

State of Missouri
Office of Secretary of State

Case No. AP-09-26

IN THE MATTER OF:

Prosper Marketplace, Inc.

Respondent.

CONSENT ORDER

WHEREAS, the Enforcement Section of the Securities Division conducted an investigation of Prosper Marketplace, Inc. (“Prosper”) and determined that Prosper has offered and sold securities in the State of Missouri as defined in Sections 409.1-102(26) and –(28), RSMo. (Cum. Supp. 2008); and

WHEREAS, a number of state regulators coordinated investigations into Prosper’s activities in connection with unregistered securities offered and sold between 2006 and October 2008; and

WHEREAS, Prosper has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and halting further offers and sales until the securities are appropriately registered; and

WHEREAS, Prosper, as part of this settlement agrees to appropriately register its securities with the State of Missouri before making further offers or soliciting sales, and to make certain payments; and

WHEREAS, Prosper neither admits nor denies the Findings of Fact and Conclusions of Law, but has agreed to resolve the investigations relating to its offers and sales of unregistered securities through this Administrative Consent Order (the “Order”) in order to avoid protracted and expensive proceedings in numerous states; and

WHEREAS, Prosper, as evidenced by the authorized signature on the consent to the Order below, admits the jurisdiction of the Commissioner of Securities, voluntarily consents to the entry of this Order and elects to permanently waive any right to a hearing and appeal under Sections 409.6-604 and 409.6-609, RSMo. (Cum. Supp. 2008), with respect to this Order;

NOW, THEREFORE, the Commissioner of Securities, as administrator of the Missouri Securities Act of 2003 (the “Act”), hereby enters this Order:

FINDINGS OF FACT

Part 1: Respondent Licensing/Registration History

1. Prosper is a Delaware corporation (Delaware Division of Corporations #3943799) that was incorporated on March 22, 2005. Its principal place of business is located at 111 Sutter Street, 22nd Floor, San Francisco, California 94104. Prosper registered as a foreign business corporation in the State of Missouri on October 5, 2005 (charter #F00689872). Since February 2006 Prosper has held itself out, through its Internet website, www.prosper.com, as an online marketplace for “person to person” lending.

2. Prosper has been licensed as a California finance lender (license #605-3227) since December 19, 2005 and as a consumer finance company by the State of Missouri since October 17, 2005 (registration #367-10-4161). Its consumer finance license allows Prosper, pursuant to Chapter 367, RSMo (2000), to make loans to consumers within certain limits. A consumer finance license does not authorize a licensee to sell securities to the State of Missouri residents.

3. Prosper submitted an application to register securities in the State of Missouri on October 31, 2007. As of the date of this order, Prosper does not yet have an active securities registration in the State of Missouri.

Part 2: Prosper Product Prior to October 16, 2008

4. Prosper's lending platform functioned like a double-blind auction, connecting individuals who wish to borrow money, or "borrowers," with individuals or institutions who wish to commit to purchase loans extended to borrowers, referred to on the platform as "lenders." Lenders and borrowers registered on the website and created Prosper identities. They were prohibited from disclosing their actual identities anywhere on the Prosper website.

5. Borrowers requested three-year, fixed rate, unsecured loans in amounts between \$1,000 and \$25,000 by posting "listings" on the platform indicating the amount they wanted to borrow and the maximum interest rate they were willing to pay. Prosper assigned borrowers a credit grade based on a commercial credit score obtained from a credit bureau, but Prosper did not verify personal information, such as employment and income.

6. Potential lenders bid on funding all or portions of loans at specified interest rates, which were typically higher than rates available from depository accounts at financial institutions. Each loan was usually funded with bids by multiple lenders. After an auction closed and a loan was fully bid upon, the borrower received the requested loan with the interest rate set by Prosper and determined by the auction bidding at the lowest rate acceptable to all winning bidders.

7. Individual lenders did not lend money directly to the borrower; rather, the borrower received a loan from a bank with which Prosper has contracted. (Prior to April of 2008, loans were made directly by Prosper.) The interests in that loan were then sold and assigned through Prosper to the lenders, with each lender receiving an individual non-recourse promissory note.

8. Since the inception of its platform in January 2006, Prosper has initiated approximately \$174 million in loans nationwide. Prosper collected an origination fee from each borrower of one to three percent of loan proceeds, and collected servicing fees from each lender from loan payments at an annual rate of one percent of the outstanding principal balance of the notes.

9. Prosper administered the collection of loan payments from the borrower and the distribution of such payments to the lenders. Prosper also initiated collection of past due loans from borrowers and assigned delinquent loan accounts to collection agencies. Lenders and borrowers were prohibited from transacting directly and were unable to learn each others' true identities.

10. Prosper voluntarily suspended all offers and sales of securities on October 16, 2008.

11. Twenty-one thousand three hundred twelve (21,312) Missouri residents have financed Prosper loans totaling more than \$1,652,788.99.

