Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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IEG Holdings Corporation (OTCQB: IEGH) – Reinitiating Coverage; Streamlining Operations and Restarting Marketing

Sector/Industry: Consumer Finance **www.investmentevolution.com**

Market Data (as of December 26, 2017)

Current Price	**US$0.40**
Fair Value	**US$1.14**
Rating*	**BUY**
Risk*	**4**
52 Week Range	US$0.14 – US$8.60
Shares O/S	12,335,293
Market Cap	US$4.93 M
Current Yield	N/A
P/E (forward)	N/A
P/B	0.9x
YoY Return	-92.6%
YoY OTCQX	20.8%

*see back of report for rating and risk definitions
*All the figures are in US$ unless otherwise specified.

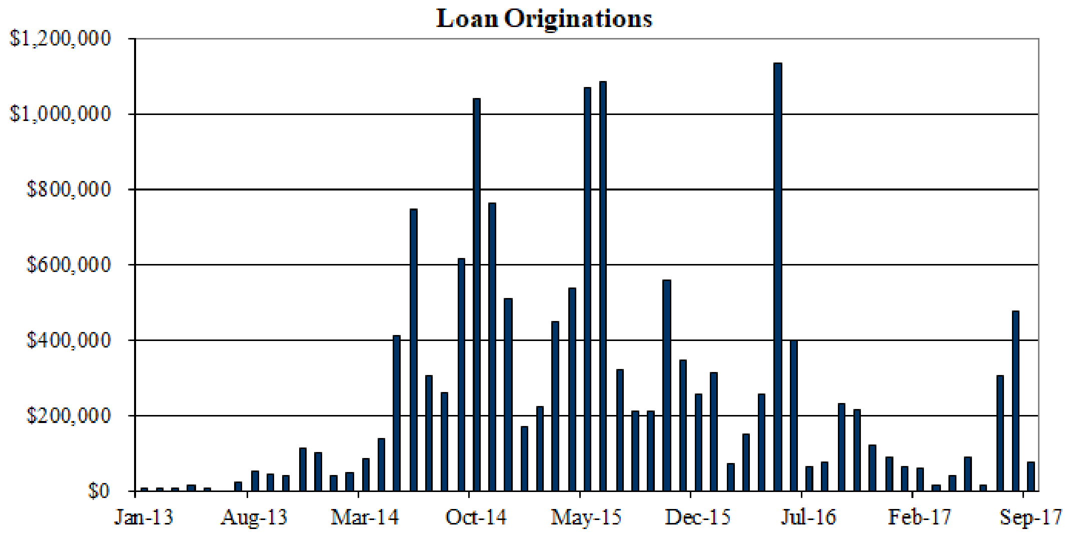
Highlights

- We are reinitiating coverage on IEG Holdings Corporation ("company", "IEG"). Our previous report was in March 2017.
- In the first nine months of 2017, the company significantly slashed its operating costs. The company also started paying quarterly dividends of $0.005 per share in Q1-2017, reflecting an annual yield of 5% at the current share price.
- The total cumulative loan volume was $15.2 million as of September 30, 2017.
- As of September 30, 2017, the company had $4.98 million in loans receivables, net of provision for losses, down from $6.37 million at the end of 2016. At the end of Q3-2017, the company had $1.85 million in cash, and no debt.
- Revenues were $1.29 million in the first nine months of 2017, down 21% YOY. Revenues dropped as the company decided to significantly lower advertising costs, which impacted new loan originations.
- The company re-started marketing and advertising in Q3 to attract more borrowers and expand its portfolio.
- Realized loan losses (loans charged-off) were $0.32 million in Q3-2017 (21% p.a. of the loans outstanding) versus $1.64 million for the entire 2016 (20% of the loans outstanding).
- On December 22, 2017, the company announced it is evaluating the viability of accepting repayment of customer loans in the form of crypto currencies, such as Bitcoins, and/or potentially create and lend its own cryptocurrency.
- We are reinitiating coverage with a fair value estimate of $1.14 per share.

