from us, we are not obligated to repurchase a Note from you if your investment is not realized in whole or in part due to fraud (other than verifiable identity theft) in connection with a listing for the underlying borrower loan, or due to false or inaccurate statements or omissions of fact in a borrower's listing, whether in credit data, borrower's representations, user recommendations, group affiliations or similar indicia of borrower intent and ability to repay the borrower loan. If Prosper repurchases a Note, only the outstanding principal balance will be returned to the lender member. See "About the Platform—Prosper's Note Repurchase and Indemnification Obligations" for more information.

***We do not have significant historical performance data about borrower performance on the borrower loans. Loss rates on the borrower loans may increase and prior to investing you should consider the risk of non-payment and default under our outstanding borrower loans.***

We are in the early stages of our development and have a limited operating history. Our parent began offering loans publicly through the platform in February of 2006. Due to our limited operational history, we do not have significant historical performance data regarding Prosper borrower member performance on Prosper borrower loans, and we do not yet know what the long-term loan loss experience will be. The estimated loss rates we display on the website and use to determine the Prosper Rating have been developed from our loss histories. With respect to open market loans, the open market loan loss performance is provided to us by the loan seller and we do not verify this information. Moreover, these loss rates occurred prior to the recent contraction in the global financial and credit markets and significant downturn in the United States economy and borrower loans originated or sold on our platform may default more often than similar loans have defaulted in the past.

***If payments on the corresponding borrower loans relating to your Notes become more than 30 days overdue, it is likely you will not receive the full principal and interest payments that you expect to receive on your Notes due to collection fees, and you may not recover any of your original purchase price.***

If a borrower fails to make a required payment on a borrower loan within 30 days of the due date, we will pursue reasonable collection efforts in respect of the borrower loan. Referral of a delinquent borrower loan to a collection agency within five (5) business days after it becomes thirty days past due will be considered reasonable collection efforts. From November 2005 through October 16, 2008, Prosper Inc. facilitated 28,940 borrower loans. With respect to these borrower loans as of December 31, 2008:

- 1.2% were 15 to 30 days late and 27.5% had been more than 15 days past due on at least one occasion; and

- 4.8% were more than 30 days late and 23.5%, had been more than 30 days past due on at least one occasion.

If Prosper or a loan seller refers a loan to a collection agency, neither Prosper nor the loan seller will have any other obligation to attempt to collect that borrower loan. We or a loan seller may also handle collection efforts in respect of a delinquent borrower loan directly. If payment amounts on a delinquent borrower loan are received from a borrower more than 30 days after their due date, then we, the loan seller or, if the delinquent loan is referred to an outside collection agency, that collection agency, will retain a percentage of any funds recovered from such borrower as a servicing fee before any principal or interest becomes payable to you from recovered amounts in respect of Notes related to the corresponding borrower loan. Collection fees range from 15% to 30% of recovered amounts. See "About the Platform—Loan Servicing and Collection" for more information.

Prosper, the loan seller or the collection agency may not be able to recover some or all of the unpaid balance of a non-performing borrower loan, and a lender member who has purchased a Note dependent on the non-performing borrower loan would then receive nothing or a small fraction of the unpaid principal and interest of the Note. In addition, although certain open market loans are secured by personal property, there is no guarantee the collateral securing the loan will be available or sufficient to cover the outstanding balance under the open market loan. You must rely on the collection efforts of Prosper on Prosper borrower loans, the loan seller on open market loans or the collection agencies to which such loans are referred. You are not permitted to attempt to collect payments on the borrower loans in any manner.

***Loss rates on the borrower loans may increase as a result of economic conditions beyond our control and beyond the control of the borrower.***

Borrower loan loss rates may be significantly affected by economic downturns or general economic conditions beyond our control and beyond the control of individual borrowers. In particular, loss rates on borrower loans on which the Notes are dependent may increase due to factors such as prevailing interest rates, the rate of unemployment, the level of consumer confidence, residential real estate values, the value of the U.S. dollar, energy prices, changes in consumer spending, the number of personal bankruptcies, disruptions in the credit markets and other factors. The recent contraction in the global financial and credit markets and significant downturn in the United States economy will likely result in an increased rate of default under the borrower loans in the future. Accordingly, no reliance should be made on the historical loss rates on borrower loans in determining whether to purchase your Notes. As the current economic crisis is largely unprecedented in recent history, we cannot predict the impact these events will have on a borrower's ability to repay future borrower loans originated or offered for sale on our platform, although we do not expect the loss rate for borrower loans to decrease in the immediate future.

***In the unlikely event that we receive payments on the corresponding borrower loans relating to your Notes after the final maturity date, you will not receive payments on your Notes after maturity.***

Each Note will mature on the initial maturity date, unless any principal or interest payments in respect of the corresponding borrower loan remain due and payable to Prosper upon the initial maturity date, in which case the maturity of the Note will be automatically extended to the final maturity date. If there are any amounts under the corresponding borrower loan still due and owing to Prosper after the final maturity, Prosper will have no further obligation to make payments on the Notes of the series even if Prosper receives payments on the corresponding borrower loan after the final maturity.

***In general, the borrower loans on which the Notes are dependent do not restrict borrowers from incurring additional unsecured or secured debt, nor do they impose any financial restrictions on borrowers during the term of the borrower loan, which may impair your ability to receive the full principal and interest payments that you expect to receive on a Note.***

If a borrower incurs additional debt after the date of the borrower loan, the additional debt may impair the ability of that borrower to make payments on his or her borrower loan and your ability to receive the principal and interest payments that you expect to receive on Notes dependent for payment on payments we receive on the corresponding borrower loans. In addition, the additional debt may adversely affect the borrower's creditworthiness generally, and could result in the financial distress, insolvency, or bankruptcy of the borrower. To the extent that the borrower has or incurs other indebtedness and cannot pay all of his or her indebtedness, the borrower may choose to make payments to other creditors, rather than Prosper, on the borrower loan.

To the extent borrowers incur other indebtedness that is secured, such as mortgage, home equity or auto loans, the ability of the secured creditors to exercise remedies against the assets of the borrower may impair the borrower's ability to repay the borrower loan on which your Note is dependent for payment. Borrowers on Prosper borrower loans may also choose to repay obligations under secured indebtedness before repaying Prosper borrower loans originated through our platform because there is no collateral securing Prosper borrower loans. A lender member will not be made aware of any additional debt incurred by a borrower, or whether such debt is secured, including with respect to open market loans. In addition, the credit detail for borrowers under open market loans is shown as of the open market loan origination date and is not updated when an open market listing is posted on our platform.

***Because the interest rate payable on the Notes is determined through an auction process and is not tied directly to the creditworthiness of the borrower, the interest rate of the Notes may not be adequate to compensate you for the risks associated with the particular Note.***

The interest rate on a Note is the rate determined by our platform's auction system and is fixed at the minimum yield percentage acceptable to all lender members who are the winning bidders at the expiration of the auction bidding period for Notes that are dependent for payment on payments we receive on the corresponding borrower loan described in the listing. Because the interest rate on a Note is not tied directly to the creditworthiness of the borrower, the interest rate of the Note may not be adequate to compensate you for the risks associated with the borrower loan upon which the Note is dependent for payment.

***A borrower may request that his or her bank "chargeback" a payment on a borrower loan upon which a Note is dependent for payment and request a refund on that payment, resulting in a delinquency on the payment and a possible negative cash balance in your funding account.***

A borrower chargeback is a process by which a borrower who has made a payment on a borrower loan has his or her bank cancel the payment or request a refund of that payment. We withhold payments to lender members up to six business days after the payment was initiated. If the chargeback occurs between six and 60 days after the initiation of payment, you must rely on us to contest the chargeback if we deem it appropriate. If a borrower successfully processes a chargeback between six and 60 days after initiation of payment, such payment will be deducted from your Prosper account, and if you have withdrawn funds in the interim, a negative cash balance may result.

***Peer-to-peer lending is a new lending method and our platform has a limited operating history. Borrowers may not view or treat their obligations as having the same significance as traditional lending sources, such as bank loans and Prosper borrower loans may have a higher risk of default that loans with a similar credit score.***

The investment return on the Notes depends on borrowers fulfilling their payment obligations in a timely and complete manner under the corresponding borrower loan. Because our platform is a new concept, we do not have significant historical performance data regarding borrower performance on the borrower loans. Borrowers may not view peer-to-peer lending obligations originated on our platform as having the same significance as other credit obligations arising under more traditional circumstances, such as loans from banks or other commercial financial institutions. If a borrower neglects his or her payment obligations on a borrower loan upon which payment of the corresponding Note is dependent or chooses not to repay its borrower loan entirely, you may not be able to recover any portion of your investment in a Note.

***Our platform may fail to comply with borrower protection laws such as state lending laws, or federal consumer protection laws such as the Truth in Lending Act, the Equal Credit Opportunity Act and the Fair Credit Reporting Act. Borrowers may make counterclaims against us, any collection agency or you after collection actions have commenced.***

Applicable state laws generally regulate interest rates and other charges and require certain disclosures. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of a borrower loan upon which a series of Notes is dependent for payment. The borrower loans are also subject to federal laws, including, without limitation, the federal Truth-in-Lending Act and Regulation Z promulgated thereunder, which require certain disclosures to the borrowers regarding the terms of the loan; the federal Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit; and the federal Fair Credit Reporting Act, which regulates the use and reporting of information related to each borrower's credit history. We may not always have been and may not always be in compliance with these laws. Failure to comply with the laws and regulatory requirements applicable to our business may, among other things, limit our, or a collection agency's, ability to collect all or part of the principal of or interest on the borrower loans and, in addition, could subject us to damages, revocation of required licenses or other authorities, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm our business and ability to maintain our platform and may result in borrowers rescinding their borrower loans. See "Government Regulation—Regulation and Consumer Protection Laws" for more information.

We regularly review the requirements of these laws and take measures aimed at ensuring that the borrower loans originated on our platform meet the requirements of all applicable laws. However, determining compliance with all applicable laws is a complex matter and it is possible that our determination may be inaccurate or incorrect. Also, changes in law, either due to court decisions, regulatory interpretations or rulings, or new legislation, may adversely affect the collectibility of a borrower loan.

***In general, the borrower loans do not contain any cross-default or similar provisions. If a borrower defaults on their debt obligations other than on the borrower loan, the ability to collect on borrower loan on which your Notes are dependent for payment may be substantially impaired.***

In general, the borrower loans do not contain cross-default provisions. A cross-default provision makes a default under certain debt of a borrower an automatic default on other debt of that borrower. Because the borrower loans generally do not contain cross-default provisions, a borrower's loan will not be placed automatically in default upon that borrower's default on any of the borrower's other debt obligations, unless there are independent grounds for a default on the borrower loan. In addition, the borrower loan will not be referred to a third-party collection agency for collection because of a borrower's default on debt obligations other than the borrower loan. If a borrower defaults on debt obligations owed to a third party and continues to satisfy the payment obligations under the borrower loan, the third party may seize the borrower's assets or pursue other legal action against the borrower before the borrower defaults on the borrower loan. Payments on Notes may be substantially reduced if a borrower subsequently defaults on a corresponding borrower loan, and you may be unable to recoup any or all of your expected principal and interest payments on those Notes.

***Borrowers may seek the protection of debtor relief under federal bankruptcy or state insolvency laws, which may result in the nonpayment of your Notes.***

Borrowers on borrower loans may seek protection under federal bankruptcy law or similar laws. If a borrower files for bankruptcy (or becomes the subject of an involuntary petition), a stay will go into effect that will automatically put any pending collection actions on hold and prevent further collection action absent bankruptcy court approval. If we receive notice that a borrower has filed for protection under the federal bankruptcy laws, or has become the subject of an involuntary bankruptcy petition, we will put the borrower's loan account into "bankruptcy status." When this occurs, we terminate automatic monthly ACH debits on Prosper borrower loans and we, and the loan seller with respect to open market loans, do not undertake collection activity without bankruptcy court approval. Whether any payment will ultimately be made or received on a borrower loan after a bankruptcy status is declared depends on the borrower's particular financial situation. It is possible that the borrower's liability on the borrower loan will be discharged in bankruptcy. In most cases involving the bankruptcy of a borrower, unsecured creditors, including Prosper as the holder of the borrower loans, will receive nothing, or only a fraction of any amount outstanding on their borrower loans. Moreover, although certain open market loans may be secured by personal property, there is no guarantee the collateral securing the loan will be available or sufficient to cover the outstanding balance under the open market loan. See "About the Platform—Loan Servicing and Collection" for more information.

***Federal law entitles borrowers who enter active military service to an interest rate cap and certain other rights that may inhibit the ability to collect on loans and reduce the amount of interest paid on the corresponding Notes.***

Federal law provides borrowers on active military service with rights that may delay or impair our ability to collect on a borrower loan corresponding to your Note. The Servicemembers Civil Relief Act, or "SCRA," requires that the interest rate on preexisting debts, such as borrower loans, be set at no more than 6% while the qualified service member or reservist is on active duty. A holder of a Note that is dependent on such a borrower loan will not receive the difference between 6% and the original stated interest rate for the borrower loan during any such period. This law also permits courts to stay proceedings and execution of judgments against service members and reservists on active duty, which may delay recovery on any borrower loans in default, and, accordingly, payments on Notes that are dependent for payment on payments we receive on these corresponding borrower loans. If there are any amounts under such a borrower loan still due and owing to Prosper after the final maturity of the Notes that correspond to the borrower loan, we will have no further obligation to make payments on the Notes, even if we later receive payments after the final maturity of the Notes. We do not take military service into account in assigning credit grades to borrower loan requests. In addition, as part of the borrower registration process, we do not request Prosper borrower members to confirm if they are a qualified service member or reservists within the meaning of the SCRA. See "Government Regulation—Regulation and Consumer Protection Laws—Servicemembers Civil Relief Act" for more information.

***The death of a borrower may substantially impair your ability to recoup the full purchase price of Notes that are dependent for payment on payments we receive on the corresponding borrower loan to that borrower or to receive the interest payments that you expect to receive on the Notes.***

If a borrower with outstanding obligations under a borrower loan dies while the borrower loan is outstanding, generally, we or the loan seller will seek to work with the executor of the estate of the borrower to obtain repayment of the borrower loan. However, the borrower's estate may not contain sufficient assets to repay the borrower loan on which your Note is dependent for payment. In addition, if a borrower dies near the end of a borrower loan, it is unlikely that any further payments will be made on the Notes corresponding to such borrower loan, because the time required for the probate of the estate may extend beyond the initial maturity date and the final maturity date of the Notes.

***Prosper is not obligated to repurchase any Notes except in limited circumstances. If Prosper is unable to meet its repurchase obligations, you may lose your entire investment in the Notes.***

Prosper is not obligated to repurchase any Note except in limited circumstances, such as material default on a Note resulting from verifiable theft of a borrower's identity, or resulting from the failure of the corresponding borrower loan to comply at origination in material respects with applicable federal and state law. Additionally, the lender registration agreement provides that, in the event of a material breach of our representations and warranties, we must either cure the defect, repurchase the Note, or indemnify and hold the lender member harmless against losses resulting from the defect in the Note. However, we are not obligated to repurchase a Note from a lender member if his or her investment is not realized in whole or in part due to fraud (other than verifiable identity theft) in connection with a listing, or due to false or inaccurate statements or omissions of fact in a borrower's listing, whether in credit data, borrower representations, user recommendations, group affiliations or similar indicia of borrower intent and ability to repay the Notes. Even if we are obligated to repurchase a Note, there can be no assurance that we will be able to meet our repurchase obligation. If we are unable to meet our repurchase obligations with respect to such Note you may lose all of your investment in such Note. See "About the Platform—Prosper's Note Repurchase and Indemnification Obligations" and "Summary of Material Agreements—Lender Registration Agreement" for more information.

**Risks Inherent in Investing in the Notes**

***If you decide to invest through our platform and concentrate your investment in a single Note, you may increase your risk of borrower defaults.***

Your expected return on your investment in the Notes depends on the performance of the borrowers on their respective obligations under the corresponding borrower loan. There are a wide range of Prosper Ratings and listings on our platform and we expect some borrowers to default on their loans. If you decide to invest through our platform and concentrate your investment in a single Note, your entire return will depend on the performance of a single borrower loan. For example, if you plan to purchase $200 of Notes, and choose to invest the entire $200 in a single Note instead of in four $50 Notes corresponding to the borrower loans of four different borrowers, your entire $200 investment will depend on the performance of a single borrower loan. It may be desirable to diversify your portfolio in order to reduce the risk that you could lose your entire investment due to a single default, or a small number of defaults. However, diversification does not eliminate the risk that you may lose some, or all, of your investment in the Notes.

***Our platform allows a borrower member to prepay a Prosper borrower loan at any time without penalty, and borrowers under open market loans have similar rights. Borrower loan prepayments will extinguish or limit your ability to receive additional interest payments on a Note.***

Borrower loan prepayment occurs when a borrower decides to pay some or all of the principal amount on a borrower loan earlier than originally scheduled. Borrowers on Prosper borrower loans may decide to prepay all or a portion of the remaining principal amount at any time without penalty. In general, borrowers under open market loans have similar rights. In the event of a prepayment of the entire remaining unpaid principal amount of a borrower loan on which your Notes are dependent for payment, you will receive your share of such prepayment but further interest will not accrue after the date on which the payment is made. If a borrower prepays a portion of the remaining unpaid principal balance on a borrower loan on which your Notes are dependent for payment, the term of the borrower loan will not change, but interest will cease to accrue on the prepaid portion. If a borrower prepays a borrower loan in full or in part, you will not receive all of the interest payments that you originally expected to receive on Notes that are dependent for payment on payments we receive on the corresponding borrower loan, and you may not be able to find a similar rate of return on another investment at the time at which the borrower loan is prepaid. Prepayments are subject to our servicing fee and any servicing fee charged by the loan seller for open market loans, even if the prepayment occurs immediately after issuance of your Note. See "Summary of Material Agreements—Indenture and Form of Notes." for more information.

***Prevailing interest rates may change during the term of your Notes. If this occurs, you may receive less value from your purchase of the Note in comparison to other ways you may invest your money. Additionally, borrowers may prepay their borrower loans due to changes in interest rates, and you may not be able to redeploy the amounts you receive from prepayments in a way that offers you the return you expected to receive from the Notes.***

The borrower loans on which the Notes are dependent for payment bear fixed, not floating, rates of interest. If prevailing interest rates increase, the interest rates on Notes you purchase might be less than the rate of return you could earn if you invested the purchase price in a different investment.

While you may still receive a return on your purchase price for the Notes through the receipt of amounts equal to the interest portion of a borrower's payments on the corresponding borrower loan, if prevailing interest rates exceed the rate of interest payable on the borrower loan, the payments you receive during the term of the Note may not reflect the full opportunity cost to you when you take into account factors such as the time value of money.

There is no prepayment penalty for borrower members who prepay their Prosper borrower loans, and borrowers under open market loans have similar rights. If prevailing interest rates on consumer loans decrease, borrowers may choose to prepay their borrower loans with money they borrow from other sources or other resources, and you may not receive the interest payments on Notes dependent for payment on payments we receive on those corresponding borrower loans that you expect to receive or be able to find an alternative use of your money to realize a similar rate of return at the time at which the Note is prepaid.

***The Notes will not be listed on any securities exchange and will not be transferable. You should be prepared to hold the Notes you purchase until they mature.***

The Notes will not be listed on any securities exchange. All Notes must be held by our lender members. The Notes will not be transferable. Therefore, lender members must be prepared to hold their Notes to maturity.

***You do not earn interest on funds held in your lender member account with Prosper.***

Your Prosper funding account represents an interest in a pooled bank account that does not earn interest. See "About the Platform—Treatment of Lender Member Balances" for more information.

***The U.S. federal income tax consequences of an investment in the Notes are uncertain.***

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. However, although the matter is not free from doubt, we intend to treat the Notes as our debt instruments that have original issue discount ("OID") for U.S. federal income tax purposes. Where required, we intend to file information returns with the IRS in accordance with such treatment unless there is a change or clarification in the law, by regulation or otherwise, that would require a different characterization of the Notes. You should be aware, however, that the U.S. Internal Revenue Service ("IRS") is not bound by our characterization of the Notes and the IRS or a court may take a different position with respect to the Notes' proper characterization. For example, the IRS could determine that, in substance, each lender member owns a proportionate interest in the corresponding loan for U.S. federal income tax purposes or, for example, the IRS could instead treat the Notes as a different financial instrument (including an equity interest or a derivative financial instrument). Any different characterization could significantly affect the amount, timing, and character of income, gain or loss recognized in respect of a Note. For example, if the Notes are treated as our equity, (i) we would be subject to U.S. federal income tax on income, including interest, accrued on the corresponding loans but would not be entitled to deduct interest or OID on the Notes, and (ii) payments on the Notes would be treated by the holder for U.S. federal income tax purposes as dividends (that may be ineligible for reduced rates of U.S. federal income taxation or the dividends-received deduction) to the extent of our earnings and profits as computed for U.S. federal income tax purposes. A different characterization may significantly reduce the amount available to pay interest on the Notes. You are strongly advised to consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes).

***Our ability to pay principal and interest on a Note may be affected by our ability to match the timing of our income and deductions for U.S. federal income tax purposes.***

You should be aware that our ability to pay principal and interest on a Note may be affected by our ability, for U.S. federal income tax purposes, to match the timing of income we receive from a corresponding loan that we hold and the timing of deductions that we may be entitled to in respect of payments made on the Notes that we issue. For example, if the Notes, but not the corresponding loans to the Notes, are treated as contingent payment debt instruments for U.S. federal income tax purposes, there could be a potential mismatch in the timing of our income and deductions for U.S. federal income tax purposes, which could affect our ability to make payments on the Notes.

**Additional Risks for Prosper Open Market Notes**

***Lender members will not have the same ability to determine the default risks of open market loans upon which Prosper Open Market Notes are dependant for payment as the loan seller, accordingly the loan sellers could offer for sale only those open market loans which the loan sellers believe have the highest risk of default, while retaining less risky loans for their portfolio.***

Although loan sellers will represent and warrant to us that the loan seller did not use any adverse selection criteria, via scoring algorithm or manual file review, to select the borrower loans listed for sale on our platform, there is no guarantee that loan sellers will not use such adverse selection criteria. In most cases, loan sellers will have access to more detailed information regarding the open market loan and the borrower under that loan than that set forth in the open market listing. For example, lender members will not know the name of the borrower, have access to the borrower's financial statements and may not be aware of adverse changes to the borrower's credit history after the loan origination date. Moreover, all open market listing information will be provided by the loan seller and will not be independently verified by us. Accordingly, lender members will not have the same ability to determine the default risks of open market loans upon which a Prosper Open Market Note is dependant for payment as the person offering such loan for sale.

***The holders of Prosper Open Market Notes may be exposed to risks different than those experienced by holders of Prosper Borrower Notes.***

Holders of Prosper Open Market Notes may be exposed to risks different than those experienced by holders of Prosper Borrower Notes including the following:

- loan sellers may not provide accurate projected loss rates for open market loans, which could adversely affect the accuracy of the corresponding Prosper Rating;
- the Prosper Rating and credit detail reflected in an open market listing are determined as of the loan origination date and may not accurately reflect the current risk of the open market loan at the time that it is listed;
- the information contained in open market listings is not independently verified by Prosper;
- the loan seller, not Prosper, will service open market loans. This may introduce additional delays in the receipt of payments and information regarding the underlying open market loans. In addition, due to the terms of the servicing agreements with the loan sellers, Prosper will likely have limited abilities to collect on delinquent open market loans;
- returns on open market loans may be reduced if the loan seller repurchases open market loans due to non-conformance with the terms of the loan purchase agreement between Prosper and the loan seller;
- returns on open market loans that are secured by collateral may be reduced because of increased expenses or the deteriorated value of the collateral; and
- when Prosper purchases open market loans reflecting the financing of consumer goods and services, Prosper is subject to the additional claims and defenses that the borrower could assert against the loan seller, which may limit Prosper's and the loan seller's ability to collect on such open market loans in the event of default.

***Open Market Loans will be serviced by the loan seller and not Prosper, which could adversely affect or delay payments you receive under the Note.***

Open market loans will be serviced by the loan seller of the loan and not by Prosper. Although each loan seller will have agreed to administer the open market loans serviced by it in a manner and to a standard consistent with servicing practices of lending institutions servicing loans of the same type as the open market loans for their own account, there can be no assurance that it will do so. Further, there can be no assurance that a third party servicer will forward payments collected from borrowers under such open market loans to Prosper in a timely manner or that such third party servicer will provide Prosper in a timely manner with the information required to be provided to the holders of Notes dependent for payment on that open market loan. Any failure by the loan seller to collect payments due from borrowers under the open market loans or to forward those payments to us or in a timely manner may impact the payment you receive under Notes dependent for payment on that open market loan.

Should a loan seller servicing an open market loan suspend its operations, or in the event of a bankruptcy or similar proceeding of a loan seller, there could be delays in the receipt of funds as Prosper transfers servicing operations for the open market loans to a backup servicer, as required by the master loan purchase agreements between Prosper and the loan seller. If the loan seller becomes subject to a bankruptcy or similar proceeding, the rights of Prosper and the holders of Prosper Open Market Notes could be uncertain, and the loan seller's payments to Prosper under the corresponding open market loans may be limited, suspended or stopped even if the borrowers are making payments on such borrower loans.

**Risks Related to Prosper, Our Platform and Our Ability to Service the Notes**

***We are a recently formed corporation and have no operating history and are dependent upon the success of our platform and on the financial resources of our parent to maintain our operations. Our parent has incurred operating losses since our inception. We anticipate that we will continue to incur net losses through 2010. Our failure to obtain sufficient debt and equity financings and, ultimately, to achieve profitable operations and positive cash flows from operations could adversely affect our ability to achieve our business objectives and continue as a going concern.***

We were organized in April 2009 and have no operating history and only a limited capitalization. We have entered into an administration agreement with our parent under which Prosper Inc. has agreed to provide us with all services necessary to operate the platform and to fund our operations until we achieve profitability. Prosper Inc. has incurred operating losses since its inception and we anticipate that we and Prosper Inc. will continue to incur net losses for a number of years as we grow our business. For the fiscal years ended December 31, 2008 and 2007, Prosper Inc. had negative cash flows from operations of $9.9 million and $9.5 million, respectively. Additionally, since its inception through December 31, 2008, Prosper Inc. had an accumulated deficit of $30.2 million.

At December 31, 2008, Prosper Inc. had approximately $9.8 million in cash and cash equivalents, which it believes will be sufficient to fund its operations through 2009. We are dependent upon Prosper Inc. under administration agreement to assist us in the funding of our day-to-day operations. If Prosper Inc. fails to do so, we will need to raise additional capital or debt financing to fund our current operating plan. Our failure to obtain sufficient debt and equity financings and, ultimately, to achieve profitable operations and positive cash flows from operations could adversely affect our ability to achieve our business objectives and continue as a going concern. Further, we can provide no assurances as to the availability or terms upon which the required financing and capital might be available.

***Our parent faces a contingent liability for potential securities law violations in respect of loans sold to our lender members from inception until October 16, 2008. This contingent liability may impair its ability to abide by the terms of the administration agreement and thereby impact our ability to operate our platform and service the borrower loans that correspond to your Notes.***

Loans sold to lender members through the platform from inception until October 16, 2008 may be viewed as involving an offering of securities that was not registered or qualified under federal or state securities laws. To date, the following litigation has resulted from our parent's prior operations.

- In November of 2008, the SEC instituted cease and desist proceedings, pursuant to Section 8A of the Securities Act, against our parent. In connection with such proceedings, our parent made an offer of settlement and consented to the entry of a cease and desist order, in which our parent neither admitted nor denied liability, which was approved by the SEC on November 20, 2008. The cease and desist order included a finding that our parent violated the registration requirements of the Securities Act, and required that our parent cease and desist from committing or causing any violations and any future violations in the future.

