4Q15 Prepared Remarks

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James Samford – Head of Investor Relations

Good morning, and welcome to Lending Club's fourth quarter of 2015 earnings conference call. Joining me today to talk about our results are Renaud Laplanche, Founder and CEO; and Carrie Dolan, CFO. Unless specifically stated, all references to "this quarter" relate to the fourth quarter of 2015 and all year-over-year comments are comparisons to the fourth quarter in the prior year.

Renaud Laplanche – Founder and Chief Executive Officer

Introduction

Good morning. We had an amazing company performance in 2015: we continued to deliver on our mission to profoundly transform the banking system and make credit more affordable and investing more rewarding. We reached 1.4 million customers, have continued to deliver record levels of customer satisfaction, saved consumers hundreds of millions of dollars in the cost of their credit and generated an average 7.8% net return to platform investors. We enabled $8.4B in loans, doubled revenue and tripled our EBITDA. I'd like to thank all of our employees, customers, investors and partners for making 2015 such a milestone year.

We are now looking ahead at 2016 with much confidence in terms of our ability to continue to grow at a rapid pace while maintaining high credit standards, investor returns, profitability, customer satisfaction and operational discipline.

We believe the market for personal loans will continue to grow rapidly as more consumers discover the benefits of installment loans, either as a way to refinance a credit card balance or avoid charging their credit card altogether. A survey from Bankrate.com last month found that an estimated 24 million Americans, or 10% of the adult U.S. population, expect to take a personal loan in the next 12 months. In addition, as previously announced, we will be entering into a new major consumer credit category in the first half of this year.

Carrie will be discussing the results of the fourth quarter and the details of our outlook, but today, I'd like to spend the bulk of my time discussing the breadth and depth of our investor base, talking about credit performance and highlighting some of the marketplace dynamics that continue to play in our favor and we believe will become even more of a competitive advantage in changing economic conditions. I will then conclude with a marketing, product and regulatory update.

Supply of Capital & Credit Performance

- Last year we focused our earnings calls mostly on borrower dynamics and marketing efficiency, today I'd like to spend more time on the investor side of the platform. In particular given recent market conditions, I'd like to give you our views on how our marketplace would perform for investors in the event of an economic downturn, and how we'd expect credit performance to impact supply of capital in that scenario. Carrie will later share more insights into what we'd expect our own financial performance to be in that scenario.

Starting with supply of capital…

- We believe that one of our competitive advantages and a benefit of the marketplace model is the broad diversification of our funding sources, including a strong retail investor base.

- In 2015, 54% of the $8.4B invested on our platform came from 115,000 individual investors who invested in a self-directed way or through a dedicated fund or a managed account. Banks and finance companies provided 25% of the funding and other institutional investors such as pension funds, insurance companies, and asset managers provided the remaining 21%.

- We believe that retail investors will continue to be a dependable source of capital, especially in the event of an economic downturn. Accordingly we are investing more product, management and marketing resources into our retail capabilities this year. We have opened 15 new States over the last 12 months and our platform is now available in 43 States and the District of Columbia. Slide 13 of our earnings presentation shows the growth in average retail account value over time by vintage of account opening, and the extraordinary loyalty and predictability of retail investors. This is a differentiated competitive advantage and a strategic asset for Lending Club.

- Another dependable source of capital is the outstanding loan portfolio itself. We ended 2015 with a total servicing portfolio of $9 billion, generating significant principal and interest payments that can be reinvested into new loans.

- In 2015, the loan portfolio generated over $4.1 billion of principal and interest payments, and we estimate that in 2016 we will deliver at least $7 billion of principal and interest payments to investors, most of which will be available to fund new originations. That stream of payments from the existing portfolio is our most predictable source of capital, provided that we continue to deliver attractive returns to investors.[new content]

This leads me to credit performance…

- We are not currently seeing any signs of broad based deterioration of credit quality or increase in delinquencies. Slides 18 and 19 of our earnings presentation include the latest loss curves by vintage of origination, showing that recent credit performance remains in line with past performance.