(in US$); YE - Dec 31	2012	2013	2014	2015	2016	2017E	2018E
Revenues	37,779	62,949	529,225	1,835,165	2,135,046	1,876,861	2,575,238
Net Income	(2,507,521)	(4,480,465)	(5,401,754)	(5,698,198)	(4,728,870)	(4,113,309)	(3,595,107)
EPS (basic)	(0.01)	(0.01)	(0.40)	(2.39)	(0.60)	(0.33)	(0.20)
Cash	178,601	281,879	433,712	485,559	322,441	1,026,359	-
Loans Receivable	130,486	426,113	4,316,316	7,124,702	6,374,908	6,000,000	10,000,000
Total Debt / Capital	-30.6%	-33.3%	48.2%	0.0%	0.0%	0.0%	32.7%
Total Assets	791,196	922,140	4,929,120	7,758,149	6,821,947	7,141,134	10,270,699

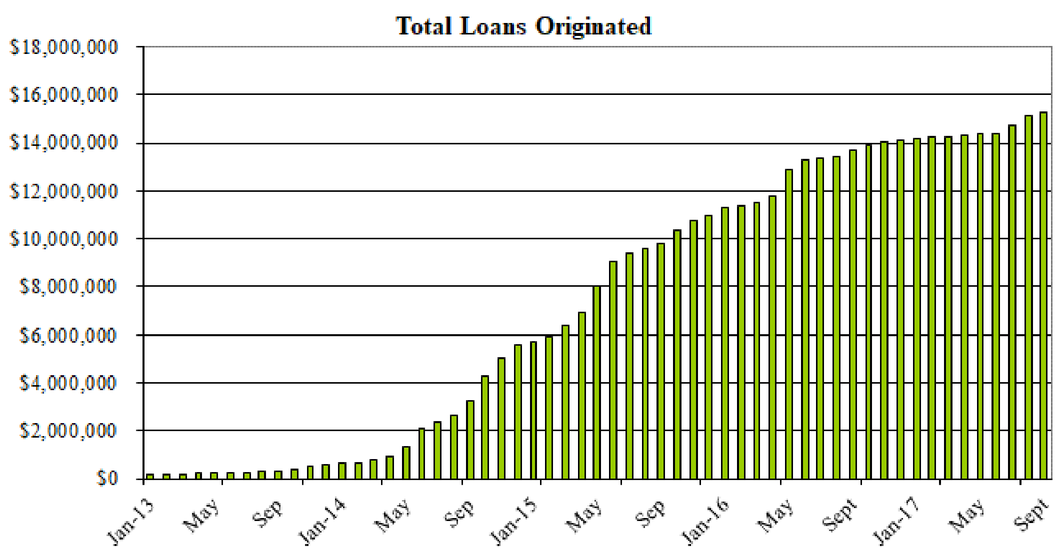
Portfolio Update

The company had originated $855,000 loans in Q3-2017, versus $370,000 in Q3-2016. Originations in the first six months of 2017 were just $285,000 versus $2.33 million in the comparable period in the previous year. The following chart shows the originations since inception of the company's online lending platform.



Source: Company Data

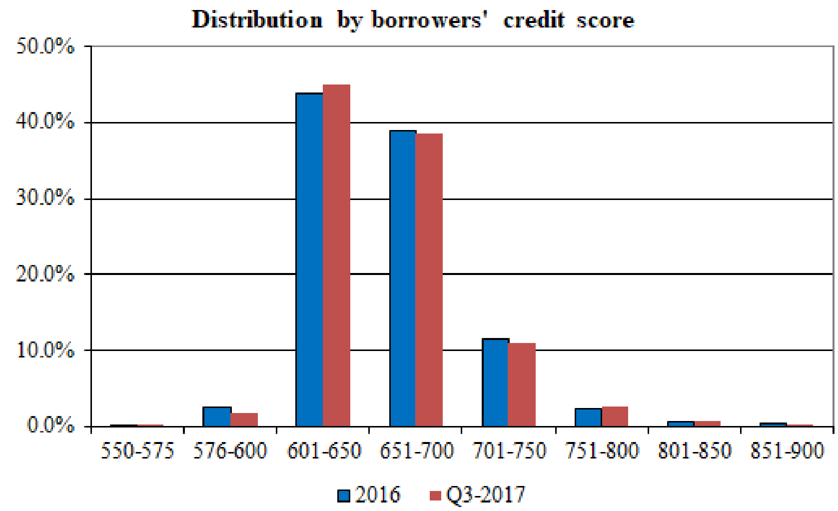
The total cumulative loan volume was $15.25 million as of September 30, 2017, up 11% YoY.