- On November 26, 2008, Prosper Inc. and the North American Securities Administrators Association, or "NASAA," executed a settlement term sheet. The term sheet sets forth the material terms of a consent order to resolve matters relating to Prosper Inc.'s sale and offer of unregistered securities and the omission of material facts in connection with such offers and sales. NASAA will recommend that each state adopt the terms of the settlement, however, the settlement is not binding on any state. The terms of the settlement involved our parent's payment of up to $1 million, which NASAA will allocate among the 50 states and the District of Columbia, where we conduct business, based on the loan sale transaction volume in each state. Our parent will not be required to pay any portion of the fine allocated to those states that do not execute a consent order with Prosper Inc.. The terms of the settlement require the states to terminate their investigation of our activities related to the sale of securities before November 24, 2008. If a state does not elect to participate in the NASAA settlement, such state would not be prevented from pursuing its own remedies in connection with our parent's sale of securities before November 24, 2008. We have reached agreement with NASAA on the final terms of the consent order for consideration by the states. Our parent has accrued approximately $417,000 in connection with the contingent liability arising from the settlement term sheet in accordance with SFAS No. 5, *Accounting for Contingencies*.

- On November 26, 2008, a class action lawsuit was filed against Prosper Inc. the Superior Court of California, County of San Francisco, California. The suit was brought on behalf of all loan note purchasers in our online lending platform from January 1, 2006 through October 14, 2008 and alleges that Prosper Inc. offered and sold unqualified and unregistered securities in violation of the California and federal securities laws. The lawsuit seeks class certification, damages, the right of rescission and the award of attorneys' fees and costs against Prosper Inc..

As a result of our parent's prior operations, lender members who hold these loans may be entitled to rescind their purchase and be paid their unpaid principal amount of the borrower loans plus statutory interest. In addition, as of December 31, 2008, the aggregate principal balance of loans purchased through the platform by purchasers not affiliated with Prosper Inc. was $178.6 million. Prosper Inc. has not recorded an accrued loss contingency in respect of this contingent liability, although it intends to continue to monitor the situation. Generally, the federal statute of limitations for noncompliance with the requirement to register securities under the Securities Act is one year from the violation; however, the statute of limitations periods under state laws may extend for a longer period of time. If a significant number of lender members sought rescission, or if the class action securities lawsuit is successful, this could impact our parent's ability to abide by the terms of the administration agreement and thereby impact our ability to maintain the platform and service the borrower loans that correspond to your Notes.

***We have no operating history and are dependent upon the success of our platform and on the financial resources of our parent to maintain our operations. As an online company in the early stages of development, we face increased risks, uncertainties, expenses and difficulties.***

As the number of borrowers, lender members and borrower loans originated on our platform increases, we will need to increase our facilities, personnel and infrastructure in order to accommodate the greater servicing obligations and demands on our platform. Our platform is dependent upon our website in order to maintain current listings and transactions in the Notes. We must constantly add new hardware and update our software and website, expand our customer support services, and add new employees to maintain the operations of our platform as well as to satisfy our servicing obligations on the borrower loans and the Notes. If we are unable to increase the capacity of our platform and maintain the necessary infrastructure, you may experience delays in receipt of payments on your Notes and periodic downtime of our systems.

***The market in which we participate is competitive and, if we do not compete effectively, our operating results could be harmed.***

The consumer lending market is competitive and rapidly changing. With the introduction of new technologies and the influx of new entrants, we expect competition to persist and intensify in the future, which could harm our ability to increase volume on our platform.

Our principal competitors include major banking institutions, credit unions, credit card issuers and other consumer finance companies, as well as other peer-to-peer lending platforms, including Lending Club and Virgin Money. Competition could result in reduced volumes, reduced fees or the failure of our peer-to-peer lending platform to achieve or maintain more widespread market acceptance, any of which could harm our business. In addition, in the future we may experience new competition from more established Internet companies, such as eBay Inc., Google Inc., or Yahoo! Inc., possessing large, existing customer bases, substantial financial resources and established distribution channels. If any of these companies or any major financial institution decided to enter the peer-to-peer lending business, acquire one of our existing competitors or form a strategic alliance with one of our competitors, our ability to compete effectively could be significantly compromised and our operating results could be harmed.

Most of our current or potential competitors have significantly more financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their platforms and distribution channels. Our potential competitors may also have longer operating histories, more extensive customer bases, greater brand recognition and broader customer relationships than we have. These competitors may be better able to develop new products, to respond quickly to new technologies and to undertake more extensive marketing campaigns. Our industry is driven by constant innovation. If we are unable to compete with such companies and meet the need for innovation, the use of our platform could stagnate or substantially decline.

***If we fail to promote and maintain our brand in a cost-effective manner, we may lose market share and our revenue may decrease.***

We believe that developing and maintaining awareness of the Prosper brand in a cost-effective manner is critical to achieving widespread acceptance of peer-to-peer lending through Prosper and attracting new borrower and lender members. Furthermore, we believe that the importance of brand recognition will increase as competition in the peer-to-peer lending industry increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and the member experience on our platform. Historically, our efforts to build our brand have involved significant expense, and it is likely that our future marketing efforts will require us to incur significant additional expenses. These brand promotion activities may not yield increased revenues and, even if they do, any revenue increases may not offset the expenses we incur to promote our brand. If we fail to successfully promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may lose our existing members to our competitors or be unable to attract new members, which would cause our revenue to decrease and may impair our ability to maintain our platform.

***If we are unable to increase transaction volumes, our business and results of operations will be affected adversely.***

To succeed, we must increase transaction volumes on our platform by attracting a large number of borrowers and lender members in a cost-effective manner, many of whom have not previously participated in peer-to-peer lending. If we are not able to attract qualified borrowers and sufficient lender members purchase commitments, we will not be able to increase our transaction volumes. Additionally, we rely on a variety of methods to drive traffic to our website. If we are unable to use any of our current or future marketing initiatives or the cost of these initiatives were to significantly increase, we may not be able to attract new borrowers and lender members in a cost-effective manner and, as a result, our revenue and results of operations would be affected adversely, which may impair our ability to maintain our platform.

***We are subject to extensive federal, state and local regulation. There can be no guarantee that we will be able to continue our servicing obligations.***

We are subject to extensive federal, state and local regulation, non-compliance with which may expose us to adverse consequences. Additionally, new laws and regulations could be enacted that could have a negative impact on our ability to service the Notes, provide a trading market for the Notes, or maintain our platform. We could suffer adverse consequences if we were to fail to comply, even inadvertently, with these laws and regulations.

Additionally, we are licensed as a finance lender under the California Finance Lender Law and are regulated and examined by the California Department of Corporations. Our parent holds similar lending licenses or authorizations in 23 other states, which also supervise and examine the activities of our parent. If we do not comply with applicable laws, we could lose one or more of our licenses or authorizations, which may have an adverse effect on our ability to continue to perform our servicing obligations or to maintain our platform. See "Government Regulation—Regulation and Consumer Protection Laws" for more information.

The Federal Fair Debt Collection Practices Act and similar state debt collection laws regulate debt collection practices by "debt collectors" and prohibit debt collectors from engaging in certain practices in collecting, and attempting to collect, outstanding consumer loans. For example, debt collectors are prohibited from contacting debtors at unreasonable times, revealing or discussing the nature of the debt with third parties, making false representations in association with efforts to collect the debt, seeking collection fees or other charges not permitted under contract or by state law, making threats of arrest or legal action without actual intention of action on the threat, and using abusive or profane language in the course of collection on the debt. While Prosper obligates its collection agencies to comply with applicable law in collecting Prosper borrower loans, and Prosper's agreements with loan sellers requires that they comply with applicable law in collecting open market loans, it is possible that improper collection practices may occur which could adversely impact the collectibility of particular borrower loans originated or sold through our platform.

***Our arrangements for back-up servicing are limited. If we fail to maintain operations, you will experience a delay and increased cost in respect of your expected principal and interest payments on your Notes, and we may be unable to collect and process repayments from borrowers.***

If we are unable to generate sufficient revenues from the fees we receive from borrowers and lender members as a result of the borrower loans originated or sold, the Notes issued on our platform, our ability to maintain operations may be adversely affected. If we were to fail or become insolvent, there would be no trading market for your Notes, and we would attempt to transfer our servicing obligations on the borrower loans and Notes to a third party pursuant to our contractual agreements with lender members. Prosper Inc. will act as back-up servicer and if it is unable to do so, Prosper Inc. has entered into a back-up servicing agreement with a loan servicing company who is willing and able to transition servicing responsibilities in the event Prosper Inc. can no longer do so. If our platform fails or we became insolvent, we would attempt to transfer our loan servicing obligations to this third party back-up servicer. There can be no assurance that this back-up servicer will be able to adequately perform the servicing of the outstanding borrower loans. If this back-up servicer assumes the servicing of the borrower loans, the back-up servicer may impose additional servicing fees, reducing the amounts available for payments on the Notes. Additionally, transferring these servicing obligations to our back-up servicer may result in delays in the processing and recovery of information with respect to amounts owed on the borrower loans or, if our platform becomes inoperable, may prevent us from servicing the borrower loans and making principal and interest payments on the Notes. If our back-up servicer is not able to service the borrower loans effectively, your ability to receive principal and interest payments on your Notes may be substantially impaired.

***We do not have patent protection for all of our proprietary technology. It may be difficult and costly to protect our intellectual property rights, and we may not be able to ensure their protection.***

Our ability to maintain our platform and perform our servicing obligations depends, in part, upon our proprietary technology. We have applied for a patent covering various aspects of the operation of our platform; however, there can be no assurance that it will be granted, or if a patent were issued, that a third party may not be successful in challenging it. Additionally, we may not protect our proprietary technology effectively, which would allow competitors to duplicate our products and adversely affect our ability to compete with them. A third party may attempt to reverse engineer or otherwise obtain and use our proprietary technology without our consent. In addition, our platform may infringe upon claims of third-party patents and we may face intellectual property challenges from such other parties. We may not be successful in defending against any such challenges or in obtaining licenses to avoid or resolve any intellectual property disputes. Furthermore, our technology may become obsolete, and there is no guarantee that we will be able to successfully develop, obtain or use new technologies to adapt our platform to compete with other peer-to-peer lending platforms, should they develop. If we cannot protect the proprietary technology embodied in and used by our platform from intellectual property challenges, or if our platform becomes obsolete, our ability to maintain our platform and our ability to perform our servicing obligations on the borrower loans and Notes could be adversely affected.

***We rely on a third-party commercial bank to process transactions. If we are unable to continue utilizing these services, our business and ability to service the Notes may be adversely affected.***

Because we are not a bank, we cannot belong to and directly access the Automated Clearing House (ACH) payment network. As a result, we currently rely on an FDIC-insured depository institution to process our transactions. If we cannot continue to obtain such services from this institution or elsewhere, or if we cannot transition to another processor quickly, our ability to process payments will suffer and your ability to receive principal and interest payments on the Notes will be delayed or impaired.

***If we were to become subject to a bankruptcy or similar proceeding, the rights of the holders of the Notes could be uncertain, and payments on the Notes may be limited, suspended or stopped. Although Prosper intends to grant the indenture trustee a security interest in its right to receive payment under the corresponding borrower loans, the Notes themselves are unsecured and holders of the Notes do not directly have a security interest in the corresponding borrower loans or the proceeds of those corresponding borrower loans. The recovery, if any, of a holder on a Note may be substantially delayed and substantially less than the principal and interest due and to become due on the Note.***

If we were to become subject to a bankruptcy or similar proceeding, the recovery, if any, of a holder of a Note may be substantially delayed in time and may be substantially less in amount than the principal and interest due and to become due on the Note. Although Prosper will grant the indenture trustee a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited, the holders of the Notes will still be subject to the following risks associated with Prosper's insolvency, bankruptcy or a similar proceeding.

*A bankruptcy or similar proceeding of Prosper may cause delays in borrower payments*. Borrowers may delay payments to Prosper on account of borrower loans because of the uncertainties occasioned by a bankruptcy or similar proceeding of Prosper, even if the borrowers have no legal right to do so, and such delay would reduce, at least for a time, the funds that might otherwise be available to pay the Notes corresponding to those borrower loans. In addition, the commencement of the bankruptcy or similar proceeding may, as a matter of law, prevent Prosper from making regular payments on the Notes, even if the funds to make such payments are available. Because the indenture trustee would be required to enforce its security interest in Prosper's right to payment under the borrower loans in a bankruptcy or similar proceeding of Prosper, the trustee's ability to make payments under the Notes would be delayed, which may effectively reduce the value of any recovery that a holder of a Note may receive (and no such recovery can be assured) by the time any recovery is available.

*Interest accruing upon and following a bankruptcy or similar proceeding of Prosper may not be paid*. In bankruptcy or similar proceeding of Prosper, interest accruing on the Notes during the proceeding may not be part of the allowed claim of a holder of a Note. If the holder of a Note receives a recovery on the Note (and no such recovery can be assured), any such recovery may be based on, and limited to, the claim of the holder of the Note for principal and for interest accrued up to the date of the bankruptcy or similar proceeding, but not thereafter. Because a bankruptcy or similar proceeding may take months or years to complete, a claim based on principal and on interest only up to the start of the bankruptcy or similar proceeding may be substantially less than a claim based on principal and on interest through the end of the bankruptcy or similar proceeding.

*In a bankruptcy or similar proceeding of Prosper, there may be uncertainty regarding whether a holder of a Note has any priority right to payment from the corresponding borrower loan***.** In a bankruptcy or similar proceeding of Prosper, there may be uncertainty regarding whether a holder of a Note has any priority right to payment from the corresponding borrower loan. If we or the indenture trustee fail to perfect the security interest properly, you may be required to share the proceeds of the borrower loan upon which your Note is dependent for payment with Prosper's other creditors. In addition, if proceeds from the corresponding borrower loan are either held by Prosper in the clearing account at the time of the bankruptcy or similar proceeding of Prosper, or not yet received by Prosper from borrowers at the time of the commencement of the bankruptcy or similar proceeding, such proceeds may be at greater risk than those proceeds that are already held by Prosper in the funding account at the time of the bankruptcy or similar proceeding. To the extent that proceeds of the corresponding borrower loan would be shared with other creditors of Prosper, any secured or priority rights of such other creditors may cause the proceeds to be distributed to such other creditors before any distribution is made to you on your Note.

*In a bankruptcy or similar proceeding of Prosper, there may be uncertainty regarding the rights of a holder of a Note, if any, to payment from funds in the master servicing account*. If a payment is made on a borrower loan corresponding to a Note before a bankruptcy or similar proceeding of Prosper is commenced, and those funds are held in the master servicing account and have not been used by Prosper to make payments on the Note as of the date the bankruptcy or similar proceeding is commenced, there can be no assurance that Prosper will or will be able to use such funds to make payments on the Note. Other creditors of Prosper may be deemed to have rights to such funds that are equal to or greater than the rights of the holder of the Note. See "About the Platform—Loan Servicing and Collections" for more information.

*In a bankruptcy or similar proceeding of Prosper, there may be uncertainty regarding the rights of a holder of a Note, if any, to access funds in the funding account.* Although, we believe that amounts funded by our lender members into the FBO account at Wells Fargo should not be subject to claims of creditors of Prosper other than the lender members for whose benefit the funds are held, the legal title to the FBO account, and the attendant right to administer the FBO account would be property of Prosper's bankruptcy estate. As a result, if Prosper were to file for bankruptcy protection, the legal right to administer the funds in the FBO account would vest with the bankruptcy trustee or debtor in possession. In that case, while neither Prosper nor its creditors should be able to reach those funds, the indenture trustee or the lender members may have to seek a bankruptcy court order lifting the automatic stay and permitting them to withdraw their funds. Lender members may suffer delays in accessing their funds in the FBO account as a result. Moreover, United States Bankruptcy Courts have broad powers and, if Prosper has failed to properly segregate or handle lender members' funds, a bankruptcy court could determine that some or all of such funds were beneficially owned by Prosper and therefore that they became available to the creditors of Prosper generally. See "About the Platform—Loan Servicing and Collections" for more information.

*In a bankruptcy or similar proceeding of Prosper, the holder of a Note may be delayed or prevented from enforcing Prosper's repurchase obligations.* In a bankruptcy or similar proceeding of Prosper, any right of a holder of Note to require Prosper to repurchase the Note under the circumstances set forth in the lender registration agreement may not be specifically enforced, and such holder's claim for such repurchase may be treated less favorably than a general unsecured obligation of Prosper.

*In a bankruptcy or similar proceeding of Prosper, the implementation of back-up servicing arrangements may be delayed or prevented.* In a bankruptcy or similar proceeding of Prosper, our ability to transfer servicing obligations to a back-up servicer may be limited and subject to the approval of the bankruptcy court or other presiding authority. The bankruptcy process may delay or prevent the implementation of back-up servicing, which may impair the collection of borrower loans to the detriment of the Notes.

***If the security of our lender members' and borrowers' confidential information stored in our systems is breached or otherwise subjected to unauthorized access, your secure information may be stolen, our reputation may be harmed, and we may be exposed to liability.***

Our platform stores our lender members' and borrowers' bank information and other personally-identifiable sensitive data. Any accidental or willful security breaches or other unauthorized access could cause your secure information to be stolen and used for criminal purposes. Security breaches or unauthorized access to secure information could also expose us to liability related to the loss of the information, time-consuming and expensive litigation and negative publicity. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, a third party or disaffected employee obtains unauthorized access to any of our lender members' or borrowers' data, our relationships with our members will be severely damaged, and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, we and our third-party hosting facilities may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach are costly to implement and often lead to widespread negative publicity, which may cause our members to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, would harm our reputation, and we could lose members.

***Any significant disruption in service on our website or in our computer systems could reduce the attractiveness of our platform and result in a loss of members.***

Our ability to perform our servicing obligations could be materially and adversely affected by events outside of our control. The satisfactory performance, reliability and availability of our and our parent's technology and underlying network infrastructure are critical to our operations, level of customer service, reputation and ability to attract new members and retain existing members. Our system hardware is hosted in a hosting facility located in San Francisco, California, owned and operated by Rincon 365 Borrower, LLC. We also maintain an off-site backup system located in Las Vegas, Nevada. Rincon 365 Borrower, LLC does not guarantee that access to our website will be uninterrupted, error-free or secure. Our operations depend on Rincon 365 Borrower, LLC's ability to protect their and our systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, air quality, temperature, humidity and other environmental concerns, computer viruses or other attempts to harm our systems, criminal acts and similar events. If the arrangement with Rincon 365 Borrower, LLC is terminated, or there is a lapse of service or damage to Rincon 365 Borrower, LLC's facilities, we could experience interruptions in our service as well as delays and additional expense in arranging new facilities. Any interruptions or delays in our service, whether as a result of Rincon 365 Borrower, LLC or other third-party error, our own error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with our members and our reputation. Additionally, in the event of damage or interruption, our parent's insurance policies may not adequately compensate us for any losses that we may incur. Our disaster recovery plan has not been tested under actual disaster conditions, and we may not have sufficient capacity to recover all data and services in the event of an outage at the Rincon 365 Borrower, LLC facility. These factors could prevent us from processing or posting payments on the borrower loans or the Notes, damage our brand and reputation, divert our employees' attention, reduce our revenue, subject us to liability and cause members to abandon our platform, any of which could adversely affect our business, financial condition and results of operations.

***Our ability to service the borrower loans and Notes may be adversely affected by computer viruses, physical or electronic break-ins and similar disruptions.***

Our platform may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions. If a "hacker" were able to infiltrate our platform, you would be subject to the increased risk of fraud or borrower identity theft and may experience losses on, or delays in the recoupment of amounts owed on, a fraudulently induced purchase of a Note. Additionally, if a hacker were able to access our secure files, he or she might be able to gain access to your personal information. While we have taken steps to prevent such activity from affecting our platform, if we are unable to prevent such activity, the value of your investment in the Notes and our ability to fulfill our servicing obligations and to maintain our platform would be adversely affected.

***Competition for our employees is intense, and we may not be able to attract and retain the highly skilled employees whom we need to support our business.***

Competition for highly skilled technical and financial personnel is extremely intense. We or our parent may not be able to hire and retain these personnel at compensation levels consistent with existing compensation and salary structure. Many of the companies with which our parent competes for experienced employees have greater resources than we or our parent have and may be able to offer more attractive terms of employment.

In addition, our parent invests significant time and expense in training its employees, which increases their value to competitors who may seek to recruit them. If our parent fails to retain its employees, it could incur significant expenses in hiring and training their replacements and the quality of our services and our ability to serve borrowers and lender members could diminish, resulting in a material adverse effect on our business.

***If our parent fails to retain our key personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.***

Our future depends, in part, on our and our parent's ability to attract and retain key personnel. Our future also depends on the continued contributions of our and our parent's executive officers and other key technical personnel, each of whom would be difficult to replace. In particular, Christian Larsen is critical to the management of our business and operations and the development of our strategic direction. The loss of the services of Mr. Larsen or other executive officers or key personnel and the process to replace any of our or our parent's key personnel would involve significant time and expense and may significantly delay or prevent the achievement of our business objectives.

***Our growth could strain our personnel resources and infrastructure, and if we are unable to implement appropriate controls and procedures to manage our growth, we may not be able to successfully implement our business plan.***

Our growth in headcount and operations since our inception has placed, and will continue to place, to the extent that we are able to sustain such growth, a significant strain on our management and our administrative, operational and financial reporting infrastructure.

Our success will depend in part on the ability of our senior management to manage the growth we achieve effectively. To do so, we must continue to hire, train and manage new employees as needed. If our new hires perform poorly, or if we are unsuccessful in hiring, training, managing and integrating these new employees, or if we are not successful in retaining our existing employees, our business may be harmed. To manage the expected growth of our operations and personnel, we will need to continue to improve our operational and financial controls and update our reporting procedures and systems. The addition of new employees and the system development that we anticipate will be necessary to manage our growth will increase our cost base, which will make it more difficult for us to offset any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth, we will be unable to execute our business plan.

***Purchasers of Notes will have no control over Prosper and will not be able to influence Prosper corporate matters.***

We are not offering any equity in this offering. Lender members who purchase Notes offered through our platform will have no equity interest in Prosper or Prosper Inc. and no ability to vote on or influence our corporate decisions. As a result, our stockholders am the stockholders of our parent will continue to exercise 100% voting control over all of our corporate matters, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets.

***Neither the Notes nor the indenture restrict our ability to incur additional indebtedness. Any additional debt we incur may increase our risk of bankruptcy, which could impair your ability to receive the full principal and interest payments that you expect to receive on a Note.***

If we incur additional debt after the Notes are issued, it may adversely affect our creditworthiness generally, and could result in the financial distress, insolvency, or bankruptcy of Prosper or Prosper Inc. As discussed above, the financial distress, insolvency or bankruptcy of Prosper or Prosper Inc. could impair your ability to receive the full principal and interest payments that you expect to receive on a Note.

**Risks Relating to Compliance and Regulation**

***Our platform is a novel approach to borrowing that may fail to comply with borrower protection laws such as state lending laws, or federal and state consumer protection laws such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and the Fair Debt Collection Practices Act and their state counterparts. Borrowers may make counterclaims regarding the enforceability of their obligations after collection actions have commenced, or otherwise seek damages under these laws. Compliance with such regimes is also costly and burdensome.***

Our platform operates a novel program that must comply with regulatory regimes applicable to consumer credit transactions. The novelty of our platform means compliance with various aspects of such laws is untested. Certain state laws generally regulate interest rates and other charges and require certain disclosures, and require licensing for certain activities. In addition, other state laws, public policy and general principles of equity relating to the protection of consumers, unfair and deceptive practices and debt collection practices may apply to the origination, servicing and collection of the borrower loans. Our platform is also subject to other federal and state laws, such as:

- the Federal Truth-in-Lending Act and Regulation Z promulgated thereunder, and similar state laws, which require certain disclosures to borrowers regarding the terms of their borrower loans;
- the Federal Equal Credit Opportunity Act and Regulation B promulgated thereunder, which prohibit discrimination on the basis of age, race, color, sex, religion, marital status, national origin, receipt of public assistance or the exercise of any right under the Consumer Credit Protection Act, in the extension of credit;
- the Federal Fair Credit Reporting Act, which regulates the use and reporting of information related to each borrower member's credit history; and
- the Federal Fair Debt Collection Practices Act and similar state debt collection laws, which regulate debt collection practices by "debt collectors" and prohibit debt collectors from engaging in certain practices in collecting, and attempting to collect, outstanding consumer loans.

We may not always have been, and may not always be, in compliance with these laws. Compliance with these requirements is also costly, time-consuming and limits our operational flexibility. See "Government Regulation—Regulation of Consumer Protection Laws" for more information.

***Noncompliance with laws and regulations may impair our ability to facilitate the origination of or service borrower loans.***

Generally, failure to comply with the laws and regulatory requirements applicable to our business may, among other things, limit our, or a collection agency's, ability to collect all or part of the principal amount of or interest on the borrower loans on which the Notes are dependent and, in addition, could subject us to damages, revocation of required licenses or other authorities, class action lawsuits, administrative enforcement actions, and civil and criminal liability, which may harm our business and ability to maintain our platform and may result in borrowers rescinding their borrower loans.

Where applicable, we seek to comply with state lending, servicing and similar statutes. In all U.S. jurisdictions with licensing or other requirements we believe may be applicable to the platform, we have obtained any necessary licenses or comply with the relevant requirements. Nevertheless, if we are found to not comply with applicable laws, we could lose one or more of our licenses or authorizations or face other sanctions, which may have an adverse effect on our ability to continue to facilitate the origination of borrower loans through our platform, perform our servicing obligations or make our platform available to borrowers in particular states, which may impair your ability to receive the payments of principal and interest on your Notes that you expect to receive. See

"Government Regulation—Regulation of Consumer Protection Laws—State and Federal Laws and Regulations" for more information.

***We rely on our agreement with WebBank to originate loans to qualified borrower members on a uniform basis throughout the United States. If our relationship with WebBank were to end, Prosper borrower loans would only be available to residents of California.***

Borrower loan requests take the form of an application to WebBank, which currently makes all loans to our borrower members who request loans through our platform, and allows our platform to be available to borrowers on a uniform basis throughout the United States. If our relationship with WebBank were to end or if WebBank were to cease operations and we could not find a suitable replacement, Prosper borrower loans would only be available to residents of California.

***Several lawsuits have sought to recharacterize certain loan marketers and other originators as lenders. If litigation on similar theories were successful against us, Prosper borrower loans originated through the Prosper platform could be subject to state consumer protection laws in a greater number of states.***

Several lawsuits have brought under scrutiny the association between high-interest "payday loan" marketers and out-of-state banks. These lawsuits assert that payday loan marketers use out-of-state lenders in order to evade the consumer protection laws imposed by the states where they do business. Such litigation has sought to recharacterize the loan marketer as the lender for purposes of state consumer protection law restrictions. Similar civil actions have been brought in the context of gift cards. We believe that our activities are distinguishable from the activities involved in these cases.

Additional state consumer protection laws would be applicable to the borrower loans originated or sold on our platform if we were recharacterized as a lender, and the borrower loans could be voidable or unenforceable. In addition, we could be subject to claims by borrowers, as well as enforcement actions by regulators. Even if we were not required to cease doing business with residents of certain states or to change our business practices to comply with applicable laws and regulations, we could be required to register or obtain licenses or regulatory approvals that could impose a substantial cost on us. To date, no actions have been taken or threatened against us on the theory that we have engaged in unauthorized lending. However, such actions could have a material adverse effect on our business.

***As Internet commerce develops, federal and state governments may draft and propose new laws to regulate Internet commerce, which may negatively affect our business.***

As Internet commerce continues to evolve, increasing regulation by federal and state governments becomes more likely. Our business could be negatively affected by the application of existing laws and regulations or the enactment of new laws applicable to peer-to-peer lending. The cost to comply with such laws or regulations could be significant and would increase our operating expenses, and we may be unable to pass along those costs to our members in the form of increased fees. In addition, federal and state governmental or regulatory agencies may decide to impose taxes on services provided over the Internet. These taxes could discourage the use of the Internet as a means of consumer lending, which would adversely affect the viability of our platform.

