BankThink Renaud Laplanche's redemption story is a bad omen for fintech

By Todd H. Baker

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Editor's note: This BankThink piece has been modified. The modifications more closely reflect the language contained in the allegations previously made against Mr. Laplanche by the SEC.

Like many people, I followed the story of Renaud Laplanche's rise and spectacular fall as the founder and CEO of LendingClub, the pioneering online lender. He was a media darling until LendingClub's stock collapsed in 2016 in a scandal that was, reportedly, largely attributable to his actions. The scandal lost Laplanche his CEO position, the firm's stock price dropped precipitously and LendingClub eventually paid $125 million to settle shareholder lawsuits over the issue. His actions also, at least temporarily, blighted LendingClub's reputation and long-term prospects. It was a bad show all around.

Laplanche recently settled an action brought by the Securities and Exchange Commission which alleged, among other things, that he fraudulently violated the Investment Advisers Act by "for improperly using fund money to benefit LendingClub," the agency said in its press release. The SEC's order also claims that Laplanche "improperly adjusted monthly returns … to improve reported returns." Even the most charitable reading of the facts makes clear that, when the pressure was on, Mr. Laplanche chose the wrong ethical and legal path. As is standard in these cases, Mr. Laplanche neither "admitted nor denied" the

charges. But he paid a fine and was barred by the SEC from any association with the securities or investment management industry. The Department of Justice also just collected a $2 million fraud-based civil money penalty from LendingClub for years of Laplanche-approved overrides of credit policies to boost volumes.

You'd think a sanction of this severity — the barring order is the toughest remedy in the SEC's arsenal short of referring criminal charges — would be the end of Mr. Laplanche's career in the financial services industry, at least so long as the order is in effect, and that he'd be looking for his next job opportunity in a different field. But you would be wrong. Two years after the LendingClub disaster, Mr. Laplanche is in the midst of a major comeback with a new fintech startup funded by venture capitalists. And that should worry everyone.

Upgrade, Laplanche's latest venture, has raised millions of dollars in venture capital funding this year. Bloomberg News

Mr. Laplanche's new company — Upgrade — is a marketplace lender just like LendingClub. It lends money to consumers and sells loans to investors. Upgrade has so far raised $150 million with little apparent effort from names like Union Square Ventures, Apoletto, FirstMark Capital, NOAH, Ribbit, Sands Capital,

Silicon Valley Bank, Vy Capital and CreditEase Fintech Investment Fund. The VCs behind the Upgrade investment clearly think they are on to something good. As one put it, Laplanche "has the opportunity to start LendingClub 2.0, and we are excited to be a part of it." They hope that one day Upgrade will go public just like LendingClub did with Laplanche as the CEO.

The tech industry's prevailing narrative about Laplanche's SEC case is impressively sanguine. A "slap on the wrist" is how industry bible TechCrunch describes the barring order, noting that Upgrade only works with institutional investors so being barred from the securities industry isn't a "real" problem. One of the VC investors in Upgrade even says he investigated the situation and that nothing about Mr. Laplanche's SEC experience gives him pause.

For his part, Mr. Laplanche has suggested he's ready to move on: "I am glad that we can now put these issues behind us and focus on the important goals of making credit more affordable to consumers and delivering attractive returns to investors through disciplined underwriting and exciting product innovation. With the benefit of my prior experience, I feel better equipped to establish a strong culture of compliance and effective internal controls under the supervision of capable professionals." Unless I'm mistaken, the "prior experience" he's referring to is what led to the SEC barring order.

Why is everyone in Silicon Valley so happy to support a fintech CEO whom federal regulators have barred from the securities industry and who certainly wouldn't be allowed to serve as an officer or director of a regulated bank? Why so willing to forgive a man who, lest we forget, was trained as a securities lawyer?

The answer is depressingly obvious. They think he will make them lots of money. And while it may be ethically questionable to invest in a financial company helmed by someone with an SEC barring order, there's no actual legal prohibition against doing it. In today's Silicon Valley investment scene — coarsened by success and the hubris behind "move fast and break things" — return multiples, VC "valuations" and the tech star system are what matters. Everything else is just details that will be forgotten if the new company is a success. And if the company fails, who cares? There's always the next one.

This attitude turns the relationship between corporate responsibility and profit on its head. The fintech business — like banking and all financial services businesses — has at its heart a fiduciary responsibility to customers and

investors. That makes hiring people who will do the right thing when the chips are down of paramount importance. We have securities laws for a reason: to deter conduct which damages investors and markets and to punish appropriately those who inflict such damage.

We need to take the application of those laws to individuals in the fintech space seriously. The cavalier attitude shown by the VC investors in Upgrade to Mr. Laplanche's past is a slap in the face to the principles of personal responsibility and corporate ethics. Good person or bad person, fintech "star" or not, until the barring order is lifted, Mr. Laplanche should find a new line of work and venture capitalists should find someone else to invest in.