

A Guide to Investing in Marketplace Lending

The benefits and key components of marketplace lending platforms

In today's volatile economy, people are increasingly shying away from the stock market and seeking safe investments that provide positive interest income over a shorter duration. Many are discovering that marketplace loans represent a significant opportunity to generate an attractive level of income in today's low-rate environment.

Whether you're a sophisticated investor, registered investment advisor (RIA) or just a hobbyist, marketplace lending may be the investment option that you have been looking for to diversify your portfolio.

What is Marketplace Lending?

Marketplace lending (also known as peer-to-peer lending) connects creditworthy borrowers to investors who want solid returns. These lending platforms offer investors an opportunity to diversify their portfolio beyond stocks by allowing them to invest in unsecured consumer loans, or a portion of a loan. Marketplace lending is an attractive product relative to other investment opportunities as the loans are short duration and pay monthly.

Marketplace Loans as a Fixed-Income Asset

Marketplace lending was first introduced to investors in 2006. At the time, it was thought of as an alternative asset class and was viewed by early adopters as a compelling investment opportunity.

Fast forward 10 years, and marketplace lending has evolved into an asset class that has earned its place as part of a fixed-income portfolio. Just like corporate and municipal bonds, perhaps the best examples of a fixed-income asset, marketplace lending can reduce overall risk and protect against volatility of an investment portfolio. Marketplace lending investors typically have access to loans that provide a 5-9% net return per year (after adjusting for fees and defaults), and these returns have remained stable even as the economy changes and interest rates rise.

In the past, access to consumer credit was only available to large institutions as an investment opportunity, but thanks to the rise of marketplace lending, now anyone looking to receive solid returns can add this asset class to their fixed-income portfolio.

Benefits of Investing in Marketplace Lending

There are many benefits to marketplace lending, including:



Proven Solid Returns: Individuals who invest in marketplace lending loans can earn an estimated 5-9% net return per year (after adjusting for fees and defaults). These loans tend to perform better than more traditional types of fixed-income products such as corporate, government and emerging market bonds.



Reduced Risk: Marketplace lenders make it easy to diversify across many loans to reduce risk and drive solid returns. In increments of \$25 or more, people can invest in a number of loans (or portions of loans).



Short Duration: Typical marketplace lending loans are offered in terms of 3 or 5 years. With no pre-payment penalties for the borrower, the effective duration of the loans could be less.



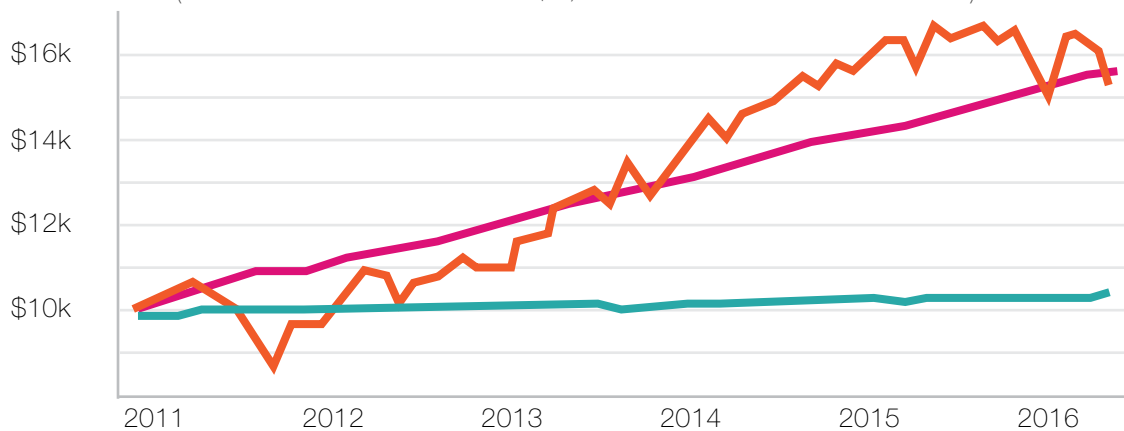
Simplicity: Investing in marketplace loans is easy. Investors can choose to use an automated tool, which runs a search for specific types of loans, or manually find loans that match a desired risk tolerance.



Low Volatility: Well diversified portfolios of marketplace loans have consistently performed during times of stock market volatility and rising interest rate environments. These loans have also performed well during times of both high and low unemployment rates.

Prosper vs. Other Investments Over 5 years


(based on an investment of \$1,000 from Jan 2011- Jan 2016)**




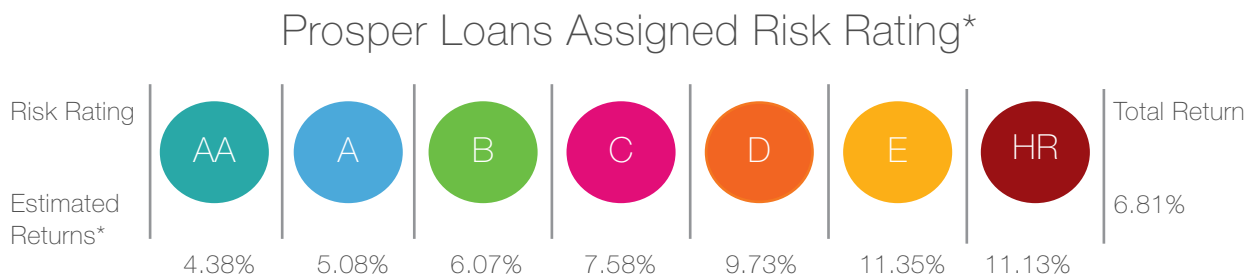
- Prosper Marketplace Index
- S&P 500 (SPY)
- Bloomberg US Gov't Bond Index 1-3 year