***If we are required to register under the Investment Company Act, our ability to conduct our business could be materially adversely affected.***

The Investment Company Act of 1940, or the "Investment Company Act," contains substantive legal requirements that regulate the manner in which "investment companies" are permitted to conduct their business activities. We believe we have conducted, and we intend to continue to conduct, our business in a manner that does not result in our company being characterized as an investment company. If, however, we are deemed to be an investment company under the Investment Company Act, we may be required to institute burdensome compliance requirements and our activities may be restricted, which would materially adversely affect our business, financial condition and results of operations. If we were deemed to be an investment company, we may also attempt to seek exemptive relief from the SEC, which could impose significant costs and delays on our business.

***Events beyond our control may damage our ability to maintain adequate records, maintain our platform or perform our servicing obligations. If such events result in a system failure, your ability to receive principal and interest payments on the Notes would be substantially harmed.***

If a catastrophic event resulted in our platform outage and physical data loss, our ability to perform our servicing obligations would be materially and adversely affected. Such events include, but are not limited to, fires, earthquakes, terrorist attacks, natural disasters, computer viruses and telecommunications failures. We store back-up records in offsite facilities located in San Francisco, California and Las Vegas, Nevada.  If our electronic data storage and back-up data storage system are affected by such events, we cannot guarantee that you would be able to recoup your investment in the Notes.\

***We will rely on your representations and warranties to us in order to ensure our compliance with Section 3(a)(11) of the Securities Act and the suitability standards required by the California Department of Corporations.  You will be liable to Prosper for any damages caused by a breach of your representations and warranties to us, which may include the purchase price of all Notes sold on the platform to all lender members.***

Prosper is offering the Notes pursuant to an exemption provided by Section 3(a)(11) of the Securities Act, which only permits offers and sales to persons residing in a single state—the State of California.  We will rely on your representations and warranties to us contained in the residency and suitability questionnaire and the lender registration agreement to ensure our compliance with the requirements of Section 3(a)(11) of the Securities Act and the suitability standards required by the California Department of Corporations.  If you breach any of your representations and warranties to us, Prosper may lose the exemption provided by Section 3(a)(11) for all Notes sold on the platform to all lender members and you will be liable to Prosper for any damages caused by a breach of your representations and warranties, which likely will greatly exceed the purchase price of the Notes you have purchased.

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus regarding Prosper borrowers, credit scores, Prosper Ratings, estimated loss rates, our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. These forward-looking statements include, among other things, statements about:

- the status of borrowers, the ability of borrowers to repay borrower loans and the plans of borrowers;
- estimated loss rates;
- expected rates of return and interest rates;
- the attractiveness of our platform;
- our financial performance;
- the impact of our new structure on our financial condition and results of operations;
- our ability to retain and hire necessary employees and appropriately staff our operations;
- regulatory developments;
- our intellectual property; and
- our estimates regarding expenses, future revenue, capital requirements and needs for additional financing.

We may not actually achieve the plans, intentions or expectations disclosed in forward-looking statements, and you should not place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in forward-looking statements. We have included important factors in the cautionary statements included in this prospectus, particularly in the "Risk Factors" section, that could cause actual results or events to differ materially from forward-looking statements contained in this prospectus. Forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that actual future results may be materially different from what we expect. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## USE OF PROCEEDS

We will use the proceeds of each series of Notes to facilitate the funding or sale of a borrower loan through our platform designated by the lender members purchasing such series of Notes. We will use the proceeds of each series of Notes to purchase the corresponding borrower loan obtained by the Prosper borrower member or sold by a loan seller on our platform. Proceeds of the sale of Prosper Borrower Notes corresponding to loans made to non-California residents are paid to WebBank for the purchase of borrower loans by Prosper from WebBank. Proceeds of the sale of Prosper Borrower Notes corresponding to loans made by Prosper to California residents are disbursed to Prosper borrowers. Proceeds of the sale of Prosper Open Market Notes are paid to the loan seller that listed the corresponding open market loan for sale. See “About the Platform” for more information.

## PLAN OF DISTRIBUTION

We will offer the Notes to our lender members at 100% of their principal amount. Only may The Notes will be offered only by Prosper through the Prosper website, and only to lender members who are residents of the State of California and satisfy certain suitability requirements. See “Suitability Requirements” for more information. There will be no underwriters or underwriting discounts and the Notes will not be transferable.

## ABOUT THE PLATFORM

### Overview

Our platform enables our borrower members to borrow money, registered loan sellers to list open market loans for sale and our lender members to purchase Notes issued by Prosper, the proceeds of which facilitate the funding or sale of specific loans made to borrowers. By permitting loan sellers to list for sale on our platform existing loans and retail installment sale contracts they own, we provide banks, consumer finance companies and other financing entities with an additional liquidity option that currently does not exist. Our platform also allows for the formation of community groups and allows Prosper borrower members to participate on our platform as a member of a group, although Prosper borrower members do not need to join a group in order to request Prosper borrower loans on our platform.

Online peer-to-peer lending is a new approach to consumer finance. Peer-to-peer lending uses an Internet-based network to connect borrower and lender members. Our platform generally provides transactional services for the online network, including screening borrowers for borrowing eligibility and facilitating payments. Our platform allows Prosper borrower members and lender members to connect with each other using a combination of financial and social criteria. Online peer-to-peer lending also entails significantly lower operating costs compared to traditional banking and commercial finance institutions because there are no physical branches and related infrastructure.

As an early participant in the development of online peer-to-peer lending, Prosper views consumer finance delivered through an online peer-to-peer platform as an important new market opportunity, as well as a method of providing much needed transparency and liquidity in the consumer lending and capital markets. Key drivers of peer-to-peer lending include the following:

- the possibility of lower interest rates for Prosper borrower members;
- the possibility of attractive interest rates and yield percentages for lender members;
- the possibility for lender members and borrower members to help each other by participating in our platform to their mutual benefit;
- tightening consumer credit markets, particularly among traditional banking institutions; and
- growing acceptance of the Internet as an efficient and convenient forum for consumer transactions.

### How the Platform Operates

Our platform is an online auction-style marketplace that permits our lender members to bid on listings and purchase from Prosper, Notes that are dependent for payment on payments we receive on the corresponding borrower loans described in the listing. Two types of listings appear on our platform: (1) listings posted by individual consumer members of Prosper requesting individual consumer loans, which we refer to as "Prosper borrower listings" and "Prosper borrower loans," respectively; and (2) listings posted by financial institutions registered with Prosper, whom we refer to as "loan sellers," setting forth the terms of existing loans and retail installment sale contracts owned by the financial institutions and offered for sale to Prosper, which we collectively refer to as "open market listings" and "open market loans," respectively. We refer to the persons obligated to make payments under the borrower loans as "borrowers."

Our platform operates online only and is available to Prosper borrower members in all 50 states and the District of Columbia, and to individual lender members who are residents of California, institution lender members who's principal office is in California, and loan sellers who are formed in California , subject to financial suitability requirements for individual lender members. Our registration, processing and payment systems are automated and electronic. We have no physical branches, no deposit-taking and interest payment activities and extremely limited loan underwriting activities. Our website provides detailed information about our platform, including detailed fee information, the full text of our member legal agreements, help pages and white papers. In addition to the customer support materials available on our website, we make additional customer support available to members by email and phone. Our customer support team is currently located at our headquarters in San Francisco, California.

We attract lender members and borrowers to our website, *www.prosper.com*, through a variety of sources. We drive traffic through referrals from other parties (which include online communities, social networks and marketers), through search engine results and through online and offline advertising. We are not dependent on any one source of traffic to our website. As of October 2008, the month our parent stopped offering lender members the opportunity to make purchases on the platform, the website was receiving an average of approximately 288,000 unique visitors per month.

We generate revenue by charging loan sellers transactions fees on open market loans sold to Prosper and lender members ongoing servicing fees on the Notes they have purchased, and from transaction fees paid by borrower members on Prosper borrower loans. For the fiscal year ended December 31, 2008, our parent originated $69.6 million dollars of loans, a 14% decrease from the prior year. Because Prosper Inc. collected small fees and other revenue from thousands of borrowers, no single borrower has accounted for more than 0.1% of its revenue during its fiscal year ended December 31, 2008.

**Platform Participants, Registration Requirements and Minimum Credit Criteria**

All platform participants must register with Prosper and agree to our platform rules and terms of use, including consent to receipt of disclosures electronically. At the time of registration, individuals or authorized institutional agents must provide their name, address and an email address. After responding to an email verification, registrants must agree to the terms and conditions (including the applicable registration agreement) for the specific role for which they are registering.

***Prosper Borrower Members***

A Prosper borrower member may be any natural person at least 18 years of age who is a U.S. resident in a state where loans through the platform are available, with a bank account and a social security number. After passing Prosper's anti-fraud and identity verification process, Prosper borrower members can request unsecured Prosper borrower loans at interest rates which are determined by an auction process. We allow Prosper borrowers to post listings on our platform regardless of their income, although we reserve the right to restrict access to our platform by setting minimum credit or other guidelines for Prosper borrower members.

When a borrower member requests a Prosper borrower loan, we evaluate whether the borrower meets our underwriting criteria for California borrowers or the underwriting criteria we established with WebBank for non-California borrowers. The underwriting criteria for Prosper borrower loans to non-California residents originated through our platform may not be changed without WebBank's consent. The underwriting criteria for either California or non-California residents requires that borrowers have a minimum credit score of a specified threshold amount (currently 640, except that the minimum is 600 for borrower members who (i) had previously obtained a Prosper loan or loan through our parent and paid off the loan in full, or (ii) are seeking a second loan and otherwise eligible for a second loan), and no prior charge-offs on borrower loans originated through our platform. In connection with our identity and anti-fraud verification of Prosper borrower members, we verify the deposit account from which the Prosper borrower member will make payments, to determine that the Prosper borrower member is a holder of record of the account. Even if a listing receives bids in the total amount requested, Prosper will cancel the listing without funding the requested Prosper borrower loan if we are unable to verify the Prosper borrower member's account. While we attempt to authenticate each platform participant's identity, our fraud checks could fail to detect identity theft, fraud and inaccuracies. See "Risk Factors—Risks Related to Borrower Default" for more information.

Borrower members may have up to two Prosper borrower loans outstanding at any one time, provided that the aggregate outstanding principal balance of both Prosper borrower loans does not exceed the then-current maximum allowable loan amount for Prosper borrower loans (currently $25,000). Currently, to be eligible to obtain a second Prosper borrower loan while an existing loan is outstanding:

- Prosper borrower members must be current on their existing Prosper borrower loan, and must not have been more than fifteen days past due in making their most recent monthly Prosper borrower loan payments for a specified number of months (between six and twelve, depending on the borrower's credit score range),

- Prosper borrower members may not post a listing for a second Prosper borrower loan within six to twelve months (depending on the borrower's credit score range) following the date of origination of their existing Prosper borrower loan, and

- the Prosper borrower member's credit score must be 600 or more, and must not drop more than a specified number of points (currently twenty to forty points, depending on the borrower's credit score range at time the existing loan was obtained) below the Prosper borrower member's credit score at the time its existing Prosper borrower loan was obtained.

Prosper borrower loan underwriting requirements, including eligibility requirements for second loans are subject to change from time to time.

***Loan Sellers***

Commercial banks, savings banks, consumer finance companies and other types of financing entities registered with Prosper are eligible to list open market loans for sale on our platform. Prior to approving a loan seller to list loans for sale, Prosper undertakes a due diligence process of the candidate institution. Our objective is to confirm that the information provided by the loan seller will accurately describe the loan being listed for sale, and to establish service level agreements and reports to monitor critical processes on an ongoing basis. This monitoring process includes both monthly reports and periodic on-site audits. During this process we review the credit quality, underwriting and loss expectation of the open market loans. We also review the loan seller's processes with respect to loan origination, chain of title, documentation, balance calculation, record keeping system, servicing and collections, dispute resolution and end-of-loan procedures. A description of the loan seller is posted on the Prosper website for lender members to review.

Once approved, loan sellers can offer to sell open market loans on our platform. All open market loans listed for sale on our platform:

- must have fixed, versus variable, interest rates;

- must have maturities of three months or more; and

- must be current at the time of listing.

Generally, at least one payment must be made on an open market loan prior to listing; however, Prosper reserves the right to waive or modify the minimum number of payments required on open market loans from time to time. In addition, open market loans may include secured or unsecured loans, but may not include real estate secured loans at this time. Prosper does not require the borrowers under the open market loans to have a minimum credit score, and borrowers can have any level of creditworthiness, including non-prime and sub-prime credit ratings.

***Lender Members***

Our lender members are individuals and institutions that have the opportunity to buy our Notes. Lender members must register on our website. During lender registration, potential lender members must agree to a credit profile authorization statement for identification purposes, a tax withholding statement and the terms and conditions of our website. Lender members must also enter into a residency and suitability questionnaire and lender registration agreement with us, which agreement governs all sales of our Notes to the lender members. Lender members are not required to give credit information to the same extent as Prosper borrower members. Individual lender members must be natural persons at least 18 years of age and a resident of the state of California, must provide their social security number and may provide their state driver's license or state identification card number. Institutions must provide their taxpayer identification numbers to us. A lender member will only be considered a resident of the State of California, if at the time of the offer and sale of the Notes:

- if an individual, the lender member has his or her principal residence in the State of California; and

- if a corporation, partnership, trust or other form of business organization, the lender member has its principal office within State of California.

A lender member who is a resident of the State of California as set forth above, may only purchase the Notes if the lender member also satisfies the following minimum financial suitability standards.

- Each individual lender member (a husband and wife are treated together as one lender member) must have an annual gross income of at least $75,000 during the last tax year and will have (based on a good faith estimate) a minimum gross income of $75,000 during the current tax year, or, in the alternative, have a minimum net worth of $200,000 and, in either case, the lender member's aggregate investment in the Notes may not exceed 10% or more of the lender member's net worth; or

- Each individual lender member is a "small investor" who has not purchased, including the proposed purchase of the Note, more than $2,500 of Notes issued by Prosper in the 12 months preceding the proposed sale. A "small investor" means either an individual (including a husband and wife counted as a single person) or self-employed individual retirement plan of an individual or an individual retirement account of an individual.

At the time a lender member registers with Prosper, the lender member must agree to the rules, limitations, processes and procedures established by Prosper for originating, servicing and collecting borrower loans, and for purchasing Notes from Prosper through our platform. Prior to bidding on a listing, lender members must transfer funds to an account maintained on our platform, which we refer to as a "funding account." The funding account holds all funds supporting a lender member's bids and all Note payments payable to the lender member are deposited in the funding account.

### *Groups and Group Leaders*

Borrower and lender members may choose to belong to certain groups of people with common interests. Groups can be any formal or informal collection of people with common interests, including social, cultural, ethnic, professional, education-based, geographical, athletic, religious or any other official or unofficial affiliation. Groups may consist of borrowers, lender members or registered Prosper users who have not taken a role, or any combination of the above. Groups allow people to join together for the common goal of borrowing money at desirable interest rates and give borrowers an additional incentive—the borrower's reputation within the group—to meet their obligation to repay a borrower loan.

Groups are headed by group leaders who display their groups on the Prosper website and may invite prospective borrowers to our platform. Group leaders are individuals who serve as the head of a group of Prosper borrower members or prospective borrowers on our platform. An individual must be registered as a Prosper borrower member or a lender member on our platform in order to register as a group leader. Group leaders are able to condition membership on personal facts and characteristics that may not be available to lender members generally. Group leaders also have the ability, if they so choose, to review and approve their group members' listings before they are posted on our platform for bidding. Group leaders may only act as a leader of one group and do not guarantee payments on any borrower loan or Note.

Prosper borrower members who are not already members of a group may request membership in a group in order to be eligible to post listings on our platform as part of a group. Prosper borrower members' group membership requests are forwarded by Prosper to the applicable group leader, who determines and communicates whether the borrower has been accepted into the group. A Prosper borrower member may only belong to one group at a time. Once accepted into a group, borrowers are eligible to post listings on our platform as part of the group. Prosper borrower listings identify the group, if any, to which the borrower belongs. We believe that a borrower's identification with a group may attract bids from lender members with similar interests, resulting in borrower loans with potentially lower interest rates for the group's borrowers, or a greater likelihood of loan funding.

### *WebBank*

WebBank is an FDIC-insured Utah-chartered industrial bank and direct lender that makes loans to Prosper borrower members that are non-California residents and sells and assigns the promissory notes evidencing Prosper borrower loans to Prosper.

## Borrower Financial Information Is Generally Not Verified by Prosper

We reserve the right in our member agreements to verify the accuracy of all statements and information provided by Prosper borrower members, lender members and group leaders in connection with listings, bids and Prosper borrower loans. We may conduct our review at any time—before, during or after the posting of a listing, or before or after the funding of a Prosper borrower loan. If we are unable to verify material information with respect to a Prosper borrower member, listing or bid, we may cancel or refuse to post a listing, or cancel any or all bids against a listing. We may also delay funding of a Prosper borrower loan in order to enable us to verify the accuracy of information provided by a Prosper borrower member, a lender member or a group leader in connection with the listing or bids, and to determine whether there are any irregularities with respect to the listing or bids. We may also cancel the funding of a Prosper borrower loan, even if the listing garners a sufficient amount of purchase commitments for Notes to otherwise support the funding of the corresponding Prosper borrower loan, if material misstatements or inaccuracies are found in the listing or in other information provided by the Prosper borrower member.

### *Prosper Borrower Listings*

In most instances, we do not verify the income, employment and occupation or any other information provided by borrower members in listings. Lender members should not rely on unverified information provided by Prosper borrower members. The borrower member's income, employment and occupation is self-reported, and we derive the borrower member's DTI from a combination of the borrower member's self-reported income and information from the borrower member's credit report. The credit data that appears in listings is taken directly from a credit report obtained on the borrower member from a consumer reporting agency, without any review or verification by Prosper. We do not verify any statements by borrower members as to how Prosper borrower loan proceeds are to be used and we do not confirm that the loan proceeds were used in the intended manner after funding. Although Prosper borrower members may provide proof of homeownership to establish homeownership status, in most instances homeownership status is derived from the borrower member's credit report, however, we do not verify this information, for example, if the credit report reflects an active mortgage loan, the borrower member is presumed to be a homeowner. Similarly, the information in borrower's answers to questions posted by lenders, the information in any recommendations from the borrower's Prosper friends, and statements by the borrower concerning why the loan is being requested, and of the borrower's financial situation, are displayed in the listing without having been verified by Prosper.

If the borrower members fail to provide satisfactory information in response to an income or employment verification inquiry, we may request additional information from the Prosper borrower member or cancel the Prosper borrower member's listing or refuse to proceed with the funding of the Prosper borrower loan. In addition, where we choose to verify the income, employment and occupation or other information provided by Prosper borrower members in listings, the verification is normally done after the listing has been already been created and bidding has ended. In such cases, the results of Prosper's verification are not reflected in the listings themselves. When a listing fails verification, Prosper cancels the listing with the appropriate reason code. This automatically triggers a notice to the borrower and the winning bidding lender members that the listing was cancelled, and an adverse action message is sent to the borrower (indicating the reason for cancellation). The Lender member's funds for the cancelled listing are then made immediately available for further bidding within the lender member's Prosper account.

We conduct income and employment verification entirely in our discretion as an additional credit and fraud screening mechanism, may be useful in certain circumstances in screening our platform against exaggerated income and employment representations from Prosper borrower members. Lender members, however, should not rely on a Prosper borrower member's stated employment or income or on our ability to perform income and employment verifications. We cannot assure lender members that we will continue performing income and employment verifications. We determine whether to verify a Prosper borrower member's income and employment information primarily based on our analysis of the following factors using a propriety algorithm and matrix:

- Prosper Rating;
- loan amount;
- stated income; and
- debt-to-income ratio.

Between September 1, 2007 and August 31, 2008, our parent verified employment and income on only approximately 23% of borrower listings that had bids totaling 70% or more of the requested loan amount. When we perform these verifications, we contact Prosper borrower members by email or telephone to request additional information. Of the Prosper borrower members undergoing verification during this period:

- approximately 56% provided our parent with satisfactory responses and received a borrower loan;
- approximately 38% did not provide satisfactory responses, or did not respond, and their listings were cancelled; and
- approximately 6% either withdrew their listings, or failed to receive bids totaling the amount of their requested loan.

We expect that the percentage of listings for which we conduct income and employment verifications, and the percentage of Prosper borrower members who ultimately have their income and employment verified, will decline as our volumes increase. See "Risk Factors—Risks Related to Borrower Default—Information supplied by borrowers may be inaccurate or intentionally false" and "—Your recourse will be extremely limited in the event that borrower information is inaccurate for any reason" for more information.

### *Open Market Listings*

The information in open market listings describing the borrower loan for sale is provided by the loan seller and is not verified by Prosper. This includes the borrower's credit, home ownership, employment and income information. Open market listings contain a statement that such information is provided by the loan seller and displayed without having been verified by Prosper. To the extent the borrower's credit, home ownership, employment or income information has been verified by the loan seller, the loan seller's verification practices will be described in the description of the loan seller accessible from a link on the open market listing. Prior to permitting a loan seller to list open market loans on our platform, we perform a due diligence review of the loan seller, where our objective is to confirm that the information provided by the loan seller will accurately describe the loan being listed for sale, and to establish service level agreements and reports to monitor critical processes on an ongoing basis. In addition, Prosper represents and warrants to the holders of each series of Notes, that the loan seller has made commercially reasonable efforts to authenticate and verify the identity of the borrower under the corresponding open market loan upon which a series of Notes is dependent for payment.

## Prosper's Note Repurchase and Indemnification Obligations

Under the lender registration agreement, in the event of a material default under a series of Prosper Borrower Notes and Prosper Open Market Notes due to verifiable identity theft of the named borrower's identity, Prosper will repurchase the Note and credit the lender members' account with the remaining unpaid principal balance of the Note. The determination of whether verifiable identity theft has occurred is in our sole discretion. We generally recognize the occurrence of identity fraud upon receipt of a police report regarding the identity fraud. This remedy for identity fraud only provides an assurance that our borrower identity verification is accurate; in no way is it a guarantee of a borrower's self-reported information (beyond the borrower's identity) or a borrower's creditworthiness. We expect the incidence of identity fraud on our platform to be low because of our identity verification process for Prosper borrower loans and because prior payments will generally have been made under the open market loans. As of December 31, 2008, our parent had experienced 19 cases of confirmed identity fraud affecting 32 loans since inception. In these cases, our parent received a police report from the victim of the identity fraud, evidencing that identity fraud had occurred.

In the event we breach any of our other representations and warranties in the lender member registration agreement, and such breach materially and adversely effects a series of Notes, we will either indemnify the lender members, repurchase the series of Notes or cure the breach. The limited circumstances where this may occur include the failure of the corresponding borrower loan to comply at origination in material respects with applicable federal and state law or if the listing describing the Note contains a Prosper score different from the score calculated by Prosper for that listing, or Prosper incorrectly applied its formula to determine the Prosper score, resulting in a Prosper Rating different from the Prosper Rating that should have appeared in the listing. Prosper is not, however, under any obligation to cure, indemnify or repurchase a series of Notes because of the Prosper score or Prosper Rating for any other reason. In addition, Prosper is not obligated to repurchase or indemnify you if your investment is not realized in whole or in part due to fraud (other than verifiable identity theft) in connection with a listing for the underlying borrower loan, or due to false or inaccurate statements or omissions of fact in a borrower's listing, whether in credit data, borrower's representations, user recommendations, group affiliations or similar indicia of borrower intent and ability to repay the borrower loan. If Prosper repurchases a Note, only the outstanding principal balance will be returned to the lender member.

In the event a loan seller is required to repurchase an open market loan from Prosper under the terms of the master purchase agreement, upon our receipt of the repurchase price we will distribute the gross proceeds to the holders of the Notes dependent for payment on that open market loan. The circumstances under which a loan seller is obligated to repurchase open market loans from Prosper will vary from loan seller to loan seller. Because the loan sellers representations and warranties are not made to the lender members, the lender members have no right to take action against the loan seller or Prosper in the event the loans seller breaches its representations and warranties to Prosper. Lender members must rely on the representations and warranties of Prosper set forth in the lender member registration agreement.

***Prosper Rating Assigned to Listings***

Each listing will be assigned a Prosper Rating. The Prosper Rating is a letter that indicates the level of risk associated with a listing and corresponds to an estimated average annualized loss rate range for the listing. This rating system allows Prosper to maintain consistency when assigning a rating to the listing regardless of loan seller, type of credit score or type of loan being offered for sale. There are currently seven Prosper Ratings, but this, as well as the loss ranges associated with each, may change over time as the marketplace dictates. The current Prosper Ratings and the estimated loss ranges associated with them are as follows:

| Prosper Rating | Est. Avg. Annual Loss Rate |
|---|---|
| AA | <=1% |
| A | 1.1 – 2.5% |
| B | 2.6 – 5.0% |
| C | 5.1 – 7.5% |
| D | 7.6 – 10.0% |
| E | 10.1 – 15.0% |
| HR | >15% |

A Prosper borrower listing with an "A" Prosper Rating is represented by the highlighted cells in the table below. The estimated loss rates indicated by the Prosper Rating are not a guarantee and actual performance may materially differ from expected performance.

Prosper uses two scores to estimate expected loss rates on Prosper borrower listings: (1) a custom Prosper score, discussed below, and (2) a credit score obtained from a credit reporting agency (currently, the Experian's Scorex Plus score). Similarly, Prosper uses the projected loss rates for open market listings provided to Prosper by the loan seller, which generally are based on the loan seller's observed historical repayment performance on such loans as discussed below.

The following chart provides an example of how the system works. Each of the two scores is divided into 10 segments and each cell indicates an estimated loss rate based on the intersection of the two scores. The score ranges were chosen based on loss rate differentiation and these ranges as well as the loss rates will be updated at least annually, but no more frequently than quarterly, based on the performance history of the borrower loans. Estimated net loss rates for the cells in the chart below are based on performance of historical Prosper Inc. loans that fall into given cells; cells are combined due to small volumes and/or similar behavior.

| Prosper Score | Experian Scorex Plus Score <560 | 560-599 | 600-619 | 620-639 | 640-679 | 680-699 | 700-729 | 730-769 | 770-799 | 800+ |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 38% | 38% | 38% | 38% | 33% | 33% | 33% | 33% | 33% | 33% |
| 2 | 24% | 24% | 24% | 24% | 23.5% | 23.5% | 23.5% | 16% | 16% | 16% |
| 3 | 24% | 24% | 24% | 24% | 23.5% | 23.5% | 16% | 16% | 16% | 16% |
| 4 | 18% | 18% | 18% | 18% | 16% | 16% | 16% | 16% | 6.5% | 5.0% |
| 5 | 18% | 18% | 18% | 18% | 16% | 16% | 15% | 15% | 6.5% | 5.0% |
| 6 | 18% | 18% | 13.5% | 13.5% | 13% | 13% | 8.5% | 8.5% | 6.5% | 1.5% |
| 7 | 18% | 18% | 13.5% | 13.5% | 8.5% | 8.5% | 8.5% | 8.5% | 6.5% | 1.5% |
| 8 | 18% | 18% | 13.5% | 13.5% | 8.5% | 8.5% | 8.5% | 5.0% | 1.5% | 1.0% |
| 9 | 18% | 18% | 13.5% | 13.5% | 6.0% | 6.0% | 1.5% | 1.5% | 1.5% | 1.0% |
| 10 | 18% | 18% | 13.5% | 13.5% | 6.0% | 6.0% | 1.5% | 1.0% | 1.0% | 1.0% |

**Prosper Score**

The Prosper score predicts the probability of a loan going “bad,” where “bad” is the probability of going 60+ days past due. The output of the model to Prosper users is a Prosper score which ranges from 1 to 10, with 10 being the best, or lowest risk score and 1 being the worst or highest risk score. To create the Prosper score, Prosper developed a custom risk model using historical Prosper data. The Prosper score was built specifically on the Prosper population, so it incorporates behavior that is unique and inherent to this population. In contrast, the credit score obtained from a credit reporting agency is based on a much broader population, of which Prosper borrowers are just a small subset. As such, the credit reporting agency score should, and does, rank default risk on the Prosper population, but Prosper does not believe it is as discriminating as the Prosper score. Prosper uses both the Prosper score and the credit reporting agency score together to assess the level of risk associated with a listing and determine estimated loss rates reflected by the Prosper Rating.