Source: Company Data

The company currently operates in 20 states in the U.S. and management intends to continue expanding. Note that 25 states in the U.S. still require lenders to have at least one physical office location.

IEG's primary focus remains on borrowers with credit scores between 600 and 700 as shown in chart below. This category accounted for 84% of the portfolio as of September 30, 2017, versus 83% as of December 31, 2016.



Source: Company Data

The average loan size at the end of Q3-2017 was $3,831 versus $4,258 at the end of 2016. The following table shows IEG's typical loan terms and borrower profile.

Borrower Profile

Loan Terms	up to $10,000
	5 years
	28.9% average APR
	Fixed rate, fully amortizing
	No lender fees
	No prepayment penalties
Loan Purpose (common uses)	Debt consolidation
	Medical expenses
	Home improvements
	Auto repairs
	Major purchase
	Discretionary spending
Average Borrower Demographic	600 - 750 credit score
	$30,000 - $35,000 income
	25 - 60 years old

Source: Company

One of the key differences of IEG compared to traditional consumer lenders is the longer term of 5 years versus the typical term of 2 to 5 years on consumer loans. IEG management's rationale for a longer term is that the required weekly / monthly prepayment amounts will be lower, making it easier for consumers to pay out their loans with less burden. **For example, a $5,000 loan has an estimated weekly payment of just $38 for a period of 5 years**. Although the probability of default is higher for loans with longer terms, IEG's loans are fully amortizing, implying that the capital at risk reduces with each repayment.

Another advantage of IEG to borrowers is that, unlike a lot of lenders, they do not charge any lender or prepayment fees.

IEG has the following qualification criteria for borrowers:

- at least 21 years old
- U.S. citizen
- minimum gross annual income of $35,000
- minimum credit score of 600
- steady employment history and not self-employed
- established checking account with direct deposit of income into that account
- minimum of 2 years re-established credit history following a bankruptcy discharge

On December 22, 2017, the company incorporated a 100% owned subsidiary, Investment Evolution Crypto LLC, and announced that it will evaluate the viability of accepting repayment of customer loans in the form of crypto currencies, such as Bitcoins, and/or potentially create and lend its own cryptocurrency.

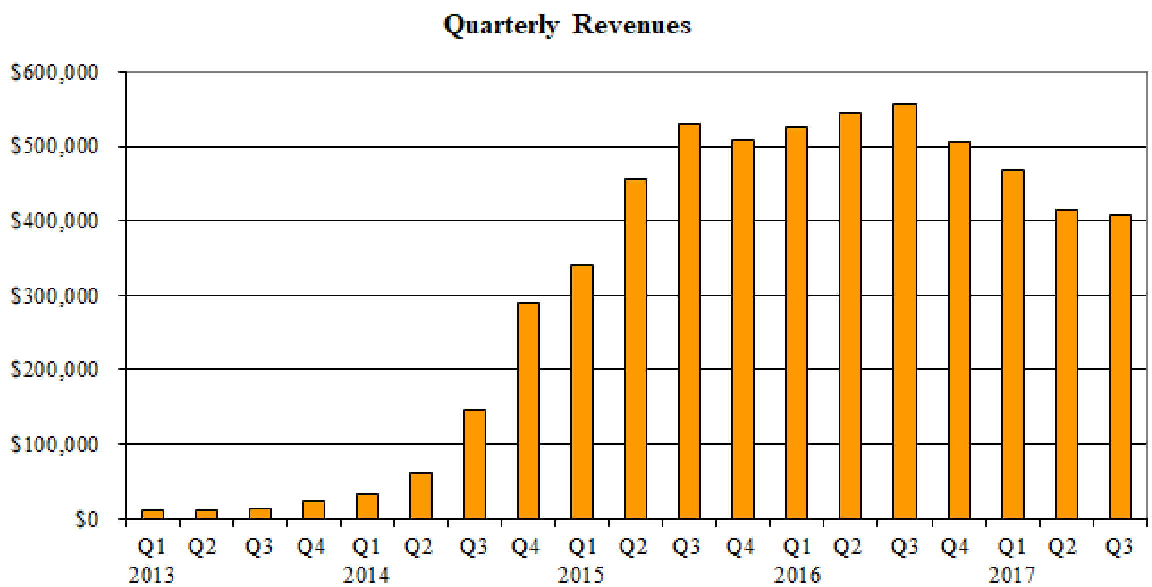
Q3-2017 Performance

The following is a summary of the income statements.