- We are being cautious, however, about the economic environment, and particularly the pace of economic growth in the U.S. While many economic indicators and most credit performance metrics remain positive, we are watching all indicators closely and have taken, and will continue to take in the next few months, a series of precautionary measures designed to prepare our platform and make sure investor returns continue to match expectations, should the U.S. economy start deteriorating.

- In January, we raised platform interest rates by an average of 32 basis points, primarily to increase loss coverage for investors. We concentrated that increase in the higher risk grades that would be the most impacted by a slowdown in the economy. That rate adjustment came on the heels of an across-the-board rate increase of 25 basis points following the Fed rate hike in December. The combined effect of these 2 rate adjustments creates a buffer of 57 bps for our investors.

- We constantly monitor performance indicators and use scenario analysis to model projected returns under a variety of economic conditions, particularly downturn scenarios. We illustrated on Slide 20 and 21 of our earnings presentation the outcome a simulation using the Moody’s S3 scenario, which models a quite severe downturn, with the unemployment rate rising to 8% by the first quarter of 2017. That scenario is similar to the stress test contemplated in the Fed CCAR 2016 Adverse Scenario, also shown on Slide 20 for comparison. Slide 21 shows that the expected platform performance in that environment would come in at a respectable 4.9% return, which we believe would enable us to attract a significant amount of capital in such a downturn scenario.

- In addition we believe we'd benefit from broader trends: in an economic slowdown investors tend to flee the stock market and invest in fixed income. For example slide 22 shows that fixed income funds received significant capital inflows in the last two recessions of 2001 and 2008.

- A proxy for the attractiveness of the platform in a downturn can be found in our experience in the last crisis: while we recorded the worst vintage performance in 2008. The manner in which investors experience portfolio returns is influenced by the age of the portfolio, and a dip or increase in returns typically lags originations by a few quarters, so the worst overall portfolio return came in a year later in 2009 with a 2.4% average return to investors. On a relative basis, investors were very satisfied with these returns, and we saw a continued flow of capital to the platform, with 2009 net capital inflows jumping 200% from 2008.

- Our current downturn simulation delivers even better returns than those experienced by our investors in 2008-09, due to a less severe economic scenario, along with better risk management, underwriting models and collections capabilities that we have developed since 2009. Importantly, included in the simulation are assumptions that we would make 2 successive interest rate increases of 100 bps each in 2016 and 2017.

This brings me to marketplace dynamics…

- Our ability to adjust interest rates based on economic conditions, credit performance and investor appetite is a key benefit of the marketplace model. With billions of dollars of capital changing hands on our marketplace every quarter, we believe there is a sufficient volume of transactions to quickly discover a clearing price and rapidly implement pricing changes.

- Any such rate increase in a downturn will be passed on to borrowers as we gain more pricing power with the supply of credit likely drying up in that scenario:

    - In a downturn banks often cut back existing lines and slow down new originations under the combined effect of higher loan losses and liquidity ratio requirements being impacted by growing loan loss reserves;

    - Specialty finance companies typically cut back even more as they are often exposed to funding risk due to the high concentration of their funding sources (often residing in a couple of large warehouse lines of credit). This is where our highly diversified base of retail investors and long term-focused institutional sources of capital such as pension funds and insurance companies we believe will make the most meaningful difference.

- To summarize these platform dynamics in a downturn, we believe that we will gain pricing power and face a favorable competitive environment on the borrower side, allowing us to quickly adjust interest rates up. The upward adjustment combined with the diversity and breadth of our investor base, together with the short term nature of the loan portfolio that generates high monthly payments and makes large amounts of capital available for investor to redeploy on the platform at a higher rate, will provide more than enough capital to continue growing originations in a responsible manner and rapidly capture market share, particularly as other market participants cut back.

Marketing & Product Update

Now let me switch gears for a marketing and product update…

- On the borrower side, we continue to efficiently drive growth, and in line with our plan recorded only a minor increase in sales and marketing costs from 1.87% of originations in Q3 to 2.01% in

Q4 despite the expected adverse seasonality.

- We believe some of the factors that offset the negative seasonality were record-high customer satisfaction, increased trust in our brand, benefits of scale and a highly diversified set of marketing channels, and the continued optimization of our product and user experience.