All loans booked from April, 2007 through June, 2007 were used to build the model, with the performance measured through December, 2008. All potential variables available at the time of listing, including those from the identification authorization process, the credit report and listing details provided by the borrower were analyzed for potential inclusion in the final model. After many model iterations were completed and analyzed, Prosper identified key variables for calculating the Prosper score, including but not limited to: number of delinquent accounts, delinquent balance, number of inquiries in the past six months, number of recently opened trades, and amount of available credit on bankcards.

**Projected Loss Rates—Open Market Loans**

The projected loss rates for open market listings are provided by the loan seller and are based on the loan seller’s observed historical repayment performance on such loans. The projected loss rates are equal to a balance-weighted average of average annualized loss rates. The average annualized loss rate (“AALR”) is computed using the formula: AALR = A/B x 12, with:

A = Net principal charge-offs in month “X”; and

B = Total principal balance* in month “X”

(* Note: Total principal balance includes all accounts: current, delinquent accounts and accounts that have charged-off or paid off that month).

The AALR is generally calculated on a monthly basis and annualized; however, the period of calculation may vary based on the payment periods of the open market loans. In the event loan sellers want to offer loans for sale that do not have any historical performance information, the loan seller will determine a projected loss rate using historical loss rates for credit obligations similar to the loan being offered for sale, which are derived by the loan seller based on comparable portfolios (e.g., performance of similar asset-based securities) or derived from nationwide loss rate information from consumer reporting agencies. This estimated loss rate will be displayed in the open market listing.

**Credit Score Range**

In addition to the Prosper Rating, each Prosper borrower listing will also show the borrower’s numerical credit score range. The numerical credit score range is determined based on the credit score provided to Prosper by a consumer reporting agency, which is the same credit score used to calculate the Prosper Rating.

Prosper borrower listings will indicate the credit score range at time of the listing. Open market listings will show the credit score range at origination if a credit score was used by the loan seller in its credit decision, and will show the credit score range at the time of listing only if the credit score range is provided by or available through authorization of the loan seller. The numerical credit score is not displayed or disclosed to anyone (including the borrower).

When a borrower initiates the process of posting a Prosper borrower listing on our platform, we check to see if we have a credit score on that person. If we have a credit score on file and it is not more than thirty days old and it meets the minimum threshold (currently 640, except that the minimum is 600 for borrower members who (i) had previously obtained a Prosper loan or loan through our parent and paid off the loan in full, or (ii) are seeking a second loan and otherwise eligible for a second loan), the borrower may post the listing. If the credit report we have on file for such borrower is more than 30 days old, we initiate an inquiry to retrieve a credit report and credit score on the borrower to determine whether the borrower's credit score meets the minimum threshold for posting a listing and to enable us to compute the Prosper Rating when the borrower creates the listing. With respect to open market listings, the loan seller (or Prosper with the loan seller's authorization) may obtain an updated credit score on the borrower.

***Platform Listings***

**Prosper Borrower Loan Listings**

Once a loan listing is completed by the borrower, the listing is posted on our website and then becomes available for bidding by lender members. A Prosper borrower listing is a request by a Prosper borrower member for a Prosper borrower loan in a specified amount, at an interest rate equal to the maximum interest rate set forth in the listing. Prosper borrower loans are unsecured obligations of individual borrower members with an interest rate determined in an auction format and with a specified loan term, currently set at three years, but which Prosper anticipates in the near future extending to between three months to seven years. Prosper borrower members may currently request loans within specified minimum and maximum principal amounts (currently between $1,000 and $25,000), which are subject to change from time to time. Prosper borrower loans may be repaid at any time by Prosper borrower members without prepayment penalty. A Prosper borrower loan will be made to a borrower member only if the borrower's listing has received bids totaling the full amount of the requested loan.

In addition to the Prosper borrower's requested loan amount and maximum interest rate, Lender members are able to view:

- the current interest rate, annual percentage rate and monthly payment amount on the requested Prosper borrower loan;
- the servicing fee lenders must pay to Prosper;
- the starting lender yield percentage and the current yield percentage (net of the servicing fee) that must be bid by lenders;
- the borrower's Prosper Rating and estimated loss rate;
- the borrower's Prosper score, calculated by Prosper, and numerical credit score range provided to Prosper by a credit reporting agency;
- the number of accounts on which the borrower is currently late on a payment, including unpaid derogatory accounts;
- the total past-due amount the borrower owes on all delinquent and derogatory accounts;
- the number of 90+ days past due delinquencies on the borrower's credit report;
- the number of public records (e.g., bankruptcies, liens, and judgments) on the borrower's credit report over the last 12 months, and over the last 10 years;
- the number of inquiries made by creditors to the borrower's credit report in the last six months;
- the month and year the borrower's oldest recorded credit line (e.g., revolving, installment, or mortgage credit) was opened;
- the total number of credit lines appearing on the borrower's credit report, along with the number that are open and current;
- the total balance on all of the borrower's open revolving credit lines;

- the borrower's bankcard utilization ratio, expressed as a percentage, reflecting the ratio of the total balance used, to the aggregate credit limit on, all of the borrower's open bankcards;

- whether the borrower owns a home;

- DTI percentage;

- the Prosper borrower member's self-reported income range, occupation, employment status, and intended use of funds;

- the total number of bids that have been made to date toward Notes that will be dependent on the Prosper borrower loan;

- the number of lender members committed to purchasing Notes that will be dependent for payment on the Prosper borrower loan;

- the bid rates, bid amounts, winning amounts, and dates of all lender member bids;

- the borrower's Prosper friends who have committed to purchase Notes dependent for payment on that Prosper borrower loan by bidding on the listing, together with any narrative recommendation from a bidding Prosper friend;

- questions posted by lender members that are answered by the borrower; and

- the borrower's group affiliations, if any.

Part of a borrower's credit profile displayed in listings is a DTI ratio. DTI is a measurement of the borrower's ability to take on additional debt. This number takes into consideration how much debt the borrower has or will have, including the borrower loan. The DTI is expressed as a percentage and is calculated by dividing the borrower's monthly income into his or her monthly debt payments, including the debt resulting from the borrower loan being requested or sold. On Prosper borrower listings, debt amounts are taken from the borrower's credit report without verification and exclude monthly housing payments, and the borrower's income is self-reported and not verified by Prosper.

Prosper borrower listings may include photos and the borrower's narrative description of why the loan is being requested, and of the borrower's financial situation. Although Prosper borrower members and lender members are anonymous to each other, lender members may ask Prosper borrower members questions about the loan listing and Prosper borrower members may, but are not required to, respond to such questions. Prosper borrower members who respond to a lender member's question may respond privately, or they may elect to have the question and answer posted publicly in the listing. Lender members' questions are not posted in the listing or displayed elsewhere on our website unless the Prosper borrower member elects to answer the question and elects to make the question and answer publicly available, in which case the question and answer appears in the listing.

Prosper borrower members who use our platform must identify their intended use of the loan proceeds. For Prosper borrower loans funded through our parent between January 1, 2008 and September 30, 2008, Prosper borrower members identified their intended use of loan proceeds as follows:

- debt consolidation (approximately 42%);

- personal use, such as weddings or medical expenses (approximately 21%);

- business use, such as financing their home-based or small businesses (approximately 16%);

- home improvement (approximately 5%);

- tuition or other education expenses (approximately 4%);

- financing the purchase of an automobile (approximately 3%); and

- other (approximately 9%).

Potential Prosper borrower members typically state the use of funds in a short sentence or clause, such as "Consolidate my credit card debt and be rid of it."

**Open Market Loan Listings**

An open market listing is a listing posted by a loan seller on our platform that describes an existing loan owned by the loan seller upon which a series of Prosper Open Market Notes will be dependent for payment. Loan sellers list the sale price and the yield percentage, net of servicing fees, that corresponds to the sale price for the open market loan, the remaining principal balance of the loan and the interest rate the borrower is obligated to pay on the loan. Open market loans may have outstanding principal amounts in excess of the maximum amount a borrower member may request on the platform, and unlike Prosper borrower loans may be repayable more or less frequently than monthly, and may or may not allow the borrower to prepay the loan without prepayment penalty. All open market loans are sold and assigned by the loan seller to Prosper, without recourse to the loan seller, at the end of the auction bidding period, if successful.

The information is formatted into a "listing" similar in design to Prosper borrower listings, but with additional information that will make these listings easily identifiable.

Lender members are able to view the following items pertaining to the loan being offered for sale:

- the starting sale price for the loan;
- the starting lender yield percentage that corresponds to the starting sale price and the current yield percentage (net of servicing fees) that must be bid by lenders;
- the Prosper Rating, based on information as of the time of origination (rather than the time of listing) and estimated loss rate;
- the current principal balance;
- the interest rate the borrower is obligated to pay on the loan;
- the maturity date of the loan;
- the number of months to the loan's maturity date;
- whether the loan is secured by collateral;
- the original loan amount;
- the loan origination date;
- the servicing fee lenders must pay, applicable to the borrower loan;
- name of the loan seller;
- the borrower's intended use of the loan;
- the loan type (direct loan or retail installment sale contract);
- the borrower's state of residence;
- the payment frequency and payment amount;
- the total amount, and percentage of the principal, of prepayments, if any, that have been made on the loan;
- the repayment history on the loan;
- the total number of bids that have been made to date toward Notes that will be dependent on the open market loan;
- the number of lender members committed to purchasing Notes that will be dependent for payment on the open market loan; and

- the bid rates, bid amounts, winning amounts, and dates of all lender member bids.

Lender members are able to view the following items pertaining to the borrower on the open market loan being offered for sale, to the extent the information is available and was provided to Prosper by the loan seller. The information provided, will vary depending on the underwriting criteria used by a loan seller in originating the loans.

- the borrower's credit score range at the time of origination of the loan;
- the number of accounts on which the borrower is currently late on a payment, including unpaid derogatory accounts;
- the total past-due amount the borrower owes on all delinquent and derogatory accounts;
- the number of 90-180+ days past due delinquencies on the borrower's credit report;
- the number of public records (e.g., bankruptcies, liens, and judgments) on the borrower's credit report over the last 12 months, and over the last 10 years;
- the number of inquiries made by creditors to the borrower's credit report in the last six months;
- the month and year the borrower's oldest recorded credit line (e.g., revolving, installment, or mortgage credit) was opened;
- the total number of credit lines appearing on the borrower's credit report, along with the number that are open and current;
- the total balance on all of the borrower's open revolving credit lines;
- the borrower's bankcard utilization ratio, expressed as a percentage, reflecting the ratio of the total balance used, to the aggregate credit limit, on all of the borrower's open bankcards;
- whether the borrower owns a home;
- DTI percentage; and
- income range, employment status, and intended use of funds.

All of the borrower's credit information displayed in open market listings is as of the date of the origination of the open market loan, and not as of the date of the open market listing. Open market listings will also show the borrower's credit score range as of the time of listing only if the credit score range is provided by or available through authorization of the loan seller. Depending upon how the loan seller calculates DTI, the DTI displayed in open market listings may include the borrower's housing payments and may be calculated based on joint debt and income of the borrower and his or her spouse or co-borrower. The DTIs on open market listings are provided by the loan seller and are not verified by Prosper, although loan sellers may verify debt and income amounts used in calculating the DTI.

A description of the loan seller will be accessible from a link on the open market listing. Information available for review regarding the loan seller, includes the loan seller's name, form of organization and experience in originating loans of the type offered or other types of loans, information regarding the size and composition of the loan seller's portfolio, information relating to the loan seller's credit granting or underwriting process for the assets being sold, including type of loan (secured or unsecured), description of collateral if applicable, range of allowed loan sizes, range of acceptable credit scores, credit verification practices (including whether the loan seller verifies the borrower's debt or income information used in calculating the DTI), historical loan repayment performance of loans of the type being offered for sale, servicing fees and any relationships or affiliation with Prosper or its affiliates.

In the case of a loan that is secured by collateral, the listing would contain information regarding the collateral, for example an auto loan would have information such as:

- the year, manufacturer and model;
- mileage; and
- loan-to-value, expressed as a percentage.

Open market listings that involve loans secured by automobiles or other personal property would contain a notice that the assignee of a consumer credit contract for the financing of goods or services takes the obligation subject to claims and defenses the buyer may have against the seller of the goods or services in accordance with the Federal Trade Commission's holder in due course rule. In its master purchase agreement with Prosper, the loan seller will represent and warrant to Prosper that it has perfected its right to the collateral securing a secured open market loan listed for sale on our platform. If the loan seller materially breaches this representation and warranty, Prosper would require the loan seller to repurchase the loan. Any repurchase proceeds Prosper receives would be distributed to the lender members who own that series of Prosper Open Market Notes.

***How to Bid to Purchase Notes***

A bid on a listing is a lender member's binding commitment to purchase a Note in the principal amount of the lender member's bid, should the listing receive bids totaling the full amount of the requested loan or the final sale price determined through the auction bidding process. Lender members bid the amount they are willing to commit to purchase a Note dependent for payment on payments we receive on a borrower loan described in the listing, and the minimum yield percentage they are willing to receive. Because servicing fees reduce the effective yield to lenders, the yield percentage displayed in listings, which is the rate lenders must bid, is net of servicing fees. In addition, because the delay between the time a loan seller receives a borrower payment and the time the payment is transferred to the lender member's funding account (the 15th day of each month) may reduce the yield to maturity for the open market loan, the delay is automatically reflected in the yield percentage displayed in the open market listing.

We provide for two types of lender member bids. Lender members can (i) make manual bids, by browsing through and bidding on one or more Prosper borrower listings or (ii) bid by making a "portfolio plan" by indicating the amount the lender member is willing to commit toward the purchase of Notes that will be dependent for payment on the corresponding borrower loans, the interest rate and borrower criteria and other characteristics of the Notes or listings that the lender member would bid on if available. Lender members can employ either or both methods of bidding. Currently, the minimum amount a lender member may bid is $50, and the maximum amount a lender member may bid on a listing is the amount of the requested borrower loan or the total sale price for the loan described in the listing. The maximum aggregate amount a single lender member may bid on our platform is currently $5,000,000 for individuals and $50,000,000 for institutions. Prosper may change the minimum bid amount or the maximum aggregate bid amounts from time to time.

To make manual bids, lender members may browse online through available listings displayed on our platform by desired borrower loan amount, current auction yield percentage, borrower Prosper Rating, estimated loss rate, debt-to-income ratio, and group and other borrower characteristics. A lender member can bid on as many listings as the lender member desires, subject to the aggregate bidding limit.

To bid using a portfolio plan, the lender member enters an aggregate amount the lender member desires to bid, the maximum amount that may be bid on one Prosper borrower listing, the minimum yield percentage the lender member is willing to receive, the acceptable borrower Prosper Rating or Ratings or other credit criteria, as well as any other listing criteria. When a lender member makes a portfolio plan, bids will automatically be placed on any then-active listings meeting the criteria selected. Lender members can pause or cancel a portfolio plan, and can direct that, as new funds are deposited into the lender member's funding account from Note payments or transfers of new funds, they be applied to the portfolio plan and automatically bid on listings that meet the criteria of the portfolio plan. Lender members may have one or more portfolio plans bidding concurrently.

Both the manual and portfolio plan bidding methods enable lender members to diversify the risk of default of the corresponding borrower loans if they elect to do so. It is solely up to the individual lender members to select their bidding method and the credit characteristics which are acceptable to the lender member and to determine a diversification strategy.

To the extent there are multiple bids at the same interest rate in an aggregate amount in excess of the requested loan amount or sale price, the bids placed earliest in time take precedence over later bids. When the total amount of all bids placed in the auction equals or exceeds the initial loan amount, further bids have to be placed at least 0.05% below the current winning interest rate. It is possible that only a portion of a lender member's bid is winning on a Prosper borrower listing. Depending on the amount of the winning bids at the end of the auction period, there may be a winning bidder on a listing with a winning bid of less than $50. There may be only one partial winning bidder on a listing.

In order to make Note purchase commitments by bidding on listings (whether through manual bids or bids through portfolio plans), lender members must have funds on deposit in their Prosper accounts in at least the amount of the lender member's bid or bids. Once bids are placed, they are irrevocable, and lender members may not withdraw their bids. During the time a bid is a "winning" bid on the listing, the amount of the bid is not permitted to be withdrawn from the lender member's Prosper account. Bids expire automatically when they are no longer "winning" – i.e., when the bidding lender member is outbid – or when a listing expires without having received bids in the amount of the requested borrower loan or sale price or is withdrawn by a borrower or cancelled by Prosper. Lender member bids become winning bids if such bids are in the group of bids for Notes that, in an aggregate, correspond to the amount of the requested borrower loan or final sale price and are in the lowest yield percentage among all bids placed against the listing. It is expected that a single listing will receive Note purchase commitments from many different lender members.

***Bidding on Prosper Borrower Loans***

Prosper borrower listings remain open and available for bidding for seven days, during which time lender members may make commitments, in the form of bids, to purchase Notes that will be dependent for payment on payments we receive on the borrower loans. Prosper borrower members may elect to end the listing at any time after the listing receives bids totaling the requested loan amount. Prosper borrower members may also elect to forego the potential benefits of continuing auction bidding and designate their listing for "automatic funding," in which case the bidding period will end automatically as soon as the listing receives bids totaling the amount requested in the listing, and the interest rate will be fixed at the minimum interest rate acceptable to all lender members who are winning bidders.

A bid on a Prosper borrower listing is a lender member's binding commitment to purchase a Note in the principal amount of the lender member's bid, should the listing receive bids totaling the full amount of the requested loan. Lender members bid the amount they are willing to commit to purchase a Note dependent for payment on payments we receive on a borrower loan described in the listing, and the minimum yield percentage they are willing to receive. A Prosper borrower loan will not be made unless the listing has received bids totaling the full amount of the requested borrower loan.

Servicing fees will reduce the effective yield on Prosper borrower loans below the interest rate the borrower member pays on the Prosper borrower loan. The final yield percentage determined from the auction bidding process on a Prosper borrower listing is the interest rate that will be set forth in the Prosper Borrower Note corresponding to the loan requested in the Prosper borrower listing. The final yield percentage is the minimum yield percentage for which there is sufficient participation among bidders to accommodate the requested loan amount at the end of the auction period.

It is expected that a single Prosper borrower loan that gets funded will receive Note purchase commitments from many different lender members. For example, as of October 16, 2008, during the period in which lender members purchased loans though our parent directly instead of Notes dependent for payment on the corresponding borrower loan, the average aggregate loan size was approximately $6,172 and the average loan purchase commitment per lender per loan was approximately $91. If by the end of the auction bidding period a Prosper borrower loan listing does not receive bids totaling the amount of the requested borrower loan, the listing expires and no loan is funded to the borrower. Prosper borrower members whose listings expire due to an insufficient amount of bids may post a new loan listing on our platform, although we have the right under our borrower registration agreement to limit the number of listings a borrower member may post on the platform.

***Bidding on Open Market Loans***

The bidding process for open market listings focuses on the projected "yield to maturity" of the remaining payments of the open market loan. The loan seller offering the loan for sale sets an initial sale price and an initial yield percentage. The yield percentage is calculated as the internal rate of return of the anticipated cash flows, net of servicing fees assessed by Prosper and the loan seller, assuming all loan payments are made as scheduled. The initial sale price may be equal to, greater than or less than the outstanding balance of the loan being offered for sale. Similarly, the initial yield percentage may be equal to, greater than or less than the interest rate the borrower is obligated to pay on the open market loan being offered for sale.

The sale price and the yield percentage are inversely related. An open market loan sold at a higher price than the outstanding principal balance will result in a yield percentage lower than the borrower's interest rate. An open market loan sold at a lower price than the outstanding principal balance will result in a yield percentage higher than the borrower's interest rate (provided the lower price is low enough to offset the effect of the reduction in the effective yield resulting from assessment of servicing fees). If the initial sale price is greater than the outstanding principal balance of the loan being offered for sale, the initial yield percentage shown in the listing will be lower than the borrower's interest rate, and the loan will be offered at a premium. If the initial sale price is less than the outstanding principal balance of the loan being offered for sale, and the difference in price is sufficient to offset the effect of the reduction in the effective yield resulting from assessment of servicing fees, the initial yield percentage shown will be higher than the borrower's interest rate, and the loan will be offered at a discount.

Lender members bid a minimum yield percentage that they are willing to accept. The current yield percentage as set forth in an open market listing at any given time during the duration of the listing is the minimum yield for which there is sufficient participation among bidders to accommodate any corresponding increase in the sale price. The final yield percentage is the minimum yield percentage for which there is sufficient participation among bidders to accommodate the final sale price at the end of the auction period. To the extent there are multiple bids at the same yield percentage in an aggregate amount in excess of the sale price, the bids placed earliest in time take precedence over later bids. As the yield percentage is bid down, the sale price for the loan will increase. Prosper's bidding algorithm will take this into account, so as the current yield percentage on a listing decreases, the sale price will increase to an amount sufficient to produce the new yield percentage, and additional bids will be allowed in to be applied toward the incremental increase in the sale price. Bids may be in amounts between $50 and the total current sale price.

When bidding commences on the listing, a lender member may place a bid by specifying an amount to invest and the lowest estimated yield percentage the lender member is willing to receive. If the total amount of all bids placed is less than the initial sale price, new bids can be placed at or below the initial yield percentage. When the total amount of all bids placed in the auction equals or exceeds the initial sale price, further bids have to be placed at least 0.05% below the current winning yield percentage. If the listing receives sufficient bids to match the necessary sale price of a loan at the winning yield percentage prior to the end of the auction, once ended, Prosper will purchase that loan from the listing loan seller. The final yield percentage determined from the auction bidding process on an open market listing is the interest rate that will be set forth in the Open Market Note corresponding to the open market loan described in the listing.

***Purchase of Notes by Prosper or Related Parties***

Prosper does not participate on the platform as a lender. Some of our and our parent's executive officers, directors and shareholders have bid on and purchased loans originated through the platform from time to time in the past, and may purchase Notes in the future. As of December 31, 2008, these individuals had purchased $1,020,888 in loans. As certain of our and our parent's executive officer and directors, by virtue of their duties as employees, have access to information not available to the general population of lender members, we and our parent have adopted the following procedures to prevent or detect the improper use of non-public information in bidding activities by such officers and directors:

- Our corporate policies, distributed to all employees, prohibits an employee's use of non-public information and any violation of this policy is grounds for immediate termination.

- Security features of our system limit access to data to information needed to perform employee's job function. These limitations are defined by "security group," which corresponds to both job title and functional content and the number of employees that have access to such non-public information on a "bulk" or "query" basis is extremely limited.

- In addition to prevention efforts, our internal control department has developed a suite of audit trails and audits that are used to identify and investigate bidding activities that are classified as "suspicious."

***Treatment of Lender Member Balances***

In order to make Note purchase commitments by bidding on listings, lender members must have sufficient funds in their funding account at Prosper. This is accomplished by having each lender member authorize an electronic transfer using the Automated Clearing House, or ACH, network from the lender member's designated and verified bank account to the account we currently maintain at Wells Fargo Bank, N.A. "for the benefit of" our lender members. This so-called "FBO account" is a pooled account titled in our name "for the benefit of" our lender members.

Funds in the FBO account will always be maintained at an FDIC member financial institution. Our individual members have no direct relationship with Wells Fargo Bank, N.A. by virtue of participating on our platform as a borrower or lender member. We maintain and administer the FBO account. Under the FBO account, we maintain sub-accounts for each of our lender members on our platform to track and report funds committed by lender members to purchase Notes, as well as payments received from borrower members. These record-keeping sub-accounts are purely administrative and reflect balances and transactions concerning the funds in the FBO account. No Prosper monies are ever commingled with the assets of lender members in the FBO account.

The FBO account is FDIC-insured on a "pass through" basis to the individual lender members, subject to applicable limits. This means that each individual lender member's balance is protected by FDIC insurance, up to the aggregate amounts established by the FDIC. Other funds the lender member has on deposit with Wells Fargo Bank, N.A., for example, may count against the FDIC insurance limits.

Funds of a lender member may stay in the FBO account indefinitely. Funds held in the FBO account do not earn interest. Such funds may include funds in the lender member's sub-account never committed to the purchase of Notes or committed to the purchase of Notes for which the listing for the corresponding borrower loan did not receive bids totaling the requested loan amount or sale price, and may also include payments received from Prosper related to Notes previously purchased. Upon request by the lender member, we will transfer lender member funds in the FBO account to the lender member's designated and verified bank account by ACH transfer, provided such funds are not already committed to the future purchase of Notes.

***Borrower Loan Funding and Purchases; Sale of Notes***

***Prosper Borrower Loans***

Once a Prosper borrower listing receives bids from lender members totaling the loan amount requested, we proceed with the funding of the corresponding Prosper borrower loan and with the sale of the Prosper Borrower Notes to the lender members who were the winning bidders on the listing.

Borrower members execute an electronic borrower registration agreement at the time they post a listing on the platform. After expiration of the bidding period for the listing and satisfactory completion of our pre-funding review, the borrower executes an electronic promissory note in favor of WebBank for non-California residents, and Prosper for California residents in the amount of the requested borrower loan. Loan proceeds are then disbursed to the borrower's account by ACH transfer. For loans to non-California residents WebBank then electronically endorses the promissory note to Prosper and sells and assigns the promissory note to Prosper without recourse to WebBank. Such borrower loans are sold and assigned by WebBank to Prosper on the first business day following loan disbursement. Each time a Prosper borrower loan is funded, the borrower is charged a transaction fee equal to a specified percentage (currently 3.0%) of the amount of the Prosper borrower loan, subject to a specified minimum fee (currently $75), payable from the borrower's loan proceeds at the time of funding of the borrower loan.

We are obligated to maintain sufficient funds in a funding account maintained by WebBank to satisfy the daily projected borrower loan fundings. WebBank funds all loans made to non-California residents originated on the platform, and we disburse the loan proceeds on WebBank's behalf to the borrower member who is receiving the borrower loan. All loans made to California residents are made by Prosper.

The promissory note and the borrower registration agreement contain customary agreements and covenants requiring the borrower members to repay their borrower loans and describing the process of posting listings and obtaining loans through our platform. Borrowers authorize the loan proceeds to be disbursed by ACH transfer into the borrower's designated bank account.

Borrowers pay an origination fee upon successful funding of the borrower loan. The origination fee is paid by the borrower out of the proceeds of the borrower loan at the time of funding. The origination fees are charged to non-California residents by WebBank, and to California residents by Prosper, and we receive amounts equal to a percentage of the total origination fees as compensation for loan origination activities.

Lender members know only the screen names, and do not know the actual names, of borrower members. The actual names and mailing addresses of the borrower members are known only to us and WebBank. We maintain custody of the electronically-executed promissory notes evidencing borrower loans and the Notes sold to lender members in electronic form on our platform.

After the funding of a Prosper borrower loan we issue a Note to a lender member and register the Note on our books and records. For loans made to non-California residents, we transfer the principal amount of the Note from such lender member's sub-account under the FBO account to a funding account. For loans made to California residents, we transfer the principal amount of the Note from such lender member's sub-account under the FBO account to our origination account. This transfer represents the payment by the lender member of the purchase price for the Note. These proceeds are paid to Prosper to reimburse us for our purchase from WebBank or our funding of the loan for California residents of the particular borrower loan that corresponds to the lender member's Note. WebBank is the lender for all Prosper borrower loans to borrower members that are non-California residents, and Prosper is the lender for all Prosper borrower loans to borrower members that are California residents, which allows our platform to be available on a uniform basis to borrower members throughout the United States. The lender registration agreement provides that, in the event of a material breach of our representations and warranties, we must either cure the defect, repurchase the Note, or indemnify and hold the lender member harmless against losses resulting from the breach.