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	Q3-3016	Q3-3017	YOY	2016 (9M)	2017 (9M)	YOY
Interest revenue	547,551	386,565	-29.4%	1,586,723	1,238,280	-22.0%
Other revenue	10,000	20,805	108.1%	41,156	50,414	22.5%
Total revenue	**557,551**	**407,370**	-26.9%	**1,627,879**	**1,288,694**	-20.8%
EXPENSES						
Salaries and wages	397,795	419,144	5.4%	1,207,124	658,347	-45.5%
Advertising	92,593	180,808	95.3%	313,902	184,268	-41.3%
G&A	790,269	578,132	-26.8%	2,296,650	1,997,122	-13.0%
Provision for credit losses	257,907	300,205	16.4%	1,000,344	919,529	-8.1%
Depreciation and amortization	3,212	1,451	-54.8%	7,045	4,495	-36.2%
Total Operating Expenses	1,541,776	1,479,740	-4.0%	4,825,065	3,763,761	-22.0%
Loss from Operations	**(984,225)**	**(1,072,370)**	9.0%	**(3,197,186)**	**(2,475,067)**	-22.6%
Misc income / Tax	324	624,209		-11,426	777,434	
Net Income	**(984,549)**	**(1,696,579)**	72.3%	**(3,185,760)**	**(3,252,501)**	2.1%
EPS	-0.10	-0.13		-0.44	-0.30	

Source: Company Data

IEG reported $0.41 million in revenues in Q3-2017, down 27% YoY. Revenues were $1.29 million in the first nine months of 2017, down 21% YOY.



Source: Company Data

Revenues dropped as the company decided to significantly lower advertising costs, which impacted new loan originations. Over the past 12 months, the company has been aggressively trying to slash its operating costs. Total operating expenses were $1.48 million in Q3-2017, down 4% YoY. Operating costs were down 22% YoY to $3.76 million in the nine-month period. The decrease was primarily because of a significant reduction in salaries and wages, advertising, and General and Administrative expenses. **Based on Q3-2017's operating cost, we believe the break-even portfolio size of the company is approximately $15 million.**

IEG had a net loss of $1.70 million (EPS: -$0.13) in Q3-2017, versus $0.98 million (EPS: -$0.10) in Q3-2016. In the nine-month period of 2017, the company reported a net loss of $3.25 million (EPS: -$0.30) versus $3.19 million (EPS: -$0.44) in the comparable period in the previous year.

In the nine-month period in 2017, the company incurred one-time legal settlements and related fees of $0.62 million. The settlements were related to an action by the State of Virginia and a separate action by an individual customer alleging that IEG violated the Virginia Consumer Protection Act in connection with loans made to customers in the state. In addition, the annual interest rate on all loans originated by the company in Virginia were reduced to 12% APR. As of September 30, 2017, there are $230,227 in outstanding loans that originated in Virginia, which mature between May 2019 and April 2022. Although further details were not disclosed, we speculate that management may be less likely to originate new loans in Virginia due to the relatively low rates it can charge in the state.

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Excluding these one-time fees, the company would have reported net losses of $1.07 million (EPS: -$0.08) in Q3-2017, and $2.63 million (EPS: -$0.24) for nine months.

Loan Loss Rates

The following table shows the key line items in the income statements as a percentage of the average loan receivables. Revenues as percentage of loan receivables were 25.44% p.a. in the first nine months of 2017, versus 26.53% in the comparable period in the previous year. Net losses from operations were 48.76% versus 51.99%.

% of Loans Receivable	Q3-3016	Q3-3017	2016 (9M)	2017 (9M)
Interest revenue	25.74%	25.90%	25.86%	24.44%
Other revenue	0.47%	1.39%	0.67%	1.00%
Total revenue	26.21%	27.29%	26.53%	25.44%
Salaries and wages	18.70%	28.08%	19.67%	12.99%
Advertising	4.35%	12.11%	5.12%	3.64%
G&A	37.15%	38.73%	37.43%	39.42%
Provision for credit losses	12.12%	20.11%	16.30%	18.15%
Total Operating Expenses	72.32%	99.04%	78.52%	74.20%
Income from Operations	**-46.11%**	**-71.74%**	**-51.99%**	**-48.76%**
Misc expense	0.02%	41.82%	-0.19%	15.34%
Net Income	-46.13%	-113.56%	-51.80%	-64.11%

*Note that the above calculations may not be precise as they are based on the average of the loans outstanding at the beginning and end of a period.

