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State Finalizes Agreement with Prosper Marketplace Over Sales of Unregistered Securities

(Salem) – The Oregon Department of Consumer and Business Services – Oregon's securities regulator – has signed a final consent order with Prosper Marketplace Inc., a San Francisco-based online “peer-to-peer” lending service, to resolve matters relating to the sale and offer of unregistered securities and the omission of material facts in connection with the offer, sale, or purchase of a security.

Prosper had been subject to a multistate investigation, and the order announced today completes Oregon's case. The order requires Prosper to pay a fine of \$15,000, representing Oregon's pro-rata share of a \$1 million settlement negotiated by a working group of state regulators formed by the North American Securities Administrators Association (NASAA). The working group included representatives from Oregon and Washington.

Under the terms of the settlement, Prosper also agreed to comply with Oregon's securities registration laws.

“The notes issued by Prosper are securities, but they were not properly registered for sale,” said David Tatman, administrator, administrator of the department's Division of Finance and Corporate Securities.

Securities sold in Oregon must first be registered with the division; the registration ensures a security is evaluated for financial condition and the validity of the operation. During the investigation of Prosper, the division also found the firm failed to provide investors with necessary information, such as its financial statements.

Prosper – which is licensed in Oregon as a consumer lender – provides a private online lending “marketplace” that allows prospective borrowers and lenders to find one another. Through its Web site, Prosper conducts an electronic auction to fund unsecured promissory notes. The Web site features a list of potential loans, and investors bid against each other to finance the loans. Funds from the lowest bidders are pooled together to fund the loans. Prosper issues notes to those lenders funding the loans and services the notes.

From February 2006 to mid-October 2008, Prosper offered and sold promissory notes with fixed annual interest rates ranging from 7 percent to 36 percent, amortized over a three-year term with equal monthly payments. In mid-October 2008, Prosper stopped issuing new loans and accepting new investors while it sought registration with the U.S. Securities and Exchange Commission and the states. As of September 29, 2008, Prosper's Web site reported that it had 810,000 members and \$175 million in loans funded.

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The Division of Finance and Corporate Securities (DFCS) helps ensure that a wide range of financial products and services are available to Oregonians and protects consumers from financial fraud and abuse. It

does that by licensing financial institutions and service providers, regulating the sale of securities in Oregon, investigating complaints and alleged violations of financial-service laws, and providing education and other resources to consumers.

The Department of Consumer and Business Services is Oregon's largest business regulatory and consumer protection agency. For more information, visit www.dcbs.oregon.gov.