**Open Market Loan Sales**

Once the auction period ends on an open market listing with bids from lender members totaling the sale price, we proceed with the sale of the corresponding open market loan to Prosper and with the sale of the Open Market Notes to the lender members who were the winning bidders on the listing. At the close of the auction bidding period the loan seller sells and assigns the loan to Prosper, without recourse to the loan seller, in exchange for the sale price of the open market loan as determined by the auction bidding process. Prosper uses the proceeds of the sale of each series of Notes corresponding to the open market loan to purchase the open market loan from the loan seller. The loan seller will provide us with a bill of sale evidencing the transfer of the open market loan to

Prosper, and upon receipt of the bill of sale Prosper will electronically transfer funds to the loan seller in the amount of the final sale price of the open market loan, less a transaction fee equal to a specified percentage of the final sale price of the open market loan, subject to a minimum transaction fee. If the open market loan is secured, the sale of the open market loan to Prosper would include the transfer of the security interest on the open market loan. The loan seller retains no interest in the open market loans sold to Prosper other than the right to service the loans. The transaction fee is payable from the loan sale proceeds at the time the open market loan is sold to Prosper, and are subject to change from time to time.

**Loan Servicing and Collection**

Following Prosper's purchase of borrower loans and our sale of Notes corresponding to the borrower loans, we begin servicing the Prosper borrower loans and Notes and the loan seller continues servicing the open market loans purchased by Prosper. We collect payments from borrowers on Prosper borrower loans, and the loan seller collects payments from borrowers on open market loans. For both Prosper borrower loans and open market loans, we transfer amounts collected to the lender members who own Notes corresponding to the borrower loan, after deducting servicing fees. On Prosper Borrower Notes the payment dates will fall on the sixth day after the due date for each installment of principal and interest on the corresponding borrower loan. On Prosper Open Market Notes the payment dates will fall on the sixteenth ($16^{th}$) day of each month.

To the extent we do not receive the anticipated payments on a borrower loan, we will not make any payments on the Notes related to that borrower loan, and a holder of a Note will not have any rights against Prosper or the borrower member in respect of the Note or the borrower loan corresponding to such holder's Note. Each holder's right to receive principal and interest payments and other amounts in respect of that Note is limited in all cases to the holder's pro rata portion of the amounts received by Prosper in connection with the corresponding borrower loan, including without limitation, all payments or prepayments of principal and interest, subject to servicing fees and charges retained by Prosper, the loan seller or third party as set forth in the following chart.

| Description of Fee | Fee Amount | When Fee is Charged | Effect on Lender Member |
|---|---|---|---|
| ***Prosper Borrower Notes*** | | | |
| Servicing fee....................... | Annualized rate of 1% of outstanding principal balance. The servicing fee percentage is subject to change from time to time, is disclosed in all Prosper borrower listings and is posted in the *Fees and Charges* section of the Prosper website, but will not change during the course of the loan. | The servicing fee is payable on all payments received on Prosper borrower loans, including, without limitation, partial payments made toward a borrower's loan. | The servicing fee will reduce the effective yield below the interest rate on the Prosper borrower loan. This reduction is automatically taken into account in the Prosper borrower listing as the yield percentage the lender members must bid displays the lender member's yield net of servicing fees. |
| Non-sufficient funds fee...... | $15, unless a lesser amount is required by applicable law. | First failed payment for each billing period. | Prosper retains 100% of the non-sufficient funds fees to cover its administrative expenses. |
| Late payment fee................ | Equal to greater of 5% of the unpaid installment amount or $15, unless a lesser amount is required by applicable law. | After 15-day grace period, Prosper accesses a late fee. The late payment fee is charged only once per payment period. | Any late payment fees Prosper receives are paid to the lender members and no servicing fee is deducted. |
| Collection Charges............. | A collection agency will charge a collection fee of between 15% and 30% on delinquent amounts collected plus any legal fees incurred in the event legal action is taken to collect a loan. The collection fees vary dependent upon the collection agency | After a Prosper borrower loan becomes more than 30 days past due, the loan may be referred to a collection agency. Collection charges and any related legal fees are only charged if delinquent amounts are collected. | Lender members will not receive any collection fees we or a third-party collection agency charges, which fees will be retained by the party charging the fees as additional servicing compensation. |

| Description of Fee | Fee Amount | When Fee is Charged | Effect on Lender Member |
|---|---|---|---|
| | used. Current collection agencies used and their fees are posted in the *Fees and Charges* section of the Prosper website.<br><br>Prosper reserves the right to perform collection efforts itself. If Prosper elects to do so, it will not charge a collection fee greater than the amounts charged by collection agencies. | Prosper's servicing fee is also deducted from the net payments Prosper receives as a result of any collection efforts on a delinquent borrower loan. | The collection fees and any related legal fees will be deducted from any borrower loan payments Prosper receives. These fees will reduce the lenders' effective yield, and are *not* reflected in the yield percentage shown on the Prosper borrower listing. |
| Loan modification fees........ | Prosper will not charge a fee for restructuring a Prosper borrower loan. | Prosper may work with the borrower member to structure a new payment plan in respect of the borrower loan without the consent of any holder of the Notes corresponding to the borrower loan. This generally would only occur in lieu of bankruptcy, or similar proceeding. | Not applicable. |
| ***Prosper Open Market Notes*** | | | |
| Servicing Fee...................... | Prosper currently charges lender members a servicing fee equal to an annualized rate of 0.5% of the outstanding principal balance of the open market loan, and the loan seller will charge lenders a servicing fee, at an annualized rate, for servicing the open market loan. The servicing fee charged by the loan sellers will vary depending on the particular loan seller and loan type, but in all instances will be added to Prosper's servicing fee and the total servicing fee rate is displayed in open market listings. The aggregate servicing fees will be deducted from amounts received on the open market loan. | The servicing fee is payable on all payments received on open market loans, including without limitation partial payments and prepayments on the open market loan. | Servicing fees will reduce the effective yield on below the borrower interest rate on the open market loan. This reduction is automatically taken into account in the open market loan listing as the yield percentage the lender members must bid displays the lender member's yield net of servicing fees. |
| Non-sufficient funds fee...... | Depends on the terms of the corresponding open market loan and the servicing practices of the loan seller. The amount of this fee will be set forth in the description of the loan seller displayed on the Prosper website. | Depends on the terms of the corresponding open market loan and the servicing practices of the loan seller, and will be set forth in the description of the loan seller displayed on the Prosper website. | The non-sufficient funds fees are retained by the loan seller and are not remitted to lender members. |

| Description of Fee | Fee Amount | When Fee is Charged | Effect on Lender Member |
|---|---|---|---|
| Late payment fees............... | Depends on the terms of the corresponding open market loan and the servicing practices of the loan seller, and will be set forth in the description of the loan seller displayed on the Prosper website. | Depends on the terms of the corresponding open market loan and the servicing practices of the loan seller, and will be set forth in the description of the loan seller displayed on the Prosper website. | Late fees received by loan sellers on open market loans may be retained by the loan seller servicing the open market loan, depending on the particular loan seller's servicing guidelines, which will be set forth in the description of the loan seller displayed on the Prosper website. |
| Collection charges............... | If collection action is taken in respect of a borrower loan, Prosper, the loan seller or the collection agency will charge a collection fee of between 15% and 30% of any amounts that are obtained, plus any legal fees | The time at which an open market loan will be sent to a collection agency, if at all, will vary and are described in the loan seller's servicing guidelines, which will be set forth in the description of the loan seller | Lender members will not receive any collection fees we or third-party collection agency charge, and such fees will be retained by the party receiving the fee as additional servicing |
| | incurred in the event legal action is taken to collect a loan. The collection fees vary depending upon the collection agency used and the loan seller's servicing guidelines, which will be set forth in the description of the loan seller displayed on the Prosper website. | displayed on the Prosper website. Collection charges and any related legal fees are only charged if delinquent amounts are collected.<br><br>In addition, the total servicing fee is deducted from the net payments the loan seller or Prosper receives as a result of collection efforts on the delinquent borrower loan. | compensation.<br><br>The collection fees and any related legal fees will be deducted from borrower loan payments. These fees will reduce the lenders' effective yield and are *not* reflected in the yield percentage shown on the open market listing. |
| Loan modification fees........ | Depends on the terms of the corresponding borrower loan and the servicing practices of the loan seller. | Depends on the terms of the corresponding borrower loan and the servicing practices of the loan seller. | Depends on the terms of the corresponding borrower loan and the servicing practices of the loan seller. |

Our procedures for collecting Prosper borrower loan payments generally involve the automatic debiting of borrower bank accounts by ACH transfer. Such funds are transferred to a master servicing account in our name. Thereafter, we make payments on the Notes by transferring the appropriate funds from the master servicing account to the FBO account and allocating amounts received on specific borrower loans to the appropriate lender member's sub-account. We transfer amounts due to us for servicing from the master servicing account to another operating account of ours. A lender member may transfer uncommitted funds out of his or her FBO sub-account by ACH to the lender member's designated bank account at any time, subject to normal execution times for such transfers (generally 2-3 days).

We will make payments on the Notes upon receiving payments under the corresponding borrower loan, in accordance with the payment schedule for each Note. Each Note will have a payment schedule providing for monthly payments over a term equal to the corresponding borrower loan. For Prosper Borrower Notes the payment dates will fall on the sixth day after the due date for each installment of principal and interest on the corresponding Prosper borrower loan. On Prosper Open Market Notes the payment dates will fall on the sixteenth (16) day of each month. The stated interest rate on each Note will be the final lender yield percentage as determined from the auction bidding process. On both Prosper borrower listings and open market listings the yield percentage that lender members bid is net of the servicing fee applicable to the loan described in the listing, and with respect to open market listings also reflects the reduction in the yield resulting from any delay between the borrower's payment due date and the monthly payment date on the corresponding Note.

We disclose on our website to the relevant lender members and report to consumer reporting agencies regarding borrower members' payment performance on Prosper borrower loans. We have also made arrangements for collection procedures in the event of borrower member default.

We keep lender members apprised of the delinquency status of Prosper borrower loans by identifying delinquent loans on our website as "1 month late," "2 months late," "3 months late," or "current." Prosper borrower loans that become more than 120 days overdue are charged off and designated as such on our website. Through their online Prosper account lender members are able to monitor the borrower loans corresponding to their Notes, but cannot participate in or otherwise intervene in the collection process.

If a borrower member dies while a borrower loan is in repayment, we require the executor or administrator of the estate to send a death certificate to us. Depending on the size of the estate, we may not be able to recover the outstanding amount of the loan. If the estate does not include sufficient assets to repay the outstanding borrower loan in full, we will treat the unsatisfied portion of that borrower loan as charged off with zero value. In addition, if a borrower member dies near the end of the term of a borrower loan, it is unlikely that any further payments will be made on the Notes corresponding to such borrower loan, because the time required for the probate of the estate may extend beyond the initial maturity date and the final maturity date of the Notes.

Our normal collection process for Prosper borrower loans changes in the event of a borrower member bankruptcy filing. When we receive notice of the bankruptcy filing, as required by law, we cease all automatic monthly payments on the Prosper borrower loan and defer any other collection activity. The status of the Prosper borrower loan, which the relevant lender members may view through their online Prosper account, switches to "bankruptcy." We then determine whether we have a basis to object to the inclusion of the debt in any bankruptcy action (e.g., based on the time between loan origination and bankruptcy filing). If the proceeding is a Chapter 7 bankruptcy filing seeking liquidation, we attempt to determine if the proceeding is a "no asset" proceeding, based on instructions we receive from the bankruptcy court. If the proceeding is a "no asset" proceeding, we take no further action and assume that no recovery will be made on the borrower loan.

In all other cases, we file a proof of claim involving the borrower member. The decision to pursue additional relief beyond the proof of claim in any specific matter involving a borrower member will be entirely within our discretion and will depend upon certain factors including:

- if the borrower member used the proceeds of the borrower loan in a way other than that which was described in the Prosper borrower listing;
- if the bankruptcy is a Chapter 13 proceeding, whether the proceeding was filed in good faith and if the proposed plan reflects a "best effort" on the borrower member's behalf; and
- our view of the costs and benefits to us of any proposed action.

Open market loans will be serviced, both before and after default, by the loan seller (although our loan purchase agreement with the loan seller may provide that we have the right, in our discretion, to take over servicing in the event of the loan seller's default in its servicing obligations). In servicing open market loans the loan seller is contractually obligated to use commercially reasonable efforts to service and collect the open market loans in accordance with industry standards customary for loans of the same general type and character as the loans involved. This servicing standard generally means that the loan sellers will take steps to service and, if necessary, commence and pursue collection efforts, that are (1) in accordance with applicable law, (2) in accordance with industry standards customary for loans of the same general type and character as the loans involved, and (3) not unduly burdensome or expensive to the loan seller under the circumstances existing with respect to such open market loan from time to time.

Consistent with its contractual obligations to us, the loan seller may, in its discretion, utilize affiliated or unaffiliated third party loan servicers, repossessors, collection agencies or other agents or contractors. Although the security interest under an open market loan will be held by Prosper, in the event of a default under an open market loan, the loan seller, as servicer, may also, in its sole discretion, refer a borrower loan to a collection agency at any time, or elect to initiate legal action to collect a borrower loan, repossess or foreclose upon any collateral securing a borrower loan, or sell a borrower loan to a third party debt buyer at any time. The holders of Prosper Open Market Notes do not have the right to take legal action to collect or foreclose upon any collateral securing the corresponding open market loan or to require that the loan seller take such action. The loan seller is obligated to forward to Prosper any amounts it receives from such activities in respect of the open market loan, including net amounts received upon the sale of collateral securing an open market loan, net of the loan seller's collection fees and to servicing fee.

***Historical Information About Borrower Loans Originated by Prosper Inc.***

The performance of borrower loans is a function of the credit quality of the borrowers and the risk and return preferences of the lender members. Lender members can choose to pursue a variety of bidding strategies including strategies that may or may not maximize the return on their investment. When making bidding decisions, lender members consider borrowers' credit grades, debt-to-income ratios and other credit data and information displayed with listings. The credit grades indicated by the letters "AA" through "NC" that appear in the charts below are materially different from the seven Prosper Ratings that will be indicated by letters "AA" through "HR" after the date of this prospectus. Accordingly, the following historical information should not be used in determining how Notes with the same letter grade can be expected to perform in the future. See "Risk Factors—Risks Related to Borrower Default."

From November 2005 through October 16, 2008, Prosper Inc. had facilitated 28,940 borrower loans with an average original principal amount of $6,172 and an aggregate original principal amount of $178,622,722. As of December 31, 2008, 61.1% of these borrower loans were current, 16.5% had been were paid in full, 1.2% were 15 to 30 days past due, 4.8% were more than 30 days past due, and 16.5% had defaulted. A borrower loan is considered to have defaulted when it is more than 120 days past due or has filed a bankruptcy which has been discharged. Of these 28,940 borrower loans, 7,959 loans, or 27.5%, had been greater than 15 days past due at one time, 6,814 loans, or 23.5%, had been more than 30 days past due at one time, 5,753, or 19.9%, had entered into collection proceedings and borrower members had failed to make a single payment with respect to 277, or 0.96%, of the borrower loans.

The defaulted loans as of December 31, 2008 were comprised of 4,771 borrower loans, equaling a total defaulted amount of $24,783,667. Of these 4,771 defaulted loans, 681 were loans in which the borrowers had filed for bankruptcy, equaling $4,121,037 in defaulted amount.

The following table presents additional aggregated information for the period from Prosper Inc.'s inception to October 16, 2008 about delinquencies, default and borrower prepayments, grouped by the credit grade. With respect to delinquent borrower loans, the following table shows the entire amount of the principal remaining due (not just that particular payment).

## Total Loan Originations of Prosper Inc.

November 2005 - October 16th, 2008

*(as of December 31, 2008)*

| | Total Loan Originations | | Current Loans | | | 15-30 Days Past Due | | |
|---|---|---|---|---|---|---|---|---|
| **Credit Grade** | **Number** | **Amount** | **Number** | **Origination Amount** | **Outstanding Principal** | **Number** | **Origination Amount** | **Outstanding Principal** |
| AA | 3513 | $ 32,152,227 | 2213 | $ 21,373,696 | $ 15,002,386.12 | 19 | $ 342,551 | $ 263,496.64 |
| A | 3312 | $ 30,798,523 | 2206 | $ 20,088,625 | $ 13,965,201.46 | 29 | $ 399,090 | $ 266,513.84 |
| B | 4386 | $ 36,481,614 | 2992 | $ 23,907,328 | $ 16,654,503.91 | 52 | $ 514,099 | $ 364,560.29 |
| C | 5643 | $ 34,450,048 | 3743 | $ 20,903,835 | $ 14,170,896.87 | 67 | $ 455,153 | $ 311,297.61 |
| D | 5151 | $ 24,655,323 | 3239 | $ 14,395,669 | $ 9,537,631.65 | 71 | $ 342,488 | $ 234,886.42 |
| E | 3289 | $ 11,156,095 | 1703 | $ 5,036,920 | $ 3,020,543.47 | 43 | $ 130,625 | $ 84,224.10 |
| HR | 3505 | $ 8,602,274 | 1538 | $ 3,591,560 | $ 2,187,340.64 | 56 | $ 123,930 | $ 88,212.39 |
| NC | 141 | $ 326,618 | 43 | 91,876 | $ 30,631.65 | 3 | $ 6,701 | $ 2,687.81 |
| | **28940** | **$ 178,622,722** | **17677** | **$ 109,389,509** | **$ 74,577,136** | **340** | **$ 2,314,637** | **$ 1,635,879** |
| percent of total | | | **61.1%** | 61.2% | | **1.2%** | 1.3% | |
| | *avg loan size:* | $ 6,172.17 | | | | | | |

| | Paid In Full (1) | | 31 Days Past Due | | | Defaulted (2) | | |
|---|---|---|---|---|---|---|---|---|
| **Credit Grade** | **Number** | **Origination Amount** | **Number** | **Origination Amount** | **Outstanding Principal** | **Number** | **Origination Amount** | **Charged Off Principal** |
| AA | 1091 | $ 7,386,382 | 76 | $ 1,227,582 | $ 891,086.56 | 114 | $ 1,822,016 | $ 1,447,967.15 |
| A | 724 | $ 5,364,100 | 128 | $ 1,804,246 | $ 1,348,718.78 | 225 | $ 3,142,462 | $ 2,512,447.99 |
| B | 713 | $ 4,791,245 | 199 | $ 2,158,003 | $ 1,594,745.78 | 430 | $ 5,110,939 | $ 4,269,230.00 |
| C | 782 | $ 4,509,006 | 280 | $ 2,010,491 | $ 1,481,460.65 | 771 | $ 6,571,563 | $ 5,512,454.83 |
| D | 697 | $ 3,078,240 | 287 | $ 1,451,639 | $ 1,044,808.95 | 857 | $ 5,387,287 | $ 4,507,471.68 |
| E | 437 | $ 1,541,416 | 194 | $ 539,978 | $ 436,735.33 | 912 | $ 3,807,156 | $ 3,217,787.34 |
| HR | 324 | $ 773,524 | 211 | $ 528,350 | $ 376,652.41 | 1376 | $ 3,584,910 | $ 3,138,437.79 |
| NC | 9 | $ 22,650 | 0 | $ — | $ — | 86 | $ 205,391 | $ 177,870.33 |
| | **4777** | **$ 27,466,563** | **1375** | **$ 9,820,289** | **$ 7,174,208** | **4771** | **$ 29,631,724** | **$ 24,783,667** |
| percent of total | **16.5%** | 15.4% | 4.8% | **5.5%** | | **16.5%** | 16.6% | |

| | | |
|---|---|---|
| *Default due to Delinquency:* | *4090* | *85.7* |
| | *$ 20,662,629.12* | *83.4* |
| *Default due to Bankruptcy:* | *681* | *14.3* |
| | *$ 4,121,037.99* | *16.6* |

(1) *Includes loans with Final Payment in Progress*

(2) *includes all loans 120 days past due*

The data in the preceding table regarding loss experience may not be representative of the loss experience that will develop over time as additional borrower loans are originated through our platform and the borrower loans already originated through our platform have longer payment histories. In addition, the data in the preceding table regarding prepayments may not be representative of the prepayments we expect over time as additional borrower loans are originated through our platform and the borrower loans already originated through our platform have longer payment histories.

The following table presents aggregate information, as of December 31, 2008, for the period from Prosper Inc.'s inception to October 16, 2008, on the results of our parent's collection efforts for all loans that became more than 30 days past due at any time, grouped by credit grade.

| Credit Grade | Loans In Collections | Origination Amount | Aggregate Amount Sent to Collections(1) | Gross Amount Collected on Accounts sent to Collections(2) | (#) of Loans Charged-off Due to Delinquency(3) | Aggregate Principal Balance of Loans Charged-Off Due To Delinquency(3) | Gross Amount Recovered on Loans Charged-Off(4) |
|---|---|---|---|---|---|---|---|
| AA | 232 | $ 3,467,277.00 | $ 237,213.08 | $ 112,009.68 | 93 | $ 1,208,603.40 | $ 23,672.88 |
| A | 397 | $ 5,358,758.00 | $ 373,537.66 | $ 159,119.56 | 179 | $ 1,970,212.42 | $ 36,747.96 |
| B | 688 | $ 7,732,266.42 | $ 557,282.66 | $ 211,026.55 | 349 | $ 3,400,433.38 | $ 75,459.64 |
| C | 1,145 | $ 9,166,590.00 | $ 683,428.94 | $ 313,471.00 | 628 | $ 4,450,305.45 | $ 159,257.98 |
| D | 1,262 | $ 7,420,454.69 | $ 573,314.14 | $ 293,118.75 | 694 | $ 3,730,848.43 | $ 105,215.62 |
| E | 1,239 | $ 4,916,818.00 | $ 396,437.68 | $ 227,758.61 | 791 | $ 2,801,967.37 | $ 123,631.91 |
| HR | 1,761 | $ 4,554,250.45 | $ 367,697.62 | $ 226,261.21 | 1,273 | $ 2,936,307.44 | $ 110,557.40 |
| NC | 90 | $ 214,391.00 | $ 17,039.92 | $ 4,435.75 | 83 | $ 171,585.06 | $ 7,267.57 |
| Totals | 6,814 | $ 42,830,805.56 | $ 3,205,951.70 | $ 1,547,201.11 | 4,090 | $ 20,670,262.95 | $ 641,810.96 |

(1) Represents accounts 31 to 120 days past due.

(2) Represents the gross amounts collected on borrower loans while such accounts were in collection—during the 31-120 day period. This amount does not represent payments received after an account has been sent to collection, cured and returned to current status.

(3) Represents accounts that have been delinquent for 120 days at which time the account is charged-off. Any money recovered after 120 days is no longer included as amounts collected on accounts sent to collection.

(4) Represents the gross amounts Prosper received on charged-off accounts after the accounts were charged-off—e.g., a dollar received on an account 122 days past due. Our lender members receive approximately 85% of gross amount Prosper recovers on loans charged-off.

Prosper Inc. has not altered the terms or made any principal reductions on any loans prior to charge-off except as required by law (such as in situations were the Servicemembers' Civil Relief Act requires interest rates to be reduced to 6% while a borrower in the armed forces is on active duty). In order to comply with the Servicemembers' Civil Relief Act, Prosper Inc. has elected to make "pre-refunds" of the interest differential to the affected borrower for the period of deployment. The borrower then continues to make their regular payments. In these cases, Prosper Inc. has refunded the interest to the borrower from Prosper's own funds and, as a result, the payments received by the applicable lenders are unchanged.

There have been seven post charge-off loans for which, in exchange for substantial payments on the loans, Prosper Inc. has agreed to a forgiveness of principal. The total amount of borrower principal forgiven was $45,988.13. However, from the applicable lenders' perspectives, the balance on these loans was reduced to $0 at charge-off, effectively terminating the applicable lenders' interests in the loans. Nevertheless, the subsequent payments on the loans were paid in total to the lenders in the form of recoveries against written-off principal.

The following table presents aggregated information about borrowers for loans originated over the period from our parent's inception to October 16, 2008, grouped by credit grade:

| Credit Grade | Number of Borrowers | Average Interest Rate | Average APR |
|---|---|---|---|
| AA | 3513 | 11.5% | 12.2% |
| A | 3312 | 14.2% | 15.2% |
| B | 4387 | 16.5% | 17.5% |
| C | 5643 | 18.8% | 20.0% |
| D | 5151 | 21.2% | 22.4% |
| E | 3289 | 25.5% | 26.8% |
| HR | 3505 | 25.5% | 26.9% |
| NC | 141 | 23.3% | 24.2% |

The following table presents aggregated information for loans originated during the period from March 1, 2007 through October 16, 2008 by Prosper Inc. Income and employment is self-reported by borrowers at the time of their loan applications and verified in a limited number of instances. Homeownership information is obtained from credit bureau reporting and Prosper Inc. does not independently verify this information except in limited instances where the information is provided by borrowers and verified.

| Credit Grade | Percent of Borrowers Reporting Home Ownership | Average Job Tenure Months | Average Annual Gross Income | Average Debt To Income (excludes DTI>200%) |
|---|---|---|---|---|
| AA | 77.3% | 76.0 | 72,040 | 19.96% |
| A | 57.1% | 67.4 | 58,811 | 24.29% |
| B | 54.6% | 71.3 | 56,419 | 27.52% |
| C | 49.9% | 70.0 | 53,029 | 25.20% |
| D | 29.7% | 63.5 | 46,814 | 25.54% |
| E | 27.9% | 65.5 | 48,205 | 23.97% |
| HR | 18.6% | 49.1 | 38,829 | 19 47% |

The following table presents aggregated information for loans originated from the period from March 1, 2007 to October 16, 2008 reported by a consumer reporting agency about Prosper Inc. borrowers at the time of their loan applications, grouped by credit grade. Prosper Inc. has not independently verified this information:

| Credit Grade | Average Experian ScoreXPlus | Average Number Current Delinquencies | Average Number Total Open Lines | Average Number Total Credit Lines |
|---|---|---|---|---|
| AA | 792.3 | 0.12 | 9.72 | 26.59 |
| A | 737.5 | 0.27 | 9.01 | 24.65 |
| B | 697.6 | 0.38 | 8.78 | 25.15 |
| C | 656.8 | 0.70 | 8.12 | 25.07 |
| D | 619.5 | 1.05 | 7.89 | 23.77 |
| E | 578.3 | 2.20 | 7.62 | 26.63 |
| HA | 536.7 | 3.82 | 5.08 | 19.24 |

## SUMMARY OF MATERIAL AGREEMENTS

### Indenture and Form of Notes

#### *General*

Two classes of Borrower Payment Dependent Notes will be issued in series under the indenture to be entered into between Prosper and a commercial bank yet to be determined: Prosper Borrower Payment Dependent Notes, or "Prosper Borrower Notes," and Prosper Open Market Borrower Payment Dependent Notes, or "Prosper Open Market Notes." The Prosper Borrower Notes and Prosper Open Market Notes are collectively referred to as the "Notes." Each series of Notes will correspond to one borrower loan. Each series of Prosper Borrower Notes are dependent for payment on payments we receive one Prosper borrower loan and each series of Prosper Open Market Notes are dependent for payment on payments we receive on one open market loan.

All Notes will be U.S. dollar denominated, fully amortizing and have a fixed rate of interest. The Prosper Borrower Notes will have a stated interest rate that is the same as the yield percentage for the corresponding Prosper borrower loan as determined by the auction bidding process, and an aggregate stated principal amount equal to the principal amount of the corresponding Prosper borrower loan. The Prosper Open Market Notes will have a stated interest rate that is the same as the yield percentage for the corresponding open market loan, and an aggregate stated principal amount equal to the sale price of the corresponding open market loan, as determined by the auction bidding process. The yield percentage and the sale price and may be equal to, greater than or less than the interest rate and the outstanding principal balance, respectively, of the open market loan.

Notwithstanding the foregoing, we have no obligation to make any payments on the Notes unless, and then only to the extent that, we have received payments on the corresponding borrower loan. The Prosper Borrower Notes will also be subject to full or partial prepayment without penalty. Depending on the terms of the corresponding borrower loan, the Prosper Open Market Notes may or may not allow the borrower to prepay the loan without prepayment penalty.

The indenture will not limit the aggregate principal amount of Notes that Prosper can issue under the indenture, but each series of Prosper Borrower Notes will be effectively limited to the maximum allowable principal amount (currently $25,000) of a Prosper borrower loan. If in the future we change the maximum allowable Prosper borrower loan amount, then the maximum aggregate principal amount of Prosper Borrower Notes per series would also increase. The aggregate principal amount of Prosper Borrower Notes of each series will equal the principal amount of the corresponding borrower loan. Each series of Prosper Open Market Notes is not limited to the minimum and maximum amounts applicable to Prosper borrower loans.