Key Components of Marketplace Lending

There are two concepts that are important to understand before you start investing in marketplace lending platforms:

 **Risk Tolerance:** Typically, there are different loan grades that investors can choose from. Higher rated loans are expected to be lower risk, so they have a lower yield (the highest rated loans yield about 4.5% on average). The riskier loans offer higher interest rates, but also higher risk. Investors can choose to invest in a variety of loans at different risk levels in order to create a well-diversified portfolio.

 **Diversification:** A diversified loan portfolio helps investors to spread risk over many different borrowers. Typically, investors with more diversified loan portfolios experience less volatility than investors with concentrated holdings. When getting started, investors should inquire about the minimum investment amount required per loan (at Prosper the minimum investment requirement is \$25 per loan.) Since diversification is important to the success of any portfolio, investors should try to invest in a minimum of 200 loans, resulting in a minimum investment of about \$5,000.



Getting Started

It's easy to start investing in marketplace lending loans on [Prosper Marketplace](https://www.prosper.com/invest). Simply visit <https://www.prosper.com/invest> and follow these steps:

- 1) Create an account. There is no fee to sign-up and invest.
- 2) Complete a simple authorization process with the established bank/institution that is linked to the Prosper Marketplace website.
- 3) Transfer funds to Prosper, then place investments on borrower loan requests, called listings.
- 4) Receive monthly payments back from the borrowers with whom you invested funds.

Tax Advantaged Accounts: You can choose to invest in marketplace loans through a retirement account or IRA to benefit from a tax deferral on that income. Additionally, people who invest through Prosper Marketplace have the option to reinvest the principal and interest income that comes into their account each month as loans are paid off.

About Prosper

Since its launch in 2006 as the first marketplace lending platform in the US, **Prosper Marketplace** has evolved into a personal finance company that offers products and services beyond personal loans to help people get on top of their finances. Through Prosper's flagship loan product, borrowers get low, fixed-rate loans with no hidden fees or prepayment penalties, and investors can earn solid returns through the platform's data-driven underwriting for personal loans. The Prosper Daily App helps people stay on top of their money, credit, and identity.

Prosper Marketplace is headquartered in San Francisco with offices in Phoenix, AZ and Tel Aviv, Israel. The Prosper marketplace platform is owned by Prosper Funding LLC and the Prosper Daily App is owned by BillGuard, Inc., both of which are subsidiaries of Prosper Marketplace.

Neither Prosper Marketplace, Inc. nor Prosper Funding LLC are registered as an investment advisor with any federal or state regulatory agency. The information contained in this guide is for information purposes, and should not be construed as individually tailored investment advice or as a recommendation with respect to any security or investment approach.

For more information visit www.prosper.com and follow Prosper on Twitter [@ProsperLoans](https://twitter.com/ProsperLoans).

Notes and Disclaimers

* Estimated returns are calculated by taking the weighted average borrower interest rate for all loans originated during the period, adding (ii) estimated collected late fees and post charge-off principal recovery for such loans, and subtracting (iii) the servicing fee, estimated uncollected interest on charge-offs and estimated principal loss on charge-offs from such loans. The actual return on any Note depends on the prepayment and delinquency pattern of the loan underlying each Note, which is highly uncertain. Individual results may vary and projections can change. Past performance is no guarantee of future results and the information presented is not intended to be investment advice or a guarantee about the performance of any Note. Data from March 5 - March 14, 2016.

** Source: Bloomberg Finance L.P. The Prosper Marketplace Index is calculated based on a blended average ('Weighting') of actual historical monthly returns from January 31, 2011 to January 31, 2016. Weighting between historical monthly origination periods ('vintages') is done at the end of each monthly period by assuming full reinvestment of all net proceeds (principal, interest, and other proceeds) received over the course of any given month in the current vintage (this is often referred to as 'on-the-run') as of the end of that month. Weighted monthly returns are linked using standard compounding to create a cumulative time series of performance. Each monthly vintage returns series is calculated as the monthly interest and net recovery proceeds received, less charge-offs divided by the beginning of month principal balance for that vintage. The Prosper Marketplace Index reflects returns that are based solely on the cash flows of the underlying loans. These loans are not marked-to-market. In comparing the performance of the Prosper Marketplace Index against the performance of other investment products, you should consider factors beyond volatility and yield; for example, when comparing to treasury bills, keep in mind that treasury bills are backed by the full faith and credit of the U.S. government, and that the two products have different default risks and different tax treatment. Data in this chart is for informational use only.

Historical returns are not a promise of future results.

Prosper's Notes are offered by [Prospectus](#) filed with the SEC and investors should review the risks and uncertainties described in the Prospectus prior to investing. Notes that investors receive are dependent for payment on unsecured loans made to individual borrowers. Not FDIC-insured; investments may lose value; no Prosper or bank guarantee. Prosper does not verify all information provided by borrowers in listings.

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