Source: Company Data / FRC

As of September 30, 2017, the company had $4.98 million in loans receivables, net of provision for losses. The company had $0.95 million in allowance for credit losses, or 16% of the loans receivable. As shown in the table below, the allowance has been maintained at 16% since Q4-2016.

Loan Loss and Provision

	2014	2015	2016	Q1-2017	Q2-2017	Q3-2017
Loans Receivable	4,913,279	8,110,077	7,587,349	6,914,321	6,017,932	5,923,536
Allowance for credit losses	(596,963)	(985,375)	(1,212,441)	(1,106,292)	(962,869)	(947,766)
% of Total	*12.1%*	*12.2%*	*16.0%*	*16.0%*	*16.0%*	*16.0%*
Loans receivables net	4,316,316	7,124,702	6,374,908	5,808,029	5,055,063	4,975,770
Beginning balance	61,319	596,963	985,375	1,212,411	1,106,292	962,869
Provision for credit losses	614,684	1,134,518	1,865,362	224,488	394,836	300,205
Loans charged off	(79,040)	(746,106)	(1,638,296)	(330,637)	(538,259)	(315,308)
% of average loans outstanding	*2.9%*	*11.5%*	*20.3%*	*18.2%*	*33.3%*	*21.1%*
			(annualized)	(annualized)	(annualized)	(annualized)
Ending balance	596,963	985,375	1,212,441	1,106,262	962,869	947,766

Source: Company Data / FRC

Realized loan losses (loans charged-off) were $0.32 million in Q3-2017 (21% p.a. of the loans outstanding) versus $1.64 million for the entire 2016 (20% of the loans outstanding). We consider these loss rates to be very high as the delinquency rate on consumer loans and credit cards is between 2.0% and 2.5% p.a. in the U.S., according to the U.S. Federal Reserve.

The following table shows that, as of September 30, 2017, approximately $0.44 million, or 7.4% of the loans, were delinquent (60+ days past due). This figure was 7% at the end of 2016. Loans become eligible for a lender to take legal action at 60 days past due.

Loans Past Due

	31-Dec-15		31-Dec-16		30-Sep-17	
	Unpaid	%	Unpaid	%	Unpaid	%
0-30 days	7,409,707	91.36%	6,799,362	89.61%	5,295,623	89.40%
31-60 days	157,316	1.94%	257,299	3.39%	192,718	3.25%
61-90 days	153,623	1.89%	163,590	2.16%	109,195	1.84%
91-120 days	95,288	1.17%	210,790	2.78%	116,712	1.97%
121-184 days	294,143	3.63%	156,308	2.06%	209,289	3.53%
Total	**8,110,077**	**100.00%**	**7,587,349**	**100.00%**	**5,923,537**	**100.00%**

Source: Company Data

Balance Sheet

At the end of Q3-2017, the company had $1.85 million in cash, and no debt. The following table shows a summary of the balance sheet.

Liquidity & Capital Structure (US$)	2014	2015	2016	Q3-2017
Cash	433,712	485,559	322,441	1,850,317
Working Capital	4,468,754	7,585,836	6,794,095	6,701,792
Current Ratio	15.5	71.3	6,410.5	30.8
LT Debt	2,230,000	-	-	-
Total Debt	2,230,000	-	-	-
Total Debt / Capital	48.2%	-	-	-
EBIT Interest Coverage	(8.7)	(9.8)	n/a	n/a

Source: Company Data

Subsequent to the end of Q3, the company raised $1.24 million by issuing Series H convertible preferred shares at $1.00 per share. Each preferred share will be converted to four common shares as of December 31, 2017.

Cash from financings have totaled $25 million since 2012. Cash spent on operations were $15 million, and on investing, $8 million.

Summary of Cash Flows (US$, mm)	2015 (9M)	2016 (9M)	2017 (9M)
Operating	-$2.95	-$2.10	-$1.85
Investing	-$3.26	-$1.13	$3.70
Financing	$7.47	$3.66	-$0.33
Net	**$1.26**	**$0.44**	**$1.53**

Source: Company Data