We will use all proceeds we receive from sales of the Notes to purchase the corresponding borrower loans made by WebBank to non-California residents, to fund loans made by Prosper to California residents, or, if an open market loan, from the loan seller.

#### *Maturity Dates*

Prosper Borrower Notes currently have a term of three years, but Prosper anticipates in the near future extending available maturity dates to between three months to seven years. Prosper Open Market Notes will have maturities of three months or more. If there are amounts owing to Prosper in respect of the corresponding borrower loan at the initial maturity of a Note, the term of the Note will be automatically extended by one year, which we refer to as the "final maturity," to allow the Note holder to receive any payments that we receive on the corresponding borrower loan after the maturity of the corresponding borrower loan. However, because we or the loan seller may, in our sole discretion and subject to our servicing standard, amend, modify, sell to a third-party debt purchaser or charge-off the borrower loan at any time after the 31st day of its delinquency, and we generally will charge-off a loan after it becomes more than 120 days past due, such borrower loan may never reach the final maturity date. Following the final maturity of a Note, the holder of that Note will have no rights to receive any further payments from Prosper even if the borrower under the corresponding borrower loan, or a bankruptcy trustee, subsequently remits payments to Prosper or the servicer of the borrower loan.

#### *Ranking*

The Notes will be unsecured special, limited obligations of Prosper. Prosper will be obligated to make payments on each Note in a series only if and to the extent that Prosper receives principal or interest payments from the borrower on the corresponding borrower loan purchased by Prosper with the proceeds of that series, and such borrower loan payments will be shared ratably among all owners of Notes of the series, subject to Prosper's (and, if applicable, the loan seller's) servicing fees. In the event of a bankruptcy or similar proceeding of Prosper, the relative rights of the holder of a Note as compared to the holders of other unsecured indebtedness of Prosper with respect to payment from the proceeds of the borrower loan corresponding to that Note or other assets of Prosper is uncertain. To limit the risk of Prosper's insolvency, Prosper will grant the trustee under the indenture for the Notes, referred to as the "indenture trustee," a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture.

The indenture will not contain any provisions that would limit Prosper's ability to incur indebtedness in addition to the Notes.

***Payments and Paying Agents***

Subject to the limitations described below under "Limitations on Payments," we will make payments of principal and interest on the Notes upon receiving borrower loan payments in respect of the corresponding borrower loan, in accordance with the payment schedule for each Note. Each Note will have a payment schedule providing for monthly payments over a term equal to the corresponding borrower loan. On Prosper Borrower Notes the payment dates will fall on the sixth day after the due date for each installment of principal and interest on the corresponding borrower loan. On Prosper Open Market Notes the payment dates will fall on the sixteenth ($16^{th}$) day of each month.

We request an ACH payment from a borrower on the business day prior to the payment due date, and normally receive payment the following business day. A borrower's loan payment is initially deposited in our servicing account upon receipt and is not distributed to the lender member's FBO account until the sixth business day after the ACH payment was requested and the short return window for ACH funds has expired. Lenders members can review their account statement online and see that it received payment on the Notes on the sixth business day. Upon maturity of the Note, the same process occurs. Although payment to lender members under the Notes is six business days after the applicable payment and maturity date, Prosper treats the payment date and maturity date of the Note to be the same as the dates set forth in the corresponding borrower loan.

The stated interest rate on each Note will be the final lender yield percentage as determined from the auction bidding process. On both Prosper borrower listings and open market listings the yield percentage that lender members bid is net of the servicing fee applicable to the loan described in the listing, and with respect to open market listings also reflects the reduction in the yield resulting from any delay between the borrower's payment due date and the monthly payment date on the corresponding Note. The stated interest rate on each Note will not be the same as the interest rate on the corresponding borrower loan because it takes into account the servicing fee and, for Prosper Open Market Notes, the delay (if any) between the borrower's payment due date and the monthly payment date on the corresponding Note. Interest will be computed on the Notes in the same manner as the interest on the corresponding borrower loans is computed.

*"Business day"* means each Monday, Tuesday, Wednesday, Thursday and Friday that is (1) not a day on which the Automated Clearing House system operated by the U.S. Federal Reserve Bank (the "ACH System") is closed and (2) not a day on which banking institutions in San Francisco, California or New York, New York are authorized or obligated to close.

***Limitations on Payments***

Subject to the servicing fees described below, any amounts received from borrowers on Prosper borrower loans or from borrowers or the loan seller servicing open market loans will be forwarded by Prosper to the holder of the Notes corresponding to the borrower loan. Each holder of a Note's right to receive principal and interest payments and other amounts in respect of that Note is limited in all cases to the holder's pro rata portion of the amounts received by Prosper in connection with the corresponding borrower loan, including without limitation, all payments or prepayments of principal and interest, subject to servicing fees charged by Prosper and, if applicable, the loan seller. As compensation for servicing the borrower loans and Notes, Prosper shall be entitled to retain from payments received on the borrower loans a servicing fee calculated by the application of an annual servicing fee rate applied to the outstanding principal balance of the Notes. Prosper's servicing fee rates are subject to change from time to time, and are posted in the *Fees and Charges* section of the Prosper website. In addition, the loan seller of open market loans charges a servicing fee, which is deducted from principal and interest payments it receives on open market loans. The loan seller's servicing fee rate is set forth in the description of the loan seller displayed on the Prosper website.

For Prosper Borrower Notes, Prosper will service the Prosper Borrower Notes and the corresponding Prosper borrower loans, and currently charges lenders a servicing fee in an amount equal to an annualized rate of 1.0% of the outstanding principal balance of the corresponding borrower loan. Servicing fees will reduce the effective yield on Prosper borrower loans below the borrower interest rate. The servicing fee rate will be disclosed in all Prosper borrower listings. For Open Market Notes, Prosper will service the Open Market Notes and the loan seller will service the corresponding open market loans. Prosper currently charges lenders a servicing fee in an amount equal to an annualized rate of 0.5% of the outstanding principal balance of the corresponding borrower loan for servicing the Open Market Notes, and the loan seller will charge lenders a servicing fee, at an annualized rate, for servicing the corresponding open market loan. The servicing fee rate charged by the loan seller on open market loans will vary depending on the particular loan seller and loan type, but in all instances will be added to Prosper's servicing fee and the total servicing fee rate will be described in the open market listings.

The servicing fee is payable on all payments received on borrower loans corresponding to the Notes, including without limitation partial payments made toward a borrower's loan. We will not pay you any Non-Sufficient Funds Fees or collection fees we or a loan seller or third-party collection agency charge, and such fees will be retained by the party receiving the fee as additional servicing compensation. Prosper will pay you any late fees we receive on Prosper borrower loans. Late fees received by loan sellers on open market loans may be retained by the loan seller servicing the open market loan, depending on the particular loan seller's servicing guidelines, which will be set forth in the description of the loan seller displayed on the Prosper website. Any prepayments received on borrower loans corresponding to Notes will be paid ratably to the Note holders.

The "*Non-sufficient Funds Fee*" is a fee charged by Prosper or a third-party servicer or collection agency when a payment request is denied or a check is returned unpaid for any reason, including but not limited to, insufficient funds in the borrower member's bank account or the closing of that bank account. The Non-sufficient Funds Fee currently charged by Prosper on Prosper borrower loans is $15 or such lesser amount permitted by law. The Non-sufficient Funds Fee charged by loan sellers on open market loans depends on the terms of the corresponding borrower loan and the servicing practices of the loan seller, and will be set forth in the description of the loan seller displayed on the Prosper website.

To the extent we do not receive the anticipated payments on a borrower loan, we will not make any payments on the Notes related to that borrower loan, and a holder of a Note will not have any rights against Prosper or the borrower member in respect of the Note or the borrower loan corresponding to such holder's Note.

### *Prepayments*

To the extent that a borrower member prepays a corresponding borrower loan, such prepayment amount will be a Borrower loan Payment and holders of Notes related to that corresponding borrower loan will be entitled to receive their pro rata shares of the prepayment, net of applicable servicing fees.

### *Mandatory Redemption*

Upon the occurrence of a confirmed identity fraud incident with respect to a borrower loan, Prosper will redeem all of the Notes of the series corresponding to such borrower loan for 100% of the remaining outstanding principal amount of such Notes. An "identity fraud incident" means that the corresponding borrower loan has been obtained as a result of verifiable identity theft on the part of the purported borrower member. We may, in our discretion, require proof of the identity theft, such as a copy of the police report filed by the person whose identity was wrongfully used to obtain the corresponding borrower loan.

### *Servicing Covenant*

We are obligated to use commercially reasonable efforts to service and collect Prosper borrower loans, in good faith, accurately and in accordance with industry standards customary for servicing loans such as the borrower loans. If we refer a delinquent borrower loan to a collection agency within five (5) business days after it becomes thirty days past-due, that referral shall be deemed to constitute commercially reasonable servicing and collection efforts. We may, in our sole discretion and subject to our servicing standard, refer a Prosper borrower loan to a collection agency at any time, or elect to initiate legal action to collect a Prosper borrower loan or sell a Prosper borrower loan to a third party debt buyer at any time. We may also work with the borrower member to structure a new payment plan for the Prosper borrower loan without the consent of any holder of the Notes corresponding to the Prosper borrower loan. We will also be obligated to use commercially reasonable efforts to maintain backup servicing arrangements providing for the servicing of the borrower loans. In servicing Prosper borrower loans we may, in our discretion, utilize affiliated or unaffiliated third party loan servicers, collection agencies or other agents or contractors. Prosper (with respect to Prosper borrower loans) or the loan seller (with respect to open market loans) is obligated to use commercially reasonable efforts to service and collect the borrower loans in accordance with prudent industry standards for loans of the same general type and character. Any modification or restructuring of borrower payment terms must be done in compliance with this servicing standard, which means that the servicer must make a reasonable and prudent determination that any such modification is not materially adverse to the interests of the Note holders. The modifications contemplated by this servicing provision would be in situations, common to loan servicing industry practices, where a reasonable forbearance or extension of time for payment to be received would prevent a borrower from defaulting entirely on the loan or filing for bankruptcy. From the lender's perspective, such modifications would only be employed in situations where a greater loss would be avoided.

In the event the terms of any borrower loan are modified, we will notify the lender members via email of the material terms of the borrower loan modifications and the effect such changes will have on their Notes, including changes to payments they will receive under the Notes.

### *Notification Requirements*

Under the lender registration agreement, we agree to notify lender members within 90 days after we become aware that we have breached our representations and warranties under the lender registration agreement and notify them that we have elected to cure the breach or repurchase the applicable Note. We keep lender members apprised of the delinquency status of borrower loans by identifying delinquent loans on our website as “1 month late,” “2 months late,” “3 months late,” or “current.” Borrower loans that become more than 120 days overdue are charged off and designated as such on our website. Lender members are able to monitor the borrower loans corresponding to their Notes, but cannot participate in or otherwise intervene in the collection process.

If a default with respect to the Notes of any series occurs and is continuing and if it is known to the trustee, the trustee is required to notify each holder of the Notes the subject of a default within 90 days after it occurs. The Trustee may withhold the notice if and so long as a committee of its trust officers in good faith determines that withholding the notice is in the interests of the holders of the Notes of such series, except for defaults caused by Prosper failure to make principal and interest payments when required.

In addition, if required by Section 313(a) of the TIA, within 60 days after each May 15 beginning with the May 15 following the date of the Indenture, the Trustee shall mail or transmit electronically to each Holder of Securities a brief report dated as of such May 15 that complies with TIA Section 313(a).

### *Consolidation, Merger, Sale of Assets*

The indenture prohibits us from consolidating with or merging into another business entity or conveying, transferring or leasing our properties and assets substantially as an entirety to any business entity, unless:

- the surviving or acquiring entity is a U.S. corporation, limited liability company, partnership or trust and it expressly assumes our obligations with respect to the outstanding Notes by executing a supplemental indenture;
- immediately after giving effect to the transaction, no default shall have occurred or be continuing; and
- we have delivered to the trustee an officers’ certificate and an opinion of counsel, each stating that the transaction, and if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the indenture and all conditions precedent relating to such transaction have been complied with.

### *Denominations, Form and Registration*

We will issue the Notes only in registered form and only in electronic form. This means that each Note will be stored on our website. You can view a record of the Notes you own and the form of your Notes online and print copies for your records, by visiting your secure, password-protected webpage in the “My Account” section of our website. We will not issue certificates for the Notes. Lender members will be required to hold their Notes through our electronic Note register.

The laws of some states in the United States may require that certain persons take physical delivery in definitive, certificated form, of securities that they own. This may limit or curtail the ability of such persons to purchase Notes. We reserve the right to issue certificated Notes only if we determine not to have the Notes held solely in electronic form.

We and the trustee will treat the lender members in whose names the Notes are registered as the owners thereof for the purpose of receiving payments and for any and all other purposes whatsoever with respect to the Notes.

### *Restrictions on Transfer*

The Notes will not be listed on any securities exchange. All Notes must be held by our lender members. The Notes will not be transferable. Therefore, lender members must be prepared to hold their Notes to maturity. Under the terms of the Notes, any transfer of a Note will be wrongful unless the Note has been presented by the registered holder to us or our agent for registration of transfer. The registrar for the Notes, which initially will be us, will not be obligated to recognize any purported transfer of a Note except as required by applicable law or court order.

### *No Sinking Fund*

The Notes are fully amortizing and will not have the benefit of a sinking fund.

### *Events of Default*

Under the terms of the indenture, any of the following events will constitute an event of default for a series of Notes:

- our failure to make required payments on the Notes for thirty days past the applicable due date;
- our failure to perform, or the breach of, any other covenant for the benefit of the holders of the Notes of such series which continues for 90 days after written notice from the Trustee or holders of 25% of the outstanding principal amount of the debt securities of all series for which such default exists as provided in the indenture, subject to an additional 90 day cure period; or
- specified events relating to our bankruptcy, insolvency or reorganization.

It is not a default or event of default under the terms of the indenture if we do not make payments when a borrower does not make payments on the borrower loan corresponding with the particular series of Notes. In that case, we are not required to make payments on the Notes, so no default occurs. See "Risk Factors—Risks Related to Borrower Default," for more information. An event of default with respect to one series of Notes is not automatically an event of default for any other series.

To limit the risk of Prosper's insolvency, Prosper will grant the trustee under the indenture for the Notes, referred to as the "indenture trustee," a security interest in Prosper's right to payment under, and all proceeds received by Prosper on, the corresponding borrower loans and in the bank account in which the borrower loan payments are deposited. The indenture trustee may exercise its legal rights to the collateral only if an event of default has occurred under the indenture. Only the indenture trustee, not the holders of the Notes, will have a secured claim to the above collateral.

If an event of default occurs due to bankruptcy, insolvency or reorganization as provided in the indenture then the stated principal amount of the Notes shall become due and payable immediately without any act by the trustee or any holder of Notes.

The holders of a majority in aggregate principal amount of the outstanding Notes of any series, by notice to the trustee (and without notice to any other holder of Notes), may on behalf of the holders of all Notes of the series waive an existing default with respect to such Notes and its consequences except (1) a default in the payment of amounts due in respect of such Notes or (2) a default in respect of a provision of the indenture that cannot be amended without the consent of each holder affected by such waiver. When a default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other default or impair any consequent right.

A holder of any Note of any series may not institute a suit against us for enforcement of such holder's rights under the indenture or pursue any other remedy with respect to the indenture or the Notes unless:

- the holder gives to the trustee written notice stating that an event of default with respect to the Notes is continuing;
- the holders of at least 25% in aggregate principal amount of the outstanding Notes of that series make a written request to the trustee to pursue the remedy;
- such holder or holders offer to the trustee security or indemnity satisfactory to it against any loss, liability or expense satisfactory to the trustee;
- the trustee does not comply with the request within 60 days after receipt of the notice, the request and the offer of security or indemnity; and
- the holders of a majority in aggregate principal amount of the outstanding Notes of that series do not give the trustee a direction inconsistent with such request during such 60-day period.

The indenture will require us every year to deliver to the trustee a statement as to performance of our obligations under the indenture and as to any defaults.

### *Satisfaction and Discharge of the Indenture*

The indenture will generally cease to be of any further effect with respect to a series of Notes if:

- all of the Notes of that series (with certain limited exceptions) have been delivered for cancellation;
- or all Notes of that series not previously delivered for cancellation have become due and payable or will become due and payable within one year and we have deposited with the trustee as trust funds the entire amount sufficient to pay at maturity all of the amounts due with respect to those Notes; if in either case, we also pay or cause to be paid all other sums payable under the indenture by us and deliver to the trustee an officers' certificate and opinion of counsel stating that all conditions precedent to the satisfaction and discharge of the indenture have been complied with.

The indenture does not contain any provisions for legal or covenant defeasance of the Notes.

### *Governing Law*

The indenture and the Notes will be governed by the laws of the State of New York without regard to any principle of conflict of laws that would require or permit the application of the laws of any other jurisdiction.

### *Information Concerning the Trustee*

Prosper will select a commercial bank to serve as the trustee under the indenture. From time to time, we maintain deposit accounts and conduct other banking transactions with the trustee and its affiliates in the ordinary course of business. If and when the trustee becomes a creditor of ours, the trustee will be subject to the provisions of the Trust Indenture Act regarding the collection of claims against us. The trustee and its affiliates will be permitted to engage in other transactions; however, if they acquire any conflicting interest, the conflict must be eliminated or the trustee must resign.

## Lender Registration Agreement

When a lender member registers on the platform, the lender member enters into a lender registration agreement with us that governs the lender member's purchases of Notes from time to time from us. Under the agreement, we provide the lender member the opportunity through the platform to review borrower loan requests and , purchase Notes and instruct us to apply the proceeds from the sale of each Note to facilitate the funding or sale of, and our purchase of, a specific Prosper borrower loan or open market loan the lender member has designated.

Under the agreement, the lender member must commit to purchase a Note prior to the origination of the Prosper borrower loan, or the sale of the open market loan to which the Note corresponds. At the time the lender member commits to purchase a Note by bidding on a listing the lender member must have sufficient funds in the lender member's account with us to complete the purchase, and the lender member will not have access to those funds for as long as the lender member is a winning bidder on the listing. Once the lender member makes a purchase commitment by bidding, it is irrevocable. If the borrower loan does not receive purchase commitments for Notes totaling the amount of the requested Prosper borrower loan or the sale price for the open market loan, then we will inform the lender member and release him or her from the purchase commitment.

The lender member agrees that the lender member has no right to collect or attempt to collect from any borrower, directly or through any third party, any amount owing under any of the lender member's Notes or on any of the borrower loans that correspond to the lender member's Notes.

The lender member acknowledges that the Notes are intended to be debt instruments issued by Prosper that have original issue discount (OID) for U.S. federal income tax purposes and agrees not to take any position inconsistent with that treatment of the Notes for tax, accounting, or other purposes, unless required by law. The lender member also acknowledges that the Notes will be subject to the OID rules of the Internal Revenue Code of 1986, as amended, as described below under "About the Platform—Material U.S. Federal Income Tax Considerations—Taxation of Payments on the Notes."

### *Representations and Warranties*

The agreement describes the limitations on payments on the Notes, and the lender member acknowledges that:

- payment on the Notes, if any, depends entirely on the receipt of payments by Prosper in respect of the corresponding borrower loan;

- Prosper does not warrant or guarantee in any manner that the lender member will receive all or any portion of the principal or interest it expects to receive on any Note or realize any particular or expected rate of return;

- the amount received on a Note, if any, is specifically restricted to payments made by Prosper equal to the payments made by the borrower under the corresponding borrower loan, net of servicing fees;

- we do not make any representations as to a borrower's ability to pay and do not act as a guarantor of any corresponding borrower loan payment or payments by any borrower.

Under the agreement, the lender member represents and warrants to Prosper that:

- the lender member has not made a decision in connection with any loan requests on our platform on any prohibited basis set forth in the Equal Credit Opportunity Act and Regulation B or any applicable state or local laws, regulations, rules or ordinances concerning credit discrimination;

- the lender member is a resident of the State of California;

- the lender member meets minimum financial suitability standards and maximum investment limits established for the platform, as then in effect, or as set forth in a supplement to the prospectus for residents of the state of California and agrees to provide us with any additional documentation as we may require to verify such compliance;

- the lender member has received the prospectus and the indenture, including the form Note;

- the lender member has the legal competence and capacity, or corporate power and authority, to execute and perform the lender registration agreement and the lender registration agreement has been duly authorized, executed and delivered;

- the lender member has complied in all material respects with applicable federal, state and local laws in connection with its execution and performance of the lender member's obligations under the lender registration agreement;

- if the lender member is a legal entity, the execution and performance of the lender registration agreement does not violate any provision of its charter documents; and

- if the lender member is a legal entity, the execution and performance of the lender registration agreement will not constitute or result in a breach or default under, or conflict with, any legal requirement or any agreement to which the lender member is bound.

Under the agreement, Prosper represents and warrants to the lender member that:

- we have complied in all material respects with applicable federal, state and local laws in connection with the offer and sale of the Note;

- the Note has been duly authorized and, following payment of the purchase price by the lender member and electronic execution, authentication and delivery, the Note will constitute valid and binding obligation of Prosper enforceable against Prosper in accordance with its terms, except as the enforcement of the Note may be limited by applicable bankruptcy, insolvency or similar laws;

- prior to a lender member's purchase of a Note, the loan proceeds have been fully disbursed to the borrower under the corresponding borrower loan;

- Prosper or, with respect to open market listings, the loan seller has made commercially reasonable efforts to authenticate and verify the identity of the borrower obligated on the borrower loan that correspond to the Note; and

- Prosper would offer to indemnify or repurchase a Note from the lender member in the event of a material default under a series of Notes, if the listing describing the Notes contains a Prosper score different from the score calculated by Prosper for that listing, or if we incorrectly applied our formula to determine the Prosper score, resulting in a Prosper Rating different from the Prosper Rating that should have appeared in the listing.

We also represent and warrant to the lender member that in the event of a material default under a Note that is the result of verifiable identity theft of the named borrower's identity, determined in our sole discretion, that we will repurchase the Note by crediting the lender member's Prosper funding account with the remaining unpaid principal balance of the Note. Prosper is not required to repurchase a Note under this provision until such Note is at least 120 days past-due, although Prosper may elect to do so earlier in its sole discretion. The lender member agrees that in such circumstances the lender member will have no rights with respect to any such Notes except the crediting of the remaining principal balance of the Note to the lender member's account.

In addition, we represent and warrant to the lender member, as of the date of the agreement and the date a commitment to purchase a Note is made, that:

- we are a duly organized and validly existing corporation in good standing under the laws of California and have corporate power to enter into and perform our obligations under the agreement;
- the agreement has been duly authorized, executed and delivered by Prosper;
- the Indenture has been duly authorized by Prosper and qualified under the Trust Indenture Act of 1939 and constitutes a valid and binding agreement of Prosper, enforceable against Prosper in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency or similar laws.

***Remedies***

If we breach any of our representations and warranties and such breach materially and adversely affects a lender member's interest in a Note, we agree to,

- cure the breach, if the breach is susceptible to cure,
- repurchase the Note, or
- indemnify and hold the lender member harmless against all losses (including losses resulting from the nonpayment of the Note), damages, expenses, legal fees, costs and judgments resulting from any claim, demand or defense arising as a result of the breach.

We will determine, in our sole discretion, if a breach is susceptible to cure, whether to cure such breach, repurchase the Note or indemnify the lender member with respect to the Note. If we elect to repurchase a Note, we will pay the lender member an amount equal to the remaining outstanding principal balance of the Note as of the date of repurchase. Upon any repurchase, the Note is transferred and assigned to Prosper, without recourse, and we are authorized to execute any endorsements or assignments necessary to effectuate the transfer and assignment of the Note on behalf of the lender member.

We will notify a lender member within 90 days after we become aware that we have breached our representations and warranties under the agreement such that cure or repurchase the Note is required, at which time we will notify the lender member of our election to cure the breach or repurchase the note.

We are not obligated to repurchase a Note from a lender member if his or her investment is not realized in whole or in part due to fraud (other than verifiable identity theft) in connection with a listing or due to false or inaccurate statements or omissions of fact in a borrower's listing, whether in credit data, borrower representations, user recommendations, group affiliations or similar indicia of borrower intent and ability to repay the Notes.

***Servicing***

The agreement provides that we and the loan seller, as applicable, will use commercially reasonable efforts to service and collect the borrower loans in accordance with industry standards customary for loans of the same general type and character as the Prosper borrower loans.

The agreement also provides that we will service all Notes, and all Prosper borrower loans, both before and after default, and that open market loans offered for sale on our platform will be serviced, both before and after default, by the loan seller. We or the loan seller may, in our sole discretion and subject to the servicing standards, refer an open market loan to a collection agency at any time, or elect to initiate legal action to collect a open market loan, repossess or foreclose upon any collateral securing an open market loan, or sell an open market loan to a third party debt buyer at any time. Any amounts received by Prosper on Prosper borrower loans or from the loan seller servicing open market loans will be forwarded to the holders of the Notes corresponding to the borrower loan. In servicing borrower loans, we or the loan seller may, in our discretion, utilize affiliated or unaffiliated third party loan servicers, repossessors, collection agencies or other agents or contractors.

The agreement also provides that referral of a delinquent borrower loan to a collection agency within five (5) business days after it becomes thirty days past-due shall be deemed to constitute commercially reasonable servicing and collection efforts. Prosper and any loan seller or third-party servicer servicing a borrower loan shall have the right, without the lender member's consent, subject to the foregoing servicing standard, to change the payment date or reduce the principal amount or the rate of interest or the place and manner of making loan payments on a borrower loan, or amend or waive any other term of such borrower loan, or charge off any borrower loan that Prosper or the loan seller or third-party servicer servicing the borrower loan deems uncollectible.

The agreement provides that we shall be entitled to retain from payments received on the borrower loans a servicing fee calculated by the application of an annual servicing fee rate applied to the outstanding principal balance of the Notes, and that our servicing fee rates are posted in the Fees and Charges section of the Prosper website, and are subject to change at any time without notice. In addition, the loan seller of open market loans charges a servicing fee at an annualized rate for servicing open market loans, which is deducted from payments it receives on the open market loans. The loan seller's servicing fee rate is set forth in the description of the loan seller displayed on the Prosper website. The applicable servicing fee rate for Prosper and the loan seller, as applicable, will be disclosed in all listings. The Agreement provides that the servicing fee on each Note will be the amount of the servicing fee in effect at the time the listing for the loan evidenced by the Note was posted, and will remain unchanged for the term of the Note.

Servicing fees are payable monthly by deduction from each lender's share of a loan payment by the borrower. Lender members will not receive non-sufficient funds fees or collection fees we or a loan seller or third-party collection agency charge, and such fees will be retained by the party receiving the fee as additional servicing compensation. We will pay lender members any late fees we receive on Prosper borrower loans, but late fees received by loan sellers on open market loans may be retained by the loan seller as additional servicing compensation, depending on the particular loan seller's servicing guidelines. Any prepayments received on borrower loans will be paid ratably to the Note holders, subject to applicable servicing fees.

**Borrower Registration Agreement**

When a borrower member registers on the platform, the borrower member enters into a borrower registration agreement with us that governs any loan obtained by a borrower member. Under the agreement, we provide the borrower member the opportunity, through the platform to post loan requests or "listings" for lender members who may be interested in bidding against one another in a competitive auction format to facilitate the loan to the borrower member by WebBank or Prosper.

Under the agreement, the borrower member must authorize us to obtain their credit report from a consumer credit reporting agency. The borrower member authorizes us to verify information on their credit report, and agrees that we may contact third parties to verify any such information. The borrower member authorizes us to obtain their credit report each time the borrower member posts a listing, except that we may not obtain a new credit report when the borrower member posts a listing within thirty (30) days following the posting of an earlier listing.