- As I indicated earlier, we also re-allocated some marketing dollars to retail investor acquisitions, as we believe retail investors will provide a dependable, stable source of funding in the next economic cycle and also as we have rapidly expanded the number of States open to retail investors, which makes our marketing spend on the investor side more efficient.

- Overall, we continue to see fairly muted and manageable impact of competition coming from smaller platforms, and expect that impact to further decline as private, venture capital is slowing down.

- Compared to other platforms, we continued to benefit from larger scale and network effects, and continued to widen the gap against our direct competitors. We remain the undisputed market leader, and grew faster than the second largest player again this quarter – as in 4 of the last 5 quarters - both in percentage and dollar terms, with the second largest player growing at a 7% quarterly rate compared to our 15% quarterly growth.

Now let me give you a quick update on the newer products: Education and Patient Financing and Small Business…

Education and Patient Financing

- Education and Patient Financing growth continued to accelerate year over year as our investments in building a field sales force and the redesign of some of the marketing funnels and improvements to the customer experience continue to pay off. Q4 and Q1 are seasonally slower quarters, but despite of that we saw very strong results ahead of our expectations.

Small Business

- As for our small business lending platform: in Q4 we rolled out a new line of credit product. We are very encouraged by the early traction of this new product which gives small businesses convenient and flexible access to affordable credit with interest rates starting at just 5.9% and no fee on unused lines.
- We launched this product in November, and in December it already represented over 20% of new small business originations.
- This new product, together with the ramp up of previously announced partnerships, made small business our fastest growing product in Q4 in percentage terms.

New Product Category

- Separately, we continue to be on track with our product development and testing plans for a major new consumer product launch in the first half of this year.

Regulatory Update

- Let me finish with a quick update on regulatory trends, focusing on 3 discreet matters: our loan origination framework, recent FDIC guidance on marketplace lending, and the California DBO survey.

Issuance Framework / Madden vs. Midland

- First in regards to our loan issuance framework, we continue to believe that the facts in the Madden vs. Midland decision rendered by the second circuit Court of Appeals last year were very different from the way we operate. Nonetheless, as an abundance of caution, we are rolling out a number of operational and contractual changes this quarter in our relationship with our issuing banks that give us a high level of confidence that our issuance framework would meet the test used in the Madden case. In the meantime, loans made to residents of NY, CT and VT continued to represent roughly 10% of total platform originations last quarter, funded by the same mix of individual and institutional investors as in previous quarters.

FDIC Guidance on Banks Partnerships with Marketplace Lending Platforms

- The second update was the FDIC publishing 2 weeks ago a very helpful communication on marketplace lending. The latest Supervisory Insights report "provides an overview of the marketplace lending model and risks, highlights the importance of a pragmatic business strategy and offers resources for bank boards of directors and management to consider when engaging in marketplace lending activity." This is significant as we believe this is the first time that a federal banking regulator has provided guidance to member banks on partnerships with marketplace lending platforms. Given our extensive relationships with banks, we welcome the FDIC's provision of a framework for members, and believe our bank partners to be in compliance with this framework.

California DBO Survey

- Third the California Department of Business Oversight published an online survey in December and asked 14 companies ranging from PayPal to Lending Club to complete the survey by March 9. The purpose of the survey is to assess the industry size in California, better understand the various loan and investor programs and determine whether California's State licensing regime is appropriate. We are a licensed lender in the State of California, and are not expecting any significant development to follow the completion of this survey.

More generally, we intend to continue to monitor and influence regulatory developments. We believe that many of the likely developments will play to our strengths in terms of compliance, transparency, consumer friendliness and responsible lending. We would expect any new regulations or supervision to impose greater transparency in loan terms and disclosures, which are areas where we are already ahead of the market.

In conclusion, 2015 was an exceptional year in terms of our company performance and despite recent macro concerns and market volatility, I have the utmost confidence that we can continue to deliver rapid and responsible growth in 2016. Our 1.4 million highly satisfied customers, the depth and durability of our funding sources, consumer friendly products, proactive dialogue with regulators and growing network effects make me believe that we are poised for another exciting year in 2016.

With that let me turn the call over to Carrie to go into more detail about our financial results, our guidance for the next quarter and full year outlook.

