

20 April 2007

# Prosper: People to People Lending

*“The Ebay of Loans.”*

- Forbes (March 2007)

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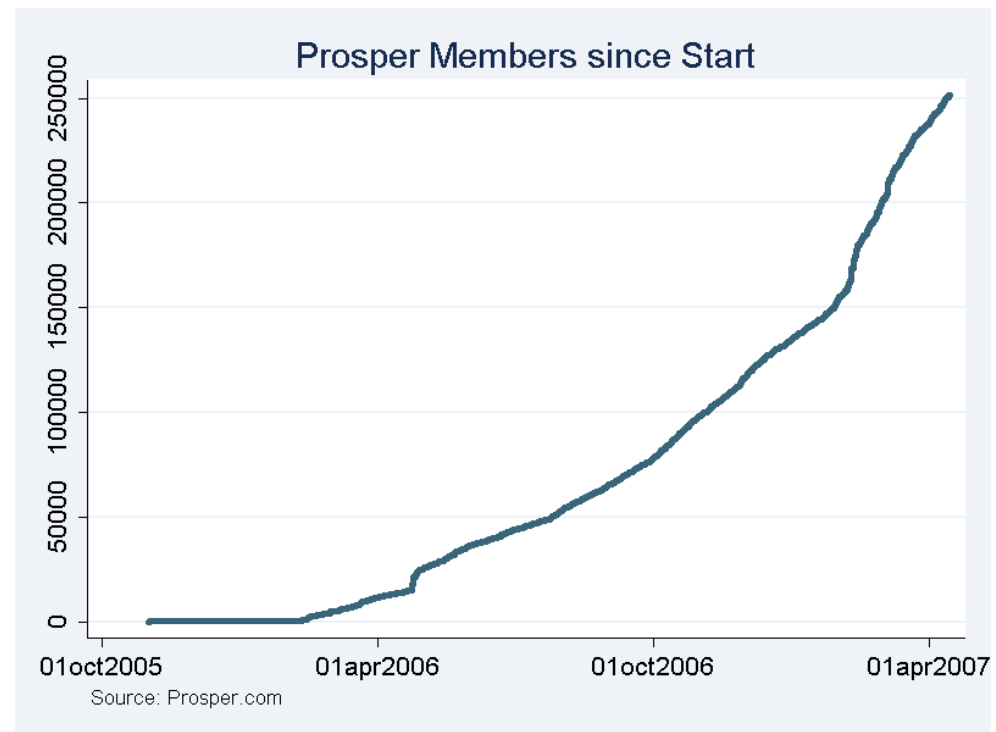


# Overview of the Company



*Prosper is a people-to-people marketplace enabling lending and borrowing without bank intermediation*

- Launched in February 2006
- 250,000 members up to date
- Over 50,000,000 USD in loans
- Revenue Generation
  - One-time fee (1-2% of loan value)
  - Service fee (0.5-1% of repayments)



# Management Team\*



- **Chris Larsen** CEO and Co-Founder

Prior to Prosper, Mr. Larsen co-founded and served as Chairman and CEO of E-LOAN. Under Mr. Larsen's leadership, E-LOAN closed over \$27 billion in consumer loans, and was consistently ranked as one of the nation's most trusted consumer brands. M.B.A. degree from Stanford University and a B.S. degree from San Francisco State University

- **John Witchel** CTO and Co-Founder

CEO and co-founder of Red Gorilla, a pioneer in online application syndication. Prior to Red Gorilla, he founded XCom Corporation, a leading web consultancy that was acquired by USWeb/CKS, where Mr. Witchel served as a managing partner. M.S. from the University of San Francisco and a B.A. in political science from Stanford University. He is a former American record holder and NCAA champion in swimming.

- **Kirk Inglis** Chief Financial Officer

Over 15 years of experience in the financial services industry with Well Fargo Bank, Provident Financial Corporation, GetSmart. MBA in Finance from Memphis State University and a B.A. in Economics from the University of Texas at Austin. He is a Chartered Financial Analyst (CFA) and a member of the CFA Society of San Francisco.

- **Rob Klapper** Chief Marketing Officer

Rob has over twenty years of experience driving growth and building brands for top tier companies, including 21st Century, Charles Schwab and Colgate-Palmolive. MBA from the University of Virginia's Darden School and a B.A. from Franklin & Marshall College.

# Problem Description



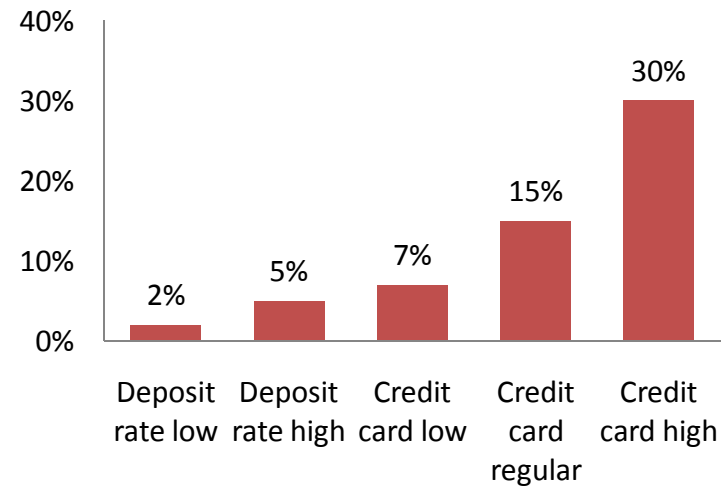
## •Financial Factors

- Bank deposits pay less than 5%
- Rates on consumer loans can be as high as 30%
- Individuals have limited options to take advantage of these risk/return opportunities

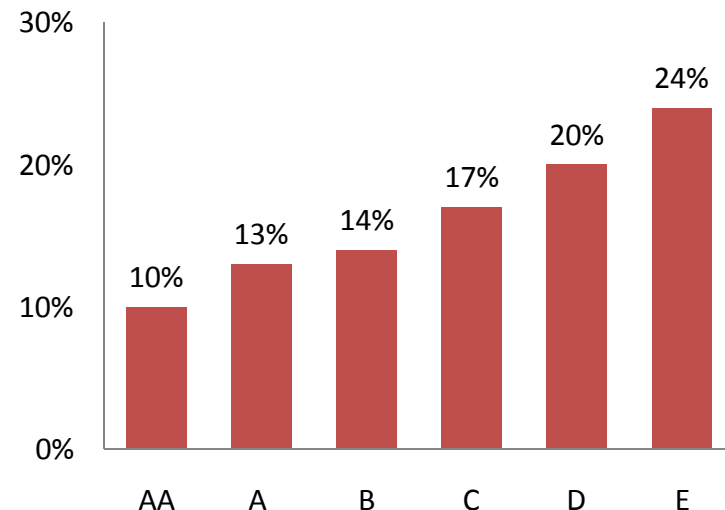
## •Social Factors

- Groups and online networking increasingly popular
- But no marketplace for people to come together for lending and borrowing
- No opportunity for individuals to select preferred borrowers (e.g. by business or need)

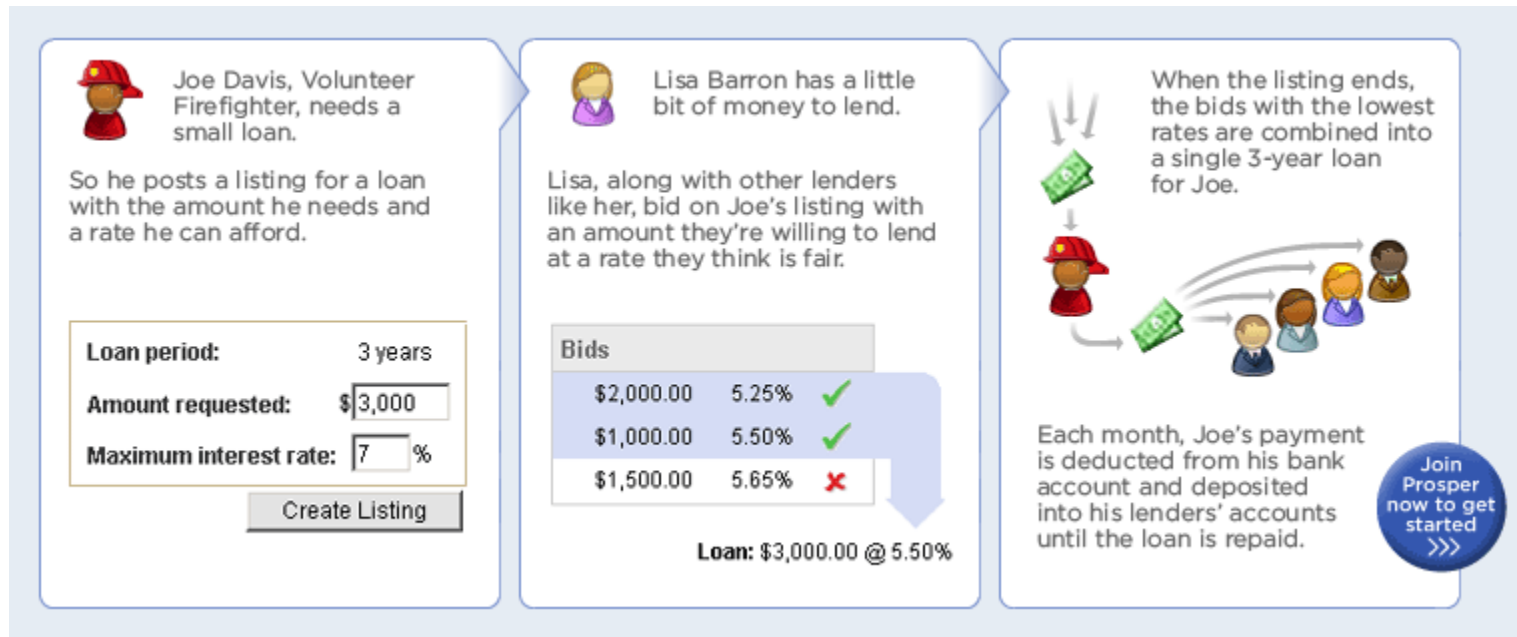
Interest Rates across Banks



Returns at Prosper by Credit Grade



# Solution – The Prosper Marketplace



Source: Prosper.com

- **Disruptive technology**
  - Large community of borrowers and lenders
  - Auction based bidding process
  - Pooling effect and ability to lend as little as \$50
- **Transparency & Safety**
  - User identity verification
  - Legal agreements
  - Monitoring and managing payments
- **Community Appeal**
  - Signals borrower quality to lenders
  - Incentivizes community members against default
  - Provides further information to lenders

# Market and Growth Potential



Prosper targets consumer loans

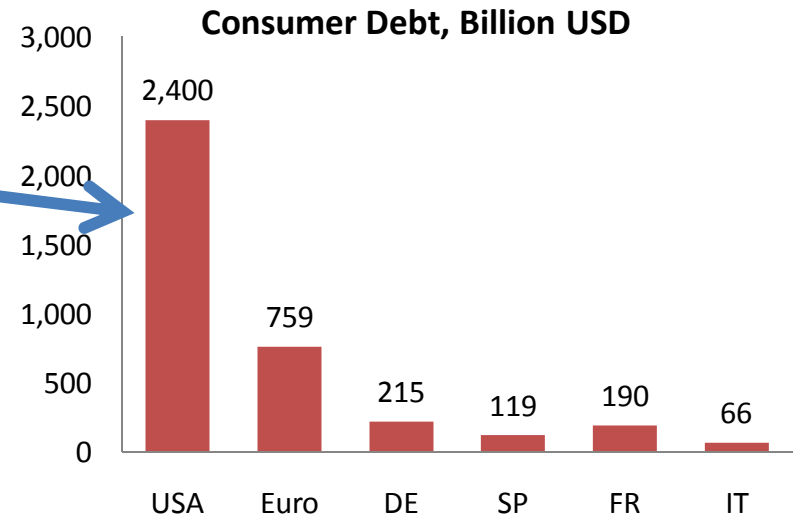
- US Market size is 2.4 trillion USD
- US credit market exhibits low demand volatility

Prosper has made over \$50m loans in its first year of operation

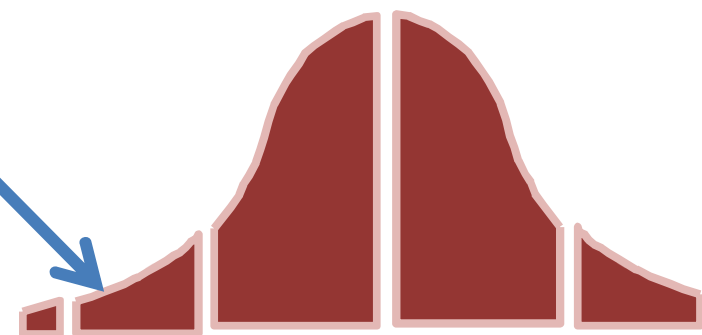
- Peer-to-Peer online market still in its infancy
- Expect to greatly increase number of loans as people start adopting new technology

Further growth opportunities exist

- The model can be extended to other financing options within the US market (e.g. mortgages)
- The business model can be applied internationally



**Technology-Adoption Life Cycle**



## Marketing Tools

- Prosper's approach: organic growth (committed users)
- Web-based (Google Ad-words)
- Viral marketing (e-mail, word of mouth, social networks)
- Press reports/articles (covered NYT, WSJ, FT, CNN, etc...)
- Conferences: Prosper Days

## Prosper Community: Groups and Leaders

- Financial incentives for group leaders to increase group membership and activity
- Group websites and blogs attract users

## Further marketing options

- Partner up with other social networking sites
- Leverage these users to increase potential customers

# Competition



Competitors	Severity	Strengths	Weaknesses
<ul style="list-style-type: none"><li>• Zopa.com</li></ul>		<ul style="list-style-type: none"><li>• First peer-to-peer lending platform worldwide</li><li>• Presence in Europe</li><li>• Venture capital backing</li></ul>	<ul style="list-style-type: none"><li>• Inferior technology compared to Prosper marketplace</li><li>• No social network</li><li>• Late entry in US market</li></ul>
<ul style="list-style-type: none"><li>• Commercial Banks</li></ul>		<ul style="list-style-type: none"><li>• Traditional banking model</li><li>• Complementary consumer services</li><li>• Low risk of investments</li></ul>	<ul style="list-style-type: none"><li>• Low return on investment</li><li>• Higher credit interest rates</li><li>• No social network</li></ul>
<ul style="list-style-type: none"><li>• Circlelending.com (Group Lending)</li></ul>		<ul style="list-style-type: none"><li>• Established player in the market</li><li>• Good for lending amongst friends and relatives</li></ul>	<ul style="list-style-type: none"><li>• No common marketplace to find lenders</li><li>• No consumer interaction outside group</li><li>• Business model costly to implement</li></ul>

# Competitive Advantage



## Barriers to Entry

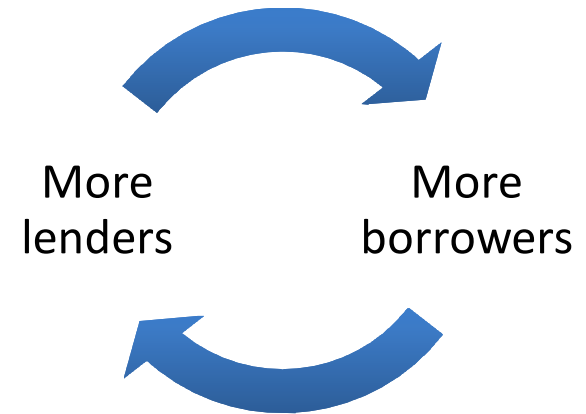
- Regulation as a barrier to entry: licenses (1-2yr. process)
- Prosper.com platform - patent pending
- Prosper's strong user base 250,000+ members growing quickly

## Similar to Ebay

- A competitor offering the same product is no threat
- 'Copycat' competitor unlikely to offer a radically better product

## Potential Partners

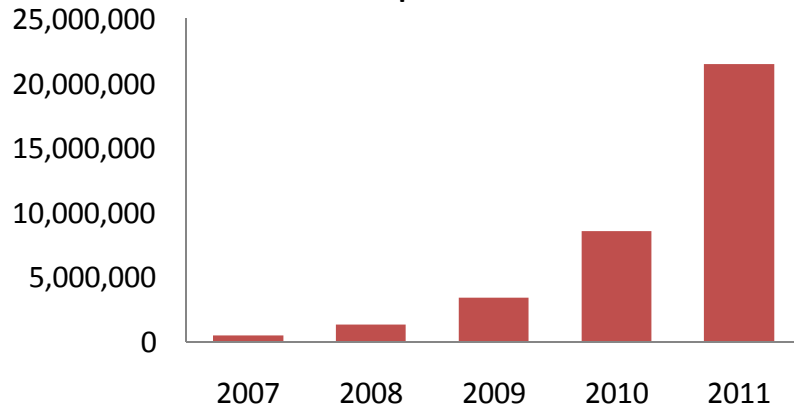
- Have millions of users
- BUT not in their interest since people might be reluctant to expose income to 'friends'
- Potential partners rather than competitors



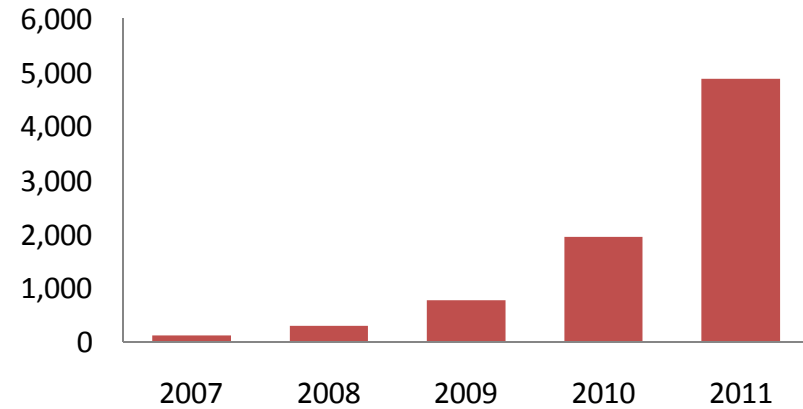
# Financial Forecast\*



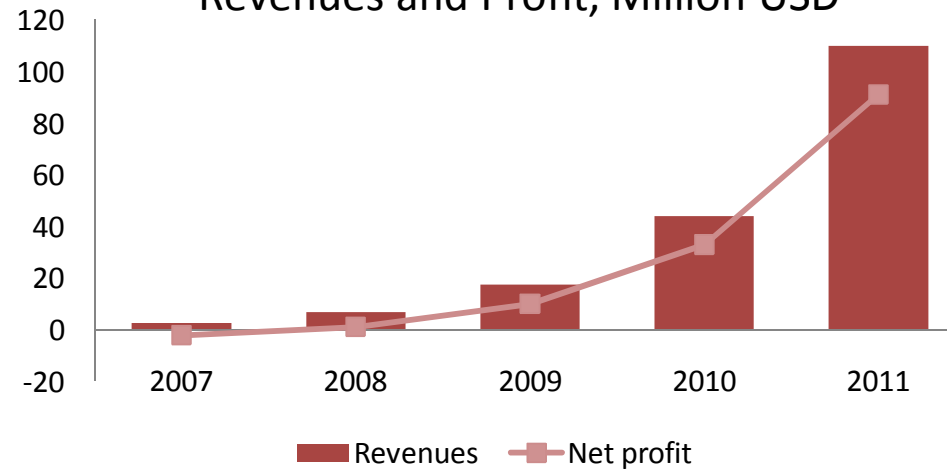
### Prosper Users









### Loan Portfolio, Million USD



### Revenues and Profit, Million USD



\* Source: Authors' Model

Risks	Description	Severity	Event Probability	Mitigation Strategy
<ul style="list-style-type: none"> <li>Interest Rate Risk</li> </ul>	<ul style="list-style-type: none"> <li>The spread between deposit rates and prevailing interest rates determines Prosper's attractiveness to lenders</li> </ul>			<ul style="list-style-type: none"> <li>Additional services such as refinancing will help mitigate such impacts</li> </ul>
<ul style="list-style-type: none"> <li>Default Risk</li> </ul>	<ul style="list-style-type: none"> <li>Due to higher risk customers, more defaults in economic downturns than at banks</li> <li>Harms platform reputation</li> </ul>			<ul style="list-style-type: none"> <li>Denial of service to high-risk customers</li> </ul>
<ul style="list-style-type: none"> <li>Internet Adoption Risk</li> </ul>	<ul style="list-style-type: none"> <li>Less people willing to lend/borrow online as compared to online shopping</li> </ul>			<ul style="list-style-type: none"> <li>Assuring customers of high-security measures in websites</li> </ul>

- Large inefficient market
- Disruptive technology
- Experienced management team
- Competitive advantage that cannot be easily emulated
- Exponentially growing user base