Under the agreement, to post a listing the borrower member agrees to provide the amount of the loan requested and the maximum interest rate the borrower member is willing to pay. The borrower member must also provide his or her annual income, occupation and employment status. Each listing that a borrower member posts is a request for a loan in the amount specified in the listing, at the maximum interest rate set forth in the listing, should the listing be matched with a bid in, or bids totaling the amount of the borrower member's requested loan. The borrower member agrees that they will have the right to withdraw their listing at any time prior to expiration of the listing; however, the borrower member does not have the right to rescind any loan. Borrower members agree not use the Prosper website to obtain, or attempt to obtain, a loan for someone other than themselves.

Under the agreement, borrower members agree that Prosper lender members will be able to review their posted listings, and facilitate the funding of borrower loans by committing funds to the purchase of Notes issued by Prosper to these lenders, that are dependent for payment on the payments received from the borrower members on their borrower loans. Our auction platform automatically matches borrower member listings with any lender bid that specifies a minimum interest rate equal to or below the maximum interest rate the borrower member would accept. Bids are first matched with Prosper borrower listings with the highest offered interest rates above the bidder's minimum interest rate, and thereafter the bids are matched to Prosper borrower listings with incrementally lower offered interest rates. A match of a borrower member's listing with one or more bids in the full amount of the requested loan amount will result in a loan from WebBank or Prosper to the borrower member, subject to our right to verify the information as provided in the agreement.

The borrower members agree that if a loan is received, they must pay WebBank or Prosper an origination fee, depending on which entity made the loan. The current fee amount is posted in the *Fees and Charges* section of Prosper's website. If the borrower member does not make their loan payments on time, WebBank or Prosper or any subsequent owner of the loan will have all of the remedies authorized or permitted by the promissory note and applicable law. In addition, if the borrower fails to make timely payments on the loan, the borrower member's loan may be referred to collection agency for collection. We may report loan payment delinquencies in excess of thirty (30) days to one or more credit reporting agencies in accordance with applicable law.

Neither Prosper nor WebBank warrants or guarantees (1) that a borrower member's listing will be matched with any bids, (2) that a borrower member will receive a loan as a result of posting a listing, or (3) that if a borrower member's listing is matched, the borrower member will receive a loan with an interest rate less than the maximum rate specified in the listing.

Prosper may in its sole discretion, with or without cause, terminate the agreement at any time by giving the borrower member notice. Prosper also has the right to change any term or provision of the agreement or of the Prosper Terms and Conditions, provided, however, Prosper does not have the right to change any term or provision of a promissory note evidencing a loan to which the borrower member is a party except as authorized in the promissory note.

**Form of Master Loan Purchase Agreement**

The sale and transfer of the loans from each loan seller to Prosper will be governed by a master purchase agreement that will specify the type of loans eligible for listing for sale as well as the manner in which the transfer and servicing of open market loans sold to Prosper through the platform will occur. The master purchase agreements will typically have a term of one year, renewable for additional one-year terms. All loans sold to Prosper during the term of the agreement will be subject to the terms and conditions of the master purchase agreement and will become a part thereof as evidenced by electronic addendums comprised of the records in the listing file and the bill of sale.

The master purchase agreement will generally require the loan seller to make the following representation and warranties to Prosper:

- that it has good title free of any lien or claim;
- that the borrower loans were originated and serviced in accordance with the requirements of all applicable laws;
- that no loan account is the subject of an unresolved dispute or any pending litigation;
- that the borrower under the borrower loan is not deceased;
- that the account holder has not filed for bankruptcy since the origination of the account;
- that all payments received as of the listing date have been applied as required by the terms of the borrower loan;
- that the borrower loan account balance is correct;
- that no adverse selection via scoring algorithm or manual file review was used in determining what borrower loan to offer for sale on our platform;
- that all electronic data provided is an accurate reflection of the loan seller's electronic business records and the loan seller's system of record is functioning in good order as of the date of production; and
- if the open market loan is secured by collateral, that the loan seller has perfected its security interest in such collateral.

Loan sellers will not make representations directly to the lender members who hold Prosper Open Market Notes. In the event the loan seller is required to repurchase an open market loan from Prosper under the terms of the master purchase agreement, upon our receipt of the repurchase price we will distribute the proceeds to the holders of the Notes dependent for payment on that open market loan. If the loan seller were to fail to meet its obligation to repurchase the underlying open market loan from Prosper, Prosper would still be obligated to purchase the Notes dependent for payment on that open market loan under the circumstances set forth in the lender member registration agreement—e.g., if the loan seller failed to use commercially reasonable efforts in verifying the identity of the borrower. Because the loan sellers representations and warranties are not made to the lender members, the lender members have no right to take action against the loan seller or Prosper in the event the loans seller breaches its representations and warranties to Prosper. Lender members must rely on the representations and warranties of Prosper set forth in the lender member registration agreement.

The master purchase agreement will set forth repurchase requirements and procedures for open market loans that fail to conform to the terms of the agreement. The master purchase agreement or an ancillary agreement will contain the loan seller's servicing and reporting requirements with respect to open market loans offered for sale on the platform, which will generally include or address:

- whether monthly statements are mailed to borrowers under the open market loans;
- the standards for the retention and availability of the underlying documentation for the open market loan;
- service level agreements for collecting on delinquent loans;
- the amount, manner and entity responsible for any fees arising out of the servicing;
- monthly reporting requirements for both normal status items and any defined exceptions; and
- processes for correctly managing any collateral securing the loan.

Under the agreement, the loan seller will agree to indemnify Prosper regarding any litigation arising from the origination, transfer or servicing of open market loans listed or sold on our platform.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion sets forth the material U.S. federal income tax considerations generally applicable to our lender members who purchase Notes. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder ("Treasury Regulations"), administrative pronouncements of the U.S. Internal Revenue Service ("IRS") and judicial decisions, all as currently in effect and all of which are subject to change and to different interpretations. Changes to any of the foregoing authorities could apply on a retroactive basis, and could affect the U.S. federal income tax consequences described below.

This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a particular lender member's circumstances, and does not discuss any aspect of U.S. federal tax law other than income taxation or any state, local or non-U.S. tax consequences of the purchase, ownership and disposition of the Notes. This discussion applies only to lender members who hold the Notes as capital assets within the meaning of the Code (generally, property held for investment). This discussion does not address U.S. federal income tax considerations applicable to lender members that may be subject to special tax rules, such as:

- securities dealers or brokers, or traders in securities electing mark-to-market treatment;
- banks, thrifts or other financial institutions;
- insurance companies;
- regulated investment companies or real estate investment trusts;
- tax-exempt organizations;
- persons holding Notes as part of a "straddle," "hedge," "synthetic security" or "conversion transaction" for U.S. federal income tax purposes, or as part of some other integrated investment;
- partnerships or other pass-through entities;
- persons subject to the alternative minimum tax;
- certain former citizens or residents of the United States;
- non-U.S. Holders (as defined below); or
- "U.S. Holders" (as defined below) whose functional currency is not the U.S. dollar.

As used herein, a "U.S. Holder" is a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source, or (iv) a trust if (A) a United States court has the authority to exercise primary supervision over the administration of the trust and one or more U.S. persons (as defined under the Code) are authorized to control all substantial decisions of the trust or (B) it has a valid election in place to be treated as a U.S. person. A "Non-U.S. Holder" is any beneficial owner of a Note that, for U.S. federal income tax purposes, is not a U.S. Holder and that is not a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partnership holding Notes, and partners in such a partnership, should consult their own tax advisors with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes by the partnership.

THIS DISCUSSION OF THE MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR PERSON. ACCORDINGLY, ALL PROSPECTIVE LENDER MEMBERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES RELATING TO THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES BASED ON THEIR PARTICULAR CIRCUMSTANCES.

**Taxation of the Notes**

**In General**

There are no statutory provisions, regulations, published rulings, or judicial decisions that directly address the characterization of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. However, although the matter is not free from doubt, we intend to treat the Notes as our debt instruments that have original issue discount ("OID") for U.S. federal income tax purposes. Where required, we intend to file information returns with the IRS in accordance with such treatment unless there is a change or clarification in the law, by regulation or otherwise, that would require a different characterization of the Notes.

You should be aware, however, that the U.S. Internal Revenue Service ("IRS") is not bound by our characterization of the Notes and the IRS or a court may take a different position with respect to the Notes' proper characterization. For example, the IRS could determine that, in substance, each lender member owns a proportionate interest in the corresponding loan for U.S. federal income tax purposes or, for example, the IRS could instead treat the Notes as a different financial instrument (including an equity interest or a derivative financial instrument). Any different characterization could significantly affect the amount, timing, and character of income, gain or loss recognized in respect of a Note. For example, if the Notes are treated as our equity, (i) we would be subject to U.S. federal income tax on income, including interest, accrued on the corresponding loans but would not be entitled to deduct interest or OID on the Notes, and (ii) payments on the Notes would be treated by the holder for U.S. federal income tax purposes as dividends (that may be ineligible for reduced rates of U.S. federal income taxation or the dividends-received deduction) to the extent of our earnings and profits as computed for U.S. federal income tax purposes.

*A different characterization may significantly reduce the amount available to pay interest on the Notes You are strongly advised to consult your own tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences of the purchase, ownership, and disposition of the Notes (including any possible differing treatments of the Notes).*

The following discussion assumes that the Notes will be treated as our debt instruments that have OID for U.S. federal income tax purposes. Unless otherwise specified, the following discussion assumes that the Notes will not be subject to the rules governing contingent payment debt instruments.

**Taxation of Payments on the Notes**

You will generally be required to accrue OID in income as ordinary interest income for U.S. federal income tax purposes, regardless of your regular method of tax accounting. If you hold a Note that has a maturity date of more than one year, you will be required to accrue OID income as ordinary interest income under a "constant yield method." Under this treatment, if a payment on a Note is not made in accordance with the payment schedule in respect of the corresponding loan (for example, because of a late payment on the corresponding loan), you will be required to include an amount of OID in taxable income as interest even if you have not received the actual payment from the corresponding loan.

The Treasury Regulations governing OID provide special rules for determining the amount and accrual of OID for debt instruments that provide for one or more alternative payment schedules applicable upon the occurrence of contingencies. If the timing and amounts of the payments that comprise each payment schedule are known as of the issue date, and based on all the facts and circumstances as of the issue date, a single payment schedule for a debt instrument, including the stated payment schedule, is significantly more likely than not to occur, the amount and accrual of OID is determined based on that payment schedule. In addition, under the applicable Treasury Regulations, remote and/or incidental contingencies may generally be ignored. A contingency relating to the amount of a payment is incidental if, under all reasonably expected market conditions, the potential amount of the payment is insignificant relative to the total expected amount of the remaining payments on the debt instrument. A contingency relating to the timing of a payment is incidental if, under all reasonably expected market conditions, the potential difference in the timing of the payment is insignificant.

The Notes provide for one or more alternative payment schedules because we are obligated to make payments on a Note only to the extent that we receive payments on the corresponding loan. The payment schedule for each Note provides for payments of principal and interest (net of the service charge) on the Note in accordance with the payment schedule for the corresponding loan. In addition to scheduled payments, we will prepay a Note to the extent that a borrower member prepays the loan corresponding to the

Note, and we will pay late fees collected on a corresponding borrower loan to the holders of the corresponding Borrower Note. Notwithstanding such contingencies, we intend to use the payment schedule of a Note to determine the amount and accrual of OID on the Note because we believe that a Note is significantly more likely than not to be paid in accordance with such payment schedule and/or the likelihood of nonpayment, prepayment or late payment on the loan corresponding to such Note will be remote or incidental. If in the future we determine that the previous sentence does not apply to a Note, we anticipate that we will be required to determine the amount and accrual of OID for such Note pursuant to the rules applicable to contingent payment debt instruments, which are described below, and we shall so notify you.

OID on a Note will equal the excess of the Note's "stated redemption price at maturity" over its "issue price." The stated redemption price at maturity of a Note includes all payments of principal and stated interest on the Note (net of the service charge) under the payment schedule of the Note. The issue price of a Note will generally equal the principal amount of a Note.

The amount of OID includible in income for a taxable year is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year in which the holder held the Note. The daily portion of OID is determined by allocating to each day of any accrual period within a taxable year a pro rata portion of an amount equal to the product of such Note's adjusted issue price at the beginning of the accrual period and its yield to maturity (properly adjusted for the length of the period). We intend to use 30-day accrual periods. The adjusted issue price of a Note at the beginning of any accrual period should be its issue price, increased by the aggregate amount of OID previously accrued with respect to the Note, and decreased by any payments of principal and interest previously made on the Note (net of the service charge). A Note's yield to maturity should be the discount rate that, when used to compute the present value of all payments of principal and interest to be made on the Note (net of the service charge) under the payment schedule of the Note, produces an amount equal to the issue price of such Note.

If a Note is paid in accordance with its payment schedule, the amount of OID includible in income is anticipated to be based on the yield of the Note determined net of the service charge, which yield will be lower than the stated interest rate on the Note. As a result, you will generally be required to include an amount of OID in income that is less than the amount of stated interest paid on the Note.

Cash payments of interest and principal (net of the service charge) under the payment schedule on the Notes will not be separately included in income, but rather will be treated first as payments of previously accrued but unpaid OID and then as payments of principal.

**Sale, Retirement or Other Taxable Disposition of Notes**

Upon the sale, retirement or other taxable disposition of a Note, you generally will recognize gain or loss equal to the difference, if any, between the amount realized upon the sale, retirement or other taxable disposition and your adjusted tax basis in the Note. In general, your adjusted tax basis in the Note will equal your cost for the Note, increased by any OID and market discount previously included in gross income by you, as discussed below, and reduced by any payments previously received by you in respect of the Note.

Except as discussed below with respect to a Note subject to rules governing market discount, contingent payment debt instruments, or the special rules applicable to short-term obligations, your gain or loss on the taxable disposition of the Note generally will be long-term capital gain or loss if the Note has been held for more than one year and short-term otherwise. The deductibility of capital losses is subject to limitations.

**Prepayments**

If we prepay a note in full, the Note will be treated as retired and, as described above, you will generally have gain or loss equal to the difference, if any, between the amount realized upon the retirement and your adjusted tax basis in the Note. If we prepay a Note in part, a portion of the Note will be treated as retired. Generally, for purposes of determining (i) your gain or loss attributable to the portion of the Note retired and (ii) your OID accruals on the portion of the Note remaining outstanding, the adjusted issue price, your adjusted tax basis, and the accrued but unpaid OID of the Note, determined immediately before the prepayment, will be allocated between the two portions of the Note based on the portion of the Note that is treated as retired. The yield to maturity of a Note is not affected by a partial prepayment.

**Late Payments**

As discussed above, late fees collected on Prosper borrower loans corresponding to the Prosper Borrower Notes will generally be paid to you. We anticipate that any late fees paid will be insignificant relative to the total expected amount of the remaining payments on the Note. In such case, any late fees paid to you should be taxable as ordinary income at the time such fees are paid or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

**Nonpayment of Loans Corresponding to Note — Automatic Extension**

In the event that we do not make scheduled payments on a Note as a result of nonpayment by a borrower member on the loan corresponding to the Note, you must continue to accrue and include OID on a Note in taxable income until the initial maturity date or, in the case of an automatic extension, the final maturity date, except as described below. Solely for purposes of the OID rules, the Note may be treated as retired and reissued on the scheduled payment date for an amount equal to the Note's adjusted issue price on that date. As a result of such reissuance, the amount and accrual of OID on the Note may change. At the time of the deemed reissuance, due to nonpayment by the borrower member, we may not be able to conclude that it is significantly more likely than not that the Note will be paid in accordance with one payment schedule and/or that the likelihood of future nonpayment, prepayment, or late payment by the borrower member on the loan corresponding to such Note will be remote or incidental. Accordingly, the Note may become subject to the contingent payment debt instrument rules (which are discussed in more detail below). In addition, in the event that a Note's maturity date is automatically extended because amounts remain due and payable on the initial maturity date by the borrower member on the loan corresponding to the Note, the Note likely will be treated as reissued and become subject to the contingent payment debt instrument rules. If we determine that a Note is subject to the contingent payment debt instrument rules as a result of such a reissuance, we will notify you and provide the projected payment schedule and comparable yield.

If collection on a Note becomes doubtful, you may be able to stop accruing OID on the Note. Under current IRS guidance, it is not clear whether you may stop accruing OID if scheduled payments on a Note are not made. You should consult your own tax advisor regarding the accrual and inclusion of OID in income when collection on a Note becomes doubtful.

**Losses as a Result of Worthlessness**

In the event that a Note becomes wholly worthless, if you are an individual, and you did not acquire the Note as part of your trade or business, you should generally be entitled to deduct your loss on the Note as a short-term capital loss in the taxable year the Note becomes wholly worthless. The portion of your loss attributable to accrued but unpaid OID may be deductible as an ordinary loss, although such treatment is not entirely free from doubt. Under Section 166 of the Code, if you are a corporation, or if you are an individual and you acquired your Notes as part of a trade or business, you should generally be entitled to deduct any loss sustained during the taxable year on account of a Note becoming wholly or partially worthless as an ordinary loss. You should consult your own tax advisor regarding the character and timing of losses attributable to Notes that become worthless in whole or in part.

**Potential Characterization as Contingent Payment Debt Instruments**

Our intended treatment of a Note as our debt instrument that is not subject to the contingent payment debt instrument rules is not binding on the IRS or a court of competent jurisdiction. For example, the IRS or a court could determine that the Notes are "contingent payment debt instruments" because payments on the Notes are linked to performance on the corresponding loan. If the Notes are characterized as contingent payment debt instruments, or in the future, if we conclude that a Note is subject to the contingent payment debt instrument rules, the Notes would be subject to special rules applicable to contingent payment debt instruments. If these rules were to apply, you would generally be required to accrue interest income under the noncontingent bond method. Under this method, interest would be taken into account whether or not the amount of any payment is fixed or determinable in the taxable year. The amount of interest that would be taken into account would generally be determined by constructing a hypothetical noncontingent bond, which is based on a "comparable yield" (generally, a hypothetical yield to be applied to determine interest accruals with respect to the Note, and which can be no less than the applicable federal rate) and a "projected payment schedule" (generally, a series of projected payments, the amount and timing of which would produce a yield to maturity on that Note equal to the comparable yield). Based on the comparable yield and the projected payment schedule, you will generally be required to accrue as OID the sum of the daily portions of interest for each day in the taxable year that you held the Note, adjusted to reflect the difference, if any, between the actual and projected amount of any contingent payments on the Note. The daily portions of interest are determined by allocating to each day in an accrual period the ratable portion of interest that accrues in such accrual period. The amount of interest you may accrue under this method could be higher or lower than the stated interest rate on the Notes. In addition, any gain recognized on the sale, exchange or retirement of your Note will generally be treated as ordinary interest income, and any loss will be treated as ordinary loss to the extent of prior OID inclusions, and then as capital loss thereafter.

**Short-Term Notes**

The following discussion applies to Notes that have a maturity of one year or less from the date of issue ("Short-Term Notes"). There are special rules that address the U.S. federal income taxation of Short-Term Notes that you should be aware of. These rules are not entirely clear in all situations. Accordingly, you are strongly advised to consult your own tax advisor with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of Short-Term Notes.

In general, the Treasury Regulations provide that, in the case of a debt instrument with a maturity date of one year or less, no payments of interest are considered qualified stated interest. This means that a Short-Term Note is treated as having OID equal to the excess of the total payments on the obligation over its issue price. In general, if you are a cash method taxpayer, you should not be required to recognize interest income until actual or constructive receipt of payment, unless you elect to accrue OID in income on a current basis under either a straight-line or a constant yield method. If you do not elect to currently include accrued OID in income, you will not be allowed to deduct any of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry the Note (in an amount not exceeding the deferred income), and instead you will be required to defer deductions for such interest until the deferred income is realized upon the maturity of the Note or its earlier disposition in a taxable transaction. Notwithstanding the foregoing, if you elect to include accrued OID in income on a current basis, the limitation on the deductibility of interest will not apply. Upon disposition of a Short-Term Note, you will be required to characterize some or all of the gain realized on a sale, exchange or retirement of the Note as ordinary income. The amount characterized as ordinary income upon such disposition will generally equal an amount of OID that would have accrued under a straight-line basis or, if you so elect, an amount of OID that would have accrued under a constant yield method. If you are an accrual method taxpayer, you will generally be required to accrue OID in income on a current basis on either a straight-line basis or, at your election, under the constant yield method based on daily compounding. It should also be noted that the market discount rules (discussed above) generally do not apply to short-term obligations. In addition, while there are special rules that address the U.S. federal income taxation of notes that have a maturity date of more than one year and that provide for one or more contingent payments, those rules generally do not apply to short-term obligations. Accordingly, the U.S. federal income taxation of short-term obligations that provide for contingent payments is not entirely clear. You should consult your own tax advisor regarding the U.S. federal income tax consequences if Short-Term Notes are considered short-term obligations that provide for contingent payments.

**Backup Withholding and Reporting**

We will be required to report information to the IRS on certain payments on a Note (including interest and discount) and on proceeds of the sale of a Note if you are not an exempt recipient (such as a corporation). In addition, backup withholding (currently at a 28% rate) may apply to payments made to you if (a) you do not furnish or you have failed to provide your correct taxpayer identification number, (b) we have been instructed by the IRS to backup withhold because of underreporting (generally meaning that the IRS has determined and notified you that you have failed to report any reportable dividend and interest payments required to be shown on a tax return for a taxable year), or (c) in certain circumstances, you have failed to comply with applicable certification requirements or otherwise establish an exemption from backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the IRS on a timely basis. You should consult your tax advisor regarding the application of information reporting and backup withholding rules in your particular situation, the availability of an exemption, and the procedure for obtaining such an exemption, if applicable.

## BUSINESS

**Overview**

Prosper Marketplace CA, Inc. is the operator of an Internet credit auction platform. The platform is described in more detail in this prospectus under the caption "About the Platform." Our platform provides a number of benefits to our borrowers. We believe the key features of the Prosper experience are the following:

- better interest rates than those available from traditional banks;

- 24-hour online availability to initiate a loan listing;
- convenient, electronic payment processing; and
- amortizing, fixed rate loans, which represent a more responsible way for consumers to borrow than revolving credit facilities.

**Business Strengths**

We believe that the following business strengths differentiate us from competitors and are key to our success:

- *Interest rates set by the marketplace.* We believe that our auction bidding process provides an efficient method of setting interest rates for both borrowers and lenders, in a way that is fair and transparent to all parties.
- *Open access.* We allow individuals with a wide range of credit characteristics to apply for loans, and enable them to leverage their social capital and receive loans from the lender community at large.
- *Transparency and data availability.* By making all site transactions visible to our customers and available electronically for analysis, we allow our customers to better understand our marketplace and make better decisions about their activity.
- *Open market listings provide additional liquidity option for financial institutions.* Our open market listings offer an effective and cost-effective method for financial institutions to unlock liquidity in their existing borrower loans, which may not exist in the current economic environment as such lenders can no longer pool and sell these loans in the securitization market.

**Corporate History**

We were incorporated in the State of California on April 3, 2009, and our principal executive offices are located at 111 Sutter Street, 22nd Floor, San Francisco, California 94104. Prosper's telephone number at that location is (415) 593-5400. Prosper's website address is *www.prosper.com.* The information contained on our website is not incorporated by reference into this prospectus.

Prior to our organization, our parent operated the platform from February 2006 until October 16, 2008. During this period, the operation of the platform differed from the structure described in this prospectus, and Prosper Inc. did not offer Notes. Instead, the platform allowed lender members to purchase, and take assignment of, borrower loans directly as described under "Prior Operation of Our Platform." All marketing, technology and other services are provided to us by Prosper Inc. in accordance with the terms of the administration agreement. Under the administration agreement, we pay Prosper Inc. the actual costs of all expenses incurred on our behalf, including the services of its employees. As used in this section of the prospectus, the terms "we," "us" or "our" refer to Prosper California unless otherwise indicated.

**Marketing**

Our marketing efforts are designed to attract individuals and institutions to our website, to enroll them as members and to have them understand and utilize our services for borrowing or investing in Notes on our platform. We believe there are significant opportunities to increase the number of members who use our platform through additional marketing initiatives. We employ a combination of paid and unpaid sources to market our platform. We also invest in public relations to build our brand and visibility. We are constantly seeking new methods to reach more potential Prosper members.

We attract members in a variety of ways, including advertising, search engine results and word-of-mouth referrals. We frequently hear from new borrowers that they heard about us from current borrowers. In addition, we have been featured in a variety of media outlets, including television and print media. We have also participated in interviews to promote Prosper.

We continuously measure website visitor-to-member conversion. We test graphics and layout alternatives in order to improve website conversion. We also seek to customize the website to our members' needs whenever possible. We carefully analyze visitor website usage to understand and overcome barriers to conversion.

For the two years ended December 31, 2008 and 2007, our parent spent approximately $2.3 million and $2.9 million, respectively, on marketing.

**Technology**

Our system hardware is located in a hosting facility located in San Francisco, California, owned and operated by Rincon 365 Borrower, LLC under an agreement that expires in August 2011. Generally, unless either party delivers a termination notice the agreement is automatically renewable for three year terms. The facility provides around-the-clock security personnel, video surveillance and biometric access screening and is serviced by onsite electrical generators, fire detection and suppression systems. The facility has multiple interconnects to the Internet, and we use Internap Network Services Corporation as our Internet service provider. We also maintain off-site backups at a secure, Tier 1 data center in Las Vegas, Nevada. We back up all customer data daily and replicate this data offsite via an encrypted connection.

Our parent owns all of the hardware deployed in support of our platform. We continuously monitor the performance and availability of our platform. We have a scalable infrastructure that utilizes standard techniques such as load-balancing and redundancies.

We have written our own accounting software to process electronic cash movements, record book entries and calculate cash balances in our members' funding accounts. We process electronic deposits and payments by originating ACH transactions. Our software puts these transactions in the correct ACH transaction data formats and makes book entries between individual members' accounts using a Write-Once-Read-Many (WORM) ledger system.

Prosper Inc. will act as back-up servicer and if it is unable to do so, Prosper Inc. has entered into a back-up servicing agreement with a loan servicing company that is willing and able to transition servicing responsibilities in the event Prosper Inc. can no longer do so. The third party is a financial services company that has extensive experience and knowledge entering into successor loan servicing agreements. The third party will provide monthly investor reports on our loan servicing activity that will be available to all registered users.

**Scalability**

Our platform is designed and built as a highly scalable, multi-tier, redundant system. Our platform incorporates technologies designed to prevent any single point of failure within the data center from taking the entire system offline. This is achieved by utilizing load-balancing technologies at the front-end and business layer tiers and clustering technologies in the backend tiers to allow us to scale both horizontally and vertically depending on platform utilization. In addition, the core network load-balancing, routing and switching infrastructure is built with fully redundant hardware and sub-second failover between those devices.

**Data integrity and security**

All sensitive data that is transmitted to and from our customers and service providers is transacted using a secure transport protocol. Communication of sensitive data via the web site to our customers is secured utilizing SSL 128-bit enabled encryption certificates provided by VeriSign and Thawte, Inc. Communication of sensitive data with our service providers is secured utilizing authenticated VPN, SSL 128-bit encryption and SSH protocols depending on the service providers' requirements. Storage of sensitive data is encrypted utilizing AES 256-bit and 3DES 168-bit cryptographic ciphers depending upon our service providers' requirements and internal storage policies. Access to the data by our employees is restricted based upon a least-privilege principle such that employees have access only to the information and systems needed to perform their function. In the event of disaster, data is repeatedly stored securely at an offsite data center.

We protect the security of our platform using a multilayered defense strategy incorporating several different security technologies and points of monitoring. At the perimeter of the network, multi-function security technologies implement firewall, intrusion prevention, anti-virus and anti-spam threat management techniques. Internally, the network and hosts are segmented by function with another layer of firewalls and traffic inspection devices. At the host level, our platform utilizes host based intrusion prevention, antivirus, antispyware, and application control systems. Logging and monitoring for network security devices is done in real-time with notifications to the appropriate staff upon any suspicious event or action that requires attention. Logging and monitoring of host systems is done in real-time to a centralized database with web based reporting and additional notification to the appropriate staff for any remediation.