4Q15 Prepared Remarks

Carrie Dolan – Chief Financial officer

Thanks, Renaud.

Full Year 2015 Originations / Revenue / EBITDA

- This has been a phenomenal year for Lending Club and given our continued business momentum, consistency and resiliency of our business model, it gives us confidence in our 2016 outlook for rapid and responsible growth along with continued margin expansion.

- I'd like to start today by walking you through our fourth quarter results.
- Following up on Renaud's "downturn scenario" comments, I would then like to give you our thoughts on how we would expect our financial model to perform in an economic downturn.
- I will then wrap up with our 2016 first quarter and full year guidance before opening the call up for questions.
- As a reminder, all year over year comments are comparisons to the fourth quarter in the prior year.

Expense Reclassification

- Before reviewing our fourth quarter results, I wanted to highlight that we made a few adjustments between our operating expense lines.
- During the quarter, we reviewed and refined the definitions we use to classify expenses.
- Our objective was to ensure that the expenses in our contribution margin directly relate to current revenue generation.
- As a result, some expenses were moved up into the contribution margin expense lines while others were moved down into technology or G&A.
- The net change of these movements lowered our contribution margin expenses by roughly $1.8 million in the fourth quarter of 2015, which increased our contribution margin by 1.4 percentage points.
- To help facilitate comparability to prior quarters, we re-casted our prior period financials to reflect these expense adjustments.
- It is important to note that this recasting did not change or impact revenue, total expenses, adjusted EBITDA or our GAAP results.
- Page [41] in our earnings deck summarizes the impact within each expense line over the last 8 quarters.
- In addition, as a one-time accommodation, we have posted an excel file on our IR website with these changes.
- The 10-k will also reflect these adjustments and all my comments today will be comparisons to the re-casted historical results.

4Q15 Originations / Revenue

- With that, let's turn to the results
- The fourth quarter was another solid quarter for us with our financial results again topping our expectations.
- Total Originations in the fourth quarter were $2.6 billion, an increase of 82% compared to last year.
- Operating Revenue in the fourth quarter was $134.5 million, up 93% year over year.
- We are pleased to report that our revenue growth continued to outpace origination growth as revenue yields continued to expand this quarter.
- Our revenue yield, which is operating revenue as a percent of originations, was 5.21%, up 6 basis points sequentially and 29 basis points year over year. 4 bps of the sequential yield increase was due to a onetime adjustment driven by the collection fee changes made last quarter.
- On a go-forward basis, we expect our revenue yield to trend closer to 5.15%.

- Transaction fees, which are earned immediately after a loan is originated, represented roughly 85% of operating revenues and totaled $115.0 million, up 82% year over year.
- Transaction fees as a % of originations were down 3 bps sequentially to 4.46% and were lower by 2 basis points from last year primarily driven by slight mix changes within our three product divisions.
- Servicing and management fees, which are earned over the life of an investment, totaled $15.3 million in the fourth quarter, up 117% from last year.
- Servicing and management fees as a % of originations increased 9 bps year over year to 59 basis points.
- As we have previously discussed, in the fourth quarter of 2014, we starting charging investors collection fees, which accounted for the majority of the 9 basis point year over year increase.
- On a quarter over quarter basis servicing and management fees increased another 6 basis points of which 4 basis points was due to one-time adjustment.
- The remaining improvement is from favorable investor mix trends with demand coming from investors who pay marginally higher servicing fees.

- In the fourth quarter, our servicing portfolio, which is comprised of all the loans we service and includes loans that we sold but continue to service, reached $9.0 billion, up $4.3 billion or 90% from last year.
- Servicing and management fees as a % of our average servicing portfolio increased 5 bps year over year to 18 bps and were 2 basis points higher than the third quarter.
- As noted, favorable investor mix trends and collection fees drove the annual improvement.
- Details showing these trends are noted on page 37 in our earnings presentation.

- Other revenue, which grew $5 million from the prior year, grew as a result of higher gains associated with selling whole loans at more favorable rates and added 22 basis points to the year over year revenue yield expansion.

Expenses / Contribution Margin

- Now turning to expenses.