Part 3: Prosper's Omissions in Connection with Sales to Investors

12. Prosper provided information to lenders concerning the issues noted below, although it did not provide the information in the manner typically required of a securities registrant regarding: details of the company's business model; biographical information about the background and experience of Prosper management; certain risk factors in connection with the purchase of a Prosper facilitated note, including the fact that the notes were speculative investments; significant financial risks that investors may be subjected to when investing in the Prosper notes that could result in a complete loss of their investment, such as the fact that borrowers may not fulfill their obligations to make payments for reasons of death or incapacity, bankruptcy, or inability to pay; information concerning Prosper's status as a development stage company with a limited operating history; and the possibility that Prosper could cease operations at any time due to the failure to raise additional capital, because of a lack of profitability, or because of regulatory concerns.

13. The Prosper website, the company's exclusive mode of dissemination of information to prospective investors, did not contain financial statements for Prosper, did not disclose that the notes were not registered with the Securities Division, and that Prosper might have significant contingent liability for the offer and sale of unregistered securities.

CONCLUSIONS OF LAW

1. The “notes” sold by Prosper to Missouri residents are securities, as defined by Section 409.1-102(28), RSMo. (Cum. Supp. 2008).
2. Prosper sold securities that were not registered with the State of Missouri in violation of Section 409.3-301, RSMo. (Cum. Supp. 2008).
3. In connection with the offer or sale of a security to Missouri residents, Prosper either failed to include information or failed to describe in the manner typically required of a securities registrant certain business or loan information including investment risk factors, that would have aided investors, or prospective investors in making an objective decision on whether to invest in the Prosper notes in violation of Section 409.5-501, RSMo. (Cum. Supp. 2008).

ORDER

NOW, THEREFORE, it is hereby ordered that:

1. Prosper will CEASE AND DESIST from offering and/or selling securities to persons in or from the State of Missouri in violation of the Act and will comply with the Act.
2. Prosper shall pay \$9,228.00 to the Investor Education and Protection Fund. This amount shall be sent to Missouri Securities Division at 600 West Main Street, Jefferson City, Missouri 65101, payable within 10 days from the date of this Order, and shall be made payable to the Secretary of State's Missouri Investor Education and Protection Fund.
3. In the event another state securities regulator determines not to accept Prosper's state settlement offer, the total amount of the Missouri payment shall not be affected, and shall remain at \$9,228.00.
4. This Order concludes the investigation by the Commissioner of Securities and any other action that the Commissioner of Securities could commence under applicable Missouri law on behalf of the State of Missouri as it relates to Prosper, up to and including any activity through November 24, 2008; provided however, that excluded from and not covered by paragraph 1 in this section are any claims by the Commissioner of Securities arising from or relating to the “Order” provisions contained herein.
5. This Order is entered into solely for the purpose of resolving the referenced multistate investigation, and is not intended to be used for any other purpose, and its findings and conclusions shall not constitute admissions on the part of Prosper for any purpose.
6. If payment is not made by Prosper, or if Prosper defaults in any of its obligations set forth in this Order, the Commissioner of Securities may vacate this Order, at its sole discretion, upon 10 days notice to Prosper and without opportunity for administrative hearing, and commence separate action.
7. For any person or entity not a party to this Order, this Order does not limit or create any private rights or remedies against Prosper, does not limit or create liability of Prosper, or limit or create defenses of Prosper to any claims.
8. Nothing herein shall preclude the State of Missouri, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Commissioner of Securities and only to the extent set forth in paragraph 1 in this section, (collectively, “State Entities”) and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against Prosper in connection with unregistered securities sales.
9. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of the State of Missouri without regard to any choice of law principles.

10. This Order shall be binding upon Prosper and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

SO ORDERED:

WITNESS MY HAND AND OFFICIAL SEAL OF MY OFFICE AT JEFFERSON CITY, MISSOURI THIS 15TH DAY OF JUNE, 2009.

ROBIN CARNAHAN
SECRETARY OF STATE

(Signed/Sealed)
MATTHEW D. KITZI
COMMISSIONER OF SECURITIES

Consented to by:

Patrick T. Morgan
Chief Counsel
Securities Division

**CORPORATE CONSENT TO ENTRY OF ORDER
FOR PROSPER MARKETPLACE, INC.**

I, _____, state that I am an officer of Prosper Marketplace, Inc. and I am authorized to act on its behalf; that I have read the foregoing Order and that I know and fully understand the contents hereof; that Prosper Marketplace, Inc. voluntarily consents to the entry of this Order without any force or duress, expressly waiving any right to a hearing in this matter; that Prosper Marketplace, Inc. understands that the Enforcement Section of the Securities Division reserves the right to take further actions to enforce this Order or to take appropriate action upon discovery of other violations of the Missouri Securities Act of 2003 by Prosper Marketplace Inc.; and that Prosper Marketplace, Inc. will fully comply with the terms and conditions stated herein. Prosper Marketplace, Inc. agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any administrative monetary penalty that shall pay pursuant to this Order.

Prosper Marketplace Inc. understands that this order is a public record document.

Prosper Marketplace Inc. has been represented by counsel of its choosing in connection with the resolution of this matter, specifically, Randall J. Fons, Partner, Morrison & Forster LLP.

Dated this ____ day of _____, 2009.

Prosper Marketplace, Inc.

By: _____

Title: _____

SUBSCRIBED AND SWORN TO before me this ____ day of _____, 200_.

Notary Public

My Commission expires: _____

Order Approved as to Form

Randall J. Fons, Partner
Morrison & Foerster LLP