**Fraud detection**

We consider fraud detection to be of utmost importance to the successful operation of our business. We employ a combination of proprietary technologies and commercially available licensed technologies and solutions to prevent and detect fraud. We employ techniques such as knowledge based authentication, or KBA, out-of-band authentication and notification, behavioral analytics and digital fingerprinting to prevent identity fraud. We use services from third-party vendors for user identification, credit checks and for checking customer names against the list of Specially Designated Nationals maintained by the Office of Foreign Assets Control (OFAC). In addition, we use specialized third-party software to augment our identity fraud detection systems. In addition to our identity fraud detection system, we have a dedicated team which conducts additional investigations of cases flagged for high fraud risk. See "About the Platform—Borrower Financial Information is Generally Not Verified" for more information. We also enable our lender members to report suspicious activity to us, which we may then decide to evaluate further.

**Engineering**

We have made substantial investment in software and website development and we expect to continue or increase the level of this investment as part of our strategy to continually improve our platform. In addition to developing new products and maintaining an active online deployment, the engineering department also performs technical competitive analysis as well as systematic product usability testing. As of December 31, 2008, our parent's engineering team consisted of six developers, one quality assurance manager, four quality assurance contractors, two product managers, one director of database systems, one database administrator, one director of network operations, one network engineer and the Chief Technology Officer. Our parent's engineering expense totaled $2.9 million and $3.1 million for the fiscal years ended December 31, 2008 and 2007, respectively.

**Competition**

The market for peer-to-peer lending is competitive and rapidly evolving. We believe the following are the principal competitive factors in the peer-to-peer lending market:

- fee structure;
- website attractiveness;
- member experience, including borrower loan funding rates and lender returns;
- acceptance as a social network;
- branding; and
- ease of use.

The primary competitors of our platform are major credit card companies such as JPMorgan Chase Bank, Bank of America, Citibank, other commercial banks, savings banks and consumer finance companies. We also face competition from other peer-to-peer platforms such as Lending Club and Virgin Money and other peer-to-peer platforms appear to be preparing to commence operations.

We may also face future competition from new companies entering our market, which may include large, established companies, such as eBay Inc., Google Inc. or Yahoo! Inc. These companies may have significantly greater financial, technical, marketing and other resources than we do and may be able to devote greater resources to the development, promotion, sale and support of their consumer platforms. These potential competitors may be in a stronger position to respond quickly to new technologies and may be able to undertake more extensive marketing campaigns. These potential competitors may have more extensive potential borrower bases than we do. In addition, these potential competitors may have longer operating histories and greater name recognition than we do. Moreover, if one or more of our competitors were to merge or partner with another of our competitors or a new market entrant, the change in competitive landscape could adversely affect our ability to compete effectively.

**Intellectual Property**

Our intellectual property rights are important to our business. We rely on a combination of copyright, trade secret, trademark, patent and other rights, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, processes and other intellectual property. We have filed a patent application in respect of our system.

Although the protection afforded by copyright, trade secret, trademark and patent law, written agreements and common law may provide some advantages, we believe that the following factors help us to maintain a competitive advantage:

- the technological skills of our software and website development personnel;
- frequent enhancements to our platform; and
- high levels of member satisfaction.

Our competitors may develop products that are similar to our technology. For example, our legal agreements may be copied directly from our website by others. We enter into confidentiality and other written agreements with our employees, consultants and service providers, and through these and other written agreements, we attempt to control access to and distribution of our software, documentation and other proprietary technology and information. Despite our efforts to protect our proprietary rights, third parties may, in an authorized or unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop a product with the same functionality as ours. Policing all unauthorized use of our intellectual property rights is nearly impossible. Therefore, we cannot be certain that the steps we have taken or will take in the future will prevent misappropriations of our technology or intellectual property rights.

We have developed our own software, and do not use software licensed to us by third parties, for processing electronic cash movements, recording book entries and calculating cash balances in our members' Prosper accounts.

**Employees**

As of December 31, 2008, Prosper Inc. employed thirty-nine (39) full-time employees. Of these employees:

- 17 were in network and engineering;
- 7 were in customer services, which includes the employees who conduct our collection activities;
- 7 were in legal and finance;
- 4 were in marketing; and
- 4 were in general and administration.

None of our parent's employees are represented by labor unions. Our parent has not experienced any work stoppages and believes that relations with employees are good.

**Facilities**

Our corporate headquarters, including our principal administrative, marketing, technical support and engineering functions, is located in San Francisco, California, where our parent leases workstations and conference rooms under a five year lease agreement that expires in July 2011. We believe that our existing facilities are adequate to meet our current needs, and that suitable additional alternative spaces will be available in the future on commercially reasonable terms.

**Legal Proceedings**

We are not currently subject to any material legal proceedings. Except for the below matters, we are not aware of any litigation matters which have had, or are expected to have, a material adverse effect on Prosper Inc.

In November of 2008, the SEC instituted cease and desist proceedings, pursuant to Section 8A of the Securities Act, against Prosper, Inc. In anticipation of the institution of these proceedings, Prosper, Inc. submitted an offer of settlement, in which Prosper, Inc. neither admitted nor denied liability, which was accepted by the SEC. On November 24, 2008, a cease and desist order was issued by the SEC, which included findings that Prosper, Inc. violated Sections 5(a) and (c) of the Securities Act and required Prosper, Inc. to cease and desist from committing or causing any violations and any future violations of Sections 5(a) and (c) of the Securities Act.

On November 26, 2008, Prosper, Inc. and the North American Securities Administrators Association, or "NASAA," executed a settlement term sheet. The term sheet sets forth the material terms of a consent order to resolve matters relating to Prosper, Inc.'s sale and offer of unregistered securities and the omission of material facts in connection with such offers and sales. NASAA will recommend that each state adopt the terms of the settlement, however, the settlement is not binding on any state. The terms of the settlement involved Prosper, Inc.'s payment of up to $1 million, which NASAA will allocate among the 50 states and the District of Columbia, where we conduct business, based on the loan sale transaction volume in each state. Prosper, Inc. will not be required to pay any portion of the fine allocated to those states that do not execute a consent order with Prosper. The terms of the settlement require the states to terminate their investigation of Prosper, Inc.'s activities related to the sale of securities before November 24, 2008. If a state does not elect to participate in the NASAA settlement, such state would not be prevented from pursuing its own remedies in connection with Prosper, Inc.'s sale of securities before November 24, 2008. Prosper, Inc. has reached agreement with NASAA on the final terms of the consent order for consideration by the states. Prosper, Inc. has accrued approximately $417,000 in connection with the contingent liability arising from the settlement term sheet in accordance with SFAS No. 5, *Accounting for Contingencies*.

On November 26, 2008, plaintiffs, Christian Hellum, William Barnwell and David Booth, individually and on behalf of all other plaintiffs similarly situated, filed a class action lawsuit against Prosper, Inc., certain of its executive officers and directors in the Superior Court of California, County of San Francisco, California. The suit was brought on behalf of all loan note purchasers in the online lending platform from January 1, 2006 through October 14, 2008. The lawsuit alleges that Prosper, Inc. offered and sold unqualified and unregistered securities in violation of the California and federal securities laws. The lawsuit seeks class certification, damages, the right of rescission and the award of attorneys' fees and costs against Prosper, Inc. and the other named defendants. Prosper, Inc. intends to vigorously defend this lawsuit, however, the final outcome of this lawsuit is not presently determinable or estimable and there can be no assurance that the matter will be finally resolved in Prosper, Inc.'s favor. If the lawsuit is not resolved in Prosper, Inc.'s favor, it or we might be obliged to pay damages, and might be subject to such equitable relief as a court may determine.

## GOVERNMENT REGULATION

### Overview

The consumer loan industry is highly regulated. Prosper, and the borrower loans made through our platform, are subject to extensive and complex rules and regulations, licensing and examination by various federal, state and local government authorities. These authorities impose obligations and restrictions on our activities and the borrower loans made or sold through our platform. In particular, these rules limit the fees that may be assessed on the borrower loans, require extensive disclosure to, and consents from, our borrower members, prohibit discrimination and impose multiple qualification and licensing obligations on platform activities. Failure to comply with these requirements may result in, among other things, revocation of required licenses or registration, loss of approved status, voiding of the loan contracts, indemnification liability to contract counterparties, class action lawsuits, administrative enforcement actions and civil and criminal liability. While compliance with such requirements is at times complicated by our novel business model, we believe we are in substantial compliance with these rules and regulations. These rules and regulations are subject to continuous change, however, and a material change could have an adverse effect on our compliance efforts and ability to operate.

### *Regulation and Consumer Protection Laws*

### State and Federal Laws and Regulations

Borrower loan origination activities on our platform and the servicing of Notes are subject to state and federal regulation. WebBank and Prosper and the borrower loans we make must comply with applicable state usury and lending laws, including interest rate and fee limitations, and licensing and disclosure requirements. In addition, Prosper and WebBank must comply with the federal Consumer Credit Protection Act, including, without limitation, the Truth-in-Lending Act, Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act and Electronic Fund Transfer Act, as well as the federal Electronic Signatures in Global and National Commerce Act (ESIGN) and other federal and state laws governing privacy and data security and prohibiting unfair or deceptive business practices. Prosper and WebBank are subject to examination, supervision, and potential regulatory investigations and enforcement actions by state and federal agencies that regulate their activities, including but not limited to the Utah Department of Financial Institutions and the FDIC with respect to WebBank and various state consumer credit regulatory agencies and the Federal Trade Commission with respect to Prosper.

*State Licensing Requirements*. We hold a California Finance Lenders License. Our parent holds consumer lending licenses or similar authorizations in 23 states and the District of Columbia. We are subject to supervision and examination by the state regulatory authorities that administer the state lending laws. The licensing statutes vary from state to state and variously prescribe or impose recordkeeping requirements; restrictions on loan origination and servicing practices, including limits on finance charges and the type, amount and manner of charging fees; disclosure requirements; requirements that licensees submit to periodic examination; surety bond and minimum specified net worth requirements; periodic financial reporting requirements; notification requirements for changes in principal officers, stock ownership or corporate control; restrictions on advertising; and requirements that loan forms be submitted for review.

WebBank is a Utah-chartered industrial bank organized under Title 7, Chapter 8 of the Utah Code and has its deposits insured by the FDIC. WebBank is subject to supervision and examination by the Utah Department of Financial Institutions and the FDIC. Applicable federal law preempts state usury limitations and permits FDIC-insured depository institutions, such as WebBank, to "export" the interest rates permitted under the laws of the state where the bank is located when making loans to borrowers who reside in other states, regardless of the usury limitations imposed by the state law of the borrower's residence. WebBank is located in Utah, and Utah law does not limit the amount of interest that may be charged on loans of the type offered through our platform. A few jurisdictions have elected to opt out of the federal usury preemption available to state-chartered, FDIC-insured banks. To the extent that a WebBank borrower loan is deemed to be "made" in such a jurisdiction, the loan would be subject to the maximum interest rate limit of such jurisdiction.

*Disclosure Requirements and Other Lending Regulations.* We are also subject to and seek to comply with state and federal laws and regulations applicable to consumer lending, including requirements relating to loan disclosure, credit discrimination, credit reporting, debt collection and unfair or deceptive business practices. These laws and regulations may be enforced by state consumer credit regulatory agencies, state attorneys general, the Federal Trade Commission, and private litigants, among others. Given our novel business model and the subjective nature of some of these laws and regulations, particularly laws regulating unfair or deceptive business practices, we may become subject to regulatory scrutiny or legal challenge with respect to our compliance with these requirements.

*Truth-in-Lending Act*. The Truth-in-Lending Act (TILA), and the regulation issued by the Federal Reserve Board implementing the TILA, Regulation Z, requires disclosure of, among other things, the annual percentage rate, the finance charge, the amount financed, the number of payments, and the amount of the monthly payment on consumer loans. WebBank and Prosper provide borrowers with a TILA disclosure form when borrower loans are originated and seeks to comply with TILA's disclosure requirements relating to credit advertising.

*Equal Credit Opportunity Act*. The Federal Equal Credit Opportunity Act (ECOA) and the regulation issued by the Federal Reserve Board implementing the ECOA, Regulation B, prohibit discrimination in any aspect of a credit transaction, on the basis of race, color, religion, national origin, sex, marital status, age (with certain limited exceptions); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. Prosper and WebBank comply with the ECOA's nondiscrimination requirements, and the lender registration agreement requires lender members to comply with the ECOA in their bidding practices. We also require individual group leaders who form groups on Prosper to comply with the ECOA in that they are prohibited from excluding individuals from membership in a group on a prohibited basis.

The ECOA also requires creditors to provide consumers with notice of adverse action taken on credit applications, giving the consumer the principal reasons why adverse action was taken. We and/or WebBank also provide prospective borrowers who attempt but fail to obtain a borrower loan through our platform with an adverse action notice in compliance with the ECOA's requirements.

*Fair Credit Reporting Act.* The Federal Fair Credit Reporting Act (FCRA), administered by the Federal Trade Commission, promotes the accuracy, fairness and privacy of information in the files of consumer reporting agencies. In addition to requirements on credit bureaus, the FCRA requires that users of consumer credit reports have a permissible purpose to obtain a credit report on a consumer and that persons who furnish loan payment information to credit bureaus report such information accurately. The FCRA also has disclosure requirements for creditors who take adverse action on credit applications based on information contained in a credit report. Prosper and WebBank have a permissible purpose for obtaining credit reports on borrower members and Prosper reports loan payment and delinquency information to the credit bureaus in compliance with the FCRA. Prosper's and WebBank's adverse action notices contain the disclosures required by the FCRA.

*Fair Debt Collection Practices Act*. The federal Fair Debt Collection Practices Act (FDCPA) provides guidelines and limitations on the conduct of third party debt collectors in connection with the collection of consumer debts. The FDCPA limits certain communications with third parties, imposes notice and debt validation requirements, and prohibits threatening, harassing or abusive conduct in the course of debt collection. While the FDCPA applies to third party debt collectors, debt collection laws of certain states, including California, impose similar requirements on creditors who collect their own debts. In order to ensure compliance with the FDCPA, Prosper has contracted with professional third party debt collection agencies to engage in debt collection activities. Prosper's agreements with lender members and group leaders prohibit registered lender members and group leaders from attempting to directly collect on the Notes, and Prosper has established procedures to ensure that lender members and group leaders do not attempt to collect on the Notes themselves.

*Servicemembers Civil Relief Act.* The Federal Servicemembers Civil Relief Act (SCRA) allows military members to suspend or postpone certain civil obligations so that the military member can devote his or her full attention to military duties. In accordance with the SCRA, Prosper must adjust the interest rate of borrowers on active duty and other military personnel who qualify for and request relief. If a borrower with an outstanding borrower loan is called to active military duty and can show that such military service has materially affected his or her ability to make payments on the borrower loan, Prosper will reduce the interest rate on the borrower loan to 6% for the duration of the borrower's active duty. During this period, the lender members on the borrower loan will not receive the difference between 6% and the interest rate that was established for the borrower loan by the auction bidding system on our platform. For borrowers to obtain an interest rate reduction on a borrower loan due to military service, we require the borrowers to send us a written request and a copy of the borrower's mobilization orders.

We do not take military service into account in assigning credit grades to borrowers' loan listings.

*Electronic Funds Transfer Act*. The Federal Electronic Funds Transfer Act (EFTA) and the regulation issued by the Federal Reserve Board implementing the EFTA, Regulation E, place guidelines and restrictions on the electronic transfer of funds from consumers' bank accounts, including preauthorized electronic fund transfers from consumers' accounts to make loan payments. Most transfers of funds in connection with the origination and repayment of Notes and bidding on our platform are done by Automated Clearing House (ACH) electronic transfers of funds subject to detailed timing and notification rules and guidelines administered by the National Automated Clearinghouse Association (NACHA). Transfers of funds on our platform are done in conformity with the EFTA and its regulations, as well as NACHA guidelines.

*Electronic Signatures in Global and National Commerce Act*. The Federal Electronic Signatures in Global and National Commerce Act (ESIGN) and similar state laws authorize the creation of legally binding and enforceable agreements, including electronic loan agreements, utilizing electronic records and electronic signatures. ESIGN imposes special requirements on businesses that want to use electronic records or signatures in consumer transactions and requires businesses to obtain from consumers electronic consent or confirmation to receive information electronically that a law requires to be in writing. When a platform participant registers on our platform, we obtain his or her consent to transact business electronically with Prosper and WebBank and maintain electronic records in compliance with ESIGN requirements.

*Privacy and Data Security Laws*. The Federal Gramm-Leach-Bliley Act (GLBA) limits the disclosure of nonpublic personal information about a consumer to nonaffiliated third parties and requires financial institutions to disclose certain privacy policies and practices with respect to its information sharing with both affiliates and nonaffiliated third parties. A number of states have enacted privacy and data security laws requiring safeguards on the privacy and security of consumers' personally identifiable information. Our privacy policy conforms to GLBA requirements, and we have policies and procedures intended to maintain platform participants' personal information securely, and we do not sell or rent such information to third parties for marketing purposes.

*Bank Secrecy Act*. We check customer names against the list of Specially Designated Nationals maintained by the Office of Foreign Assets Control (OFAC) pursuant to the USA PATRIOT Act amendments to the Bank Secrecy Act (BSA), and its implementing regulation. We have also has instituted procedures to comply with the anti-money laundering requirements of the USA PATRIOT Act and the BSA.

**Foreign Laws and Regulations**

We do not permit non-U.S. residents to register as members on our platform and do not operate outside the United States. We are not, therefore, subject to foreign laws or regulations.

## MANAGEMENT

The following table sets forth information about our executive officers and directors as of the date of this prospectus:

| Name | Age | Position(s) |
|---|---|---|
| Christian A. Larsen ........... | 47 | Chief Executive Officer, President and Director |
| Edward A. Giedgowd......... | 52 | Corporate Secretary, Chief Compliance Officer and General Counsel |
| Kirk T. Inglis ..................... | 42 | Chief Financial Officer |

The following table sets forth information about the executive officers and directors of our parent as of the date of this prospectus:

| Name | Age | Position(s) |
|---|---|---|
| Christian A. Larsen ........... | 47 | Chief Executive Officer, President and Director |
| Christopher Denend ........... | 41 | Chief Technology Officer |
| Douglas Neal Fuller ........... | 49 | Vice President of Operations |
| Edward A. Giedgowd......... | 52 | Corporate Secretary, Chief Compliance Officer and General Counsel |
| Kirk T. Inglis ..................... | 42 | Chief Financial Officer |
| S. Catherine Muriel........... | 54 | Chief Marketing Officer |
| James W. Breyer ................ | 47 | Director |
| Lawrence W. Cheng........... | 33 | Director |
| Rajeev Date ....................... | 37 | Director |
| Paul M. Hazen ................... | 67 | Director |
| Robert C. Kagle ................. | 52 | Director |

*Christian A. Larsen* co-founded Prosper and has served as Prosper, Inc.'s Chief Executive Officer and President, and one of its directors since inception and has served as Prosper's President and as a Director of Prosper since its inception. Prior to joining Prosper Inc., Mr. Larsen co-founded E-LOAN, Inc. in 1996, and served as one of its directors from 1996 until its acquisition in October 2005, and as its Chairman from March 2001 until October 2005. From 1999 to February 2005, Mr. Larsen served as Chief Executive Officer of E-LOAN, and from 1996 to 1998 and from January 2004 to June 2004, Mr. Larsen served as President of E-LOAN. From 1992 to 1996, Mr. Larsen was the President of Palo Alto Funding Group, a mortgage brokerage he co-founded in 1992 and E-LOAN's predecessor company. Prior to attending business school, Mr. Larsen held positions at Chevron Corporation and NASA Ames Research Center. Mr. Larsen holds an M.B.A. from Stanford University and a B.S. from San Francisco State University.

*Rajeev Date* has served as one of Prosper, Inc.'s directors since January 2009. Mr. Date currently serves as the Chairman & Executive Director of Cambridge Winter Center for Financial Institutions Policy, a non-profit think tank focused on financial institutions policy. From August 2007 to February 2008, he served as the Managing Director in the Financial Institutions Group at Deutsche Bank Securities, where his key responsibility was acting as a coverage officer for specialty finance firms and regional banks. Prior to his role at Deutsche Bank, Mr. Date served as the Senior Vice President for Corporate Strategy and Development at Capital One Financial, where he led merger and acquisitions development efforts across U.S. banking and specialty finance markets. Mr. Date has also spent several years with the financial institutions practice of the consulting firm McKinsey & Company, and was an attorney in both the private and public sectors before joining Capital One Financial. Mr. Date is a graduate of the University of California at Berkeley, and the Harvard Law School.

*Christopher Denend* has served as Prosper, Inc.'s Chief Technology Officer since July 2008 and served as Prosper, Inc.'s Vice President of Engineering from May 2005 to June 2008. Prior to joining Prosper Inc., Mr. Denend spent seven years in executive engineering roles at Macromedia, a multimedia authoring and website development software company, where he managed the engineering team for Contribute, a web site editing tool for the consumer market. Mr. Denend earned a B.A. in Electrical Engineering from Stanford University.

*Douglas Neal Fuller* has served as Prosper, Inc.'s Vice President of Operations since August 2007. Prior to joining Prosper Inc., Mr. Fuller served as the Chief Research Officer at Credigy, a provider of receivables managements services focused on purchasing distressed receivables, from July 2005 to July 2007. Prior to Credigy, Mr. Fuller served as the principal consultant for Priority Perspective from September 2002 to June 2005, and as the Senior Vice President at First Select Corporation/Providian Financial from September 1999 to September 2002. Mr. Fuller holds a Ph.D. in Systems Engineering from the University of Virginia and a B.I.E. with highest honors from the Georgia Institute of Technology.

*Edward A. Giedgowd* has served as Prosper, Inc.'s Chief Compliance Officer, Secretary and General Counsel since June of 2005, and has served as Prosper's Secretary and as a Director of Prosper since its inception. Prior to joining Prosper Inc., Mr. Giedgowd served as General Counsel at E-LOAN from October 1999 until June of 2005. Prior to October 1999, Mr. Giedgowd was the head of the consumer finance practice group at the San Francisco law firm of Severson & Werson P.C., where he practiced for 17 years specializing in all aspects of consumer finance law, including regulatory compliance, mortgage and auto finance, licensing, the development of multistate direct and indirect lending programs. Mr. Giedgowd earned a J.D. from Boston College in 1982 and a B.A. from the University of Massachusetts at Amherst in 1978.

*Kirk T. Inglis* has served as Prosper, Inc.'s Chief Financial Officer since November 2006, and has served as Prosper's Treasurer and as a Director of Prosper since its inception. Prior to joining Prosper Inc., from June to November 2006, Mr. Inglis worked as a consultant for Wells Fargo Bank, N.A., consulting on the effectiveness of their online marketing program. From 1994 to 2003, Mr. Inglis served in various positions with Providian Financial Corporation. At Providian, Mr. Inglis served as President of First Select Corporation, the largest purchaser of charged-off credit card debt in the United States, from 2000 to 2001. In addition, he served as Chief Financial Officer of GetSmart.com following its acquisition by Providian in 1999. Mr. Inglis also developed the financial planning and control infrastructure for Providian Financial Corporation following the spin-off from its parent company in 1996. Mr. Inglis holds an M.B.A. from Memphis State University and a B.A. from the University of Texas at Austin.

*S. Catherine Muriel* has served as Prosper, Inc.'s Chief Marketing Officer since July 2007. Prior to joining Prosper Inc., Ms. Muriel served as the Chief Marketing Officer of PayByTouch, a biometric payment transaction company, from January 2007 to June 2007. Prior to PayByTouch, Ms. Muriel served as the Chief Marketing Officer of E-LOAN form May 2004 to October 2006 and as the Chief Marketing Officer of Upromise, the country's largest private college savings loyalty service, from October 2002 to May 2004. Ms. Muriel also served in executive level positions with AXA Financial, Prudential Financial and Citigroup's credit card division. Ms. Muriel holds a law degree from the London School of Economics and Political Science.

*James W. Breyer* has served as one of Prosper, Inc.'s directors since April, 2005. Mr. Breyer has been a partner of Accel Partners, a venture capital firm, since 1990. Mr. Breyer has served on the board of Wal-Mart Stores, Inc., a world-wide operator of retail stores, since 2001 and on the board of Marvel Entertainment, Inc., a character-based entertainment company, since June 2006. He also serves on the boards of other privately held companies. Mr. Breyer is a member of the Board of Associates of the Harvard Business School and is Chairman of the Stanford Engineering Venture Fund. Mr. Breyer holds a B.S. from Stanford University and an M.B.A. from Harvard University, where he was named a Baker Scholar.

*Lawrence W. Cheng* has served as one of Prosper, Inc.'s directors since July 2006. Mr. Cheng has been a Partner at Fidelity Ventures, a venture capital firm, since June 2007, and a Principal since February 2005. From February 2000 to January 2005, Mr. Cheng was a senior associate at Battery Ventures and from 1998 to 2000, he was an associate of Bessemer Ventures. Mr. Cheng currently serves on the boards of Mindshift Technologies, Inc., Cortera, Primatech (aka Stylesight) and MFG.com. Mr. Cheng holds a B.A. from Harvard College.

*Robert C. Kagle* has served as one of Prosper, Inc.'s directors since April 2005. Mr. Kagle has been the general partner of Benchmark Capital since its founding in May 1995. He has served on the board of Jamba, Inc., and its predecessor, the Jamba Juice Company, a retailer of blended beverages and healthy snacks, since 1994. Since 1999, he has served as a director of ZipRealty, Inc., a residential real estate brokerage firm. Mr. Kagle also serves on the boards of other privately held companies. Mr. Kagle holds a B.S. in Electrical and Mechanical Engineering from General Motors Institute (renamed Kettering University) where he was named a Sobey Scholar, and an M.B.A. from Stanford University. Mr. Kagle is currently the Chairman of the Board of Trustees of Kettering University.

### *Board Composition and Election of Directors*

Our board of directors currently consists of three members. Holders of the Notes offered through our platform will have no ability to elect or influence our directors or approve significant corporate transactions, such as a merger or other sale of our company or its assets.

There are no family relationships among any of our directors or executive officers.

### *Director Independence*

Because our common stock is not listed on a national securities exchange, we are not required to maintain a board consisting of a majority of independent directors or to maintain an audit committee, nominating committee or compensation committee consisting solely of independent directors. None of our directors are independent and we have not established any audit committee, nominating committee or compensation committee. Holders of the Notes have no ability to elect or influence our directors.

### *Material Transactions Between Director and Parent*

In April 2009, Christian A. Larsen, the President and Chief Executive Officer of Prosper and Prosper Inc. entered into a Revolving Loan Agreement with Prosper Inc., extending a line of credit to the company in the principal amount of $1,000,000, with a one year term, at 12% interest.

### *Director Compensation*

#### Our Directors

During the year ended December 31, 2008, none of our directors received any compensation for service as a member of our board of directors. Non-employee directors have not been reimbursed their travel and other expenses incurred in connection with attending our board meetings.

### *Limitations on Officers' and Directors' Liability and Indemnification Agreements*

As permitted by California law, our articles of incorporation and bylaws contain provisions that limit or eliminate the personal liability of our directors for breaches of duty to the corporation. Our articles of incorporation and bylaws limit the liability of directors to the fullest extent permitted under California law. California law provides that directors of a corporation will not be personally liable for monetary damages for breaches of their fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith, believed to be contrary to the interests of the corporation or its shareholders, involving reckless disregard for the director's duty, for acts that involve an unexcused pattern of inattention that amounts to an abdication of duty, or that involves intentional misconduct or knowing or culpable violation of law;
- any unlawful payments related to dividends, unlawful stock repurchases, redemptions, loans, guarantees or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations do not affect the availability of equitable remedies, including injunctive relief or rescission. As permitted by California law, our articles of incorporation and bylaws also provide that:

- we will indemnify our directors and officers to the fullest extent permitted by law;
- we may indemnify our other employees and other agents to the same extent that we indemnify our officers and directors; and
- we will advance expenses to our directors and officers in connection with a legal proceeding, and may advance expenses to any employee or agent; provided, however, that such advancement of expenses shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should be ultimately determined that the person was not entitled to be indemnified.

The indemnification provisions contained in our articles of incorporation and bylaws are not exclusive.