Sales and Marketing

- Sales and Marketing expenses in the fourth quarter were $51.8 million, up from $25.2 million a year ago.
- As a % of originations, sales and marketing expenses were 2.01% this quarter, which was 23 bps higher than a year ago and 14 bps higher sequentially.
- As expected, costs were higher in the fourth quarter due to seasonal headwinds.
- Given the seasonality that also exists in Q1, we expect costs to stay at elevated levels.

Origination and Servicing

- Origination and Servicing expenses in the fourth quarter were $16.9 million, up from $11.1 million last year.
- As a % of originations, Origination and Servicing expenses were 13 basis point lower than last year and quarter over quarter, were down 6 basis points to 66 basis points
- Our technology investments in automation and scale continue to provide significant margin leverage.

Contribution Margin

- Both Sales and Marketing and Origination and Servicing expenses are netted against our operating revenue to derive contribution income and a Contribution Margin, which focuses on the efficiency of how we drive our revenue.
- On a dollar basis, our contribution income in the fourth quarter was $65.7 million, up 98% year over year.

- As a percent of operating revenues, our contribution margin remained strong at 48.9% in the seasonally weaker fourth quarter, up from 47.8% in the prior year.
- As a % of operating revenues, our core personal loan contribution margin continued to exceed our long term 50% margin target while our two, less mature products, education and patient financing and small business remaining a bit less efficient.

Operating Expenses / Adjusted EBITDA

- The second set of expenses that are outside of our contribution margin but are included in our adjusted EBITDA margin are engineering, product development and other G&A costs.
- In Q4, we increased engineering and product development expense $2.3 million sequentially to $16.4 million, which grew in line with revenue quarter over quarter and remained relatively constant as a % of operating revenues at 12.2%.
- We remain focused on hiring top talent to support our product development pipeline and continue to build up automation, scale and security as key competitive advantages.

- Other G&A expenses were $24.7 million in the fourth quarter, up 50% year over year.
- Operating leverage this quarter drove G&A expenses as a % of operating revenues to 18.4%, down 5.3 percentage points from 23.7% in the prior year.

Adjusted EBITDA

- To derive our adjusted EBITDA, we subtract engineering, product development, and other G&A expenses from our contribution income.
- Fourth quarter adjusted EBITDA was a record $24.6 million, up 210% from the fourth quarter last year and exceeding our total adjusted EBITDA for all of 2014.
- Our adjusted EBITDA margin was 18.3%, up 6.9 percentage points from the prior year.
- Our stronger than planned revenue growth and continued G&A leverage during the fourth quarter drove the majority of our higher than planned adjusted EBITDA margin.

Adjusted EPS / GAAP

- Adjusted net income, which is GAAP net income excluding stock based compensation, and acquisition related expenses, was $20.8 million or 5 cents per diluted share during the fourth quarter versus $4.2 million, or 1 cents per diluted share in the same period last year.
- Our GAAP net income was again positive at $4.6 million or 1 cent per diluted share compared to a loss of $9 million a year ago. The difference between GAAP and adjusted net income is primarily due to stock based compensation, which increased $2.4 million year over year to $13.7 million.
- Stock based compensation as a percent of operating revenues declined from 16.2% last year to 10.2% this quarter.

Balance Sheet

- Now turning to the balance sheet.
- As a reminder, in contrast to traditional banks and other balance sheet lenders, in our model capital to invest in loans is provided from loan sales and securities issued to investors rather than from equity, deposits or borrowed funds. As a result, we do not assume credit risk and the loan sales and securities issued to investors match the balances, interest rates and maturities of the loans issued to borrowers.
- When reviewing our balance sheet, you will see both the loans as an asset and the corresponding notes or certificates as the offsetting liability. The changes in value of these loans, notes and certificates generally offset one another and do not impact our equity.
- As of December 31st, total balance sheet assets reached $5.8 billion. Of this, $4.6 billion is in loans, $921 million is in cash and securities available for sale and the remaining $317 million is in other assets.

Capital Allocation & Share Repurchase

- We think about our cash reserves in terms of 2 "buckets": first we want to keep a robust operating reserve for any unexpected challenges and second we want to have sufficient reserves for strategic opportunities including potential acquisitions that could help accelerate our product roadmap or give us access to new distribution channels.
- We believe we have sufficient reserves in these 2 buckets and can allocate additional, unused liquidity, including free cash flow from operations, to a share buyback program that we believe is accretive to shareholder value at current prices.
- We believe our growth prospects and ability to effectively manage risks to growth are not fully reflected in our valuation at the present time.
- Looking at investment options from a pure financial standpoint, we have not come across any potential acquisition target offering this kind of value, particularly in light of our growth rate and our level of visibility into future growth and margin expansion.
- Accordingly, our Board has authorized a share buyback program of up to $150 million over the next 12 months, which is roughly equivalent to our adjusted EBITDA guidance over that same period.
- With $921 million in current cash and securities, we believe the buyback program could create long term shareholder value by retiring, at the current stock price level, over 20 million shares while leaving a robust operating cushion and sufficient reserves for strategic investments and acquisitions.

Our Financial Model in an Economic Downturn

- Before sharing our guidance thoughts, I wanted to spend a few minutes talking about how we believe our financial model might perform in an economic slowdown.
- As we have discussed, we are different from traditional balance sheet lenders in that we do not earn net interest income and do not reserve for loan losses.
- As a result, our revenues and margins would not be directly impacted by higher funding costs or credit losses as these changes flow through equally to each side of our marketplace, while for balance sheet lenders, revenue and profitability would compress as loan returns fall and cost of funds rise.
- On our marketplace, changes in the demand for loans and supply of capital would impact origination volume, which could impact our profitability.
- As Renaud shared, we believe we can minimize potential volume impacts by rebalancing supply and demand through pricing adjustments, and continue to grow originations even in periods of slower economic growth

- However, in a scenario where we do experience a slowdown in origination growth, we believe our revenue yield and contribution margin would remain relatively consistent with today's levels.
- Our contribution margin expenses directly drive revenue and are roughly 75% variable.
- These variable costs are driven by originations and include borrower and investor acquisition costs, issuing bank fees and credit data costs.
- Given this high level of variable costs, we believe we would be able to maintain our contribution margin in the mid to high 40% area even if our volumes were significantly lower.
- Our historical performance supports this estimate: in the fourth quarter of 2013, we facilitated approximately $700 million in loan originations (which is about a quarter of our current run rate) and posted a contribution margin of 47.5%.

- We also have significant leverage in our adjusted EBITDA margins.
- As we have shared, our technology and G&A spending has not been a function of current growth or revenue. This spend is highly discretionary.
- The pace of our investments have been forward looking as we develop new products and reinforce our infrastructure for future growth.

- As a result, we believe we could slow our planned spending in technology, product development and G&A today and still support our 72% growth in 2016
- Under this scenario, we again believe we would show solid margin expansion.
- While slowing our technology and G&A investments could increase margins and free cash flow in the short term, the tradeoff would give us less support for maintaining rapid growth in late 2017 and beyond.

Guidance
With that, let me give you our thoughts about 2016 and first quarter guidance.

- Given our large addressable market, positive growth trends, resiliency of our online marketplace, the strength of the Lending Club brand, and the depth and diversity of our investor base, we are raising our full year growth target midpoint from 70% to 72% year over year and also increasing our target adjusted EBITDA margin midpoint from 18% to 19%.
- Our full year operating revenue range increases to $730 to $740 million, up from our previous range of $714 to $717 million based on prior growth expectation of 70% and stronger 2015 results.
- Full year adjusted EBITDA is now expected to increase from roughly $129 million to a range of $130 to $145 million, implying a midpoint margin of approximately 19% or 240 basis points of margin expansion compared to 2015's annual margin of 16.3%.
- For the first quarter we are providing operating revenue outlook in the range of $147 to $149 million and expect first quarter adjusted EBITDA to be in the range of $25 to $27 million, representing an adjusted EBITDA margin of 17.6%.
- As a reminder and similar to last year's pattern, we expect negative seasonal pressures in the first and fourth quarters and stronger quarterly growth in both the second and third quarters.

With that, let's open up the call for questions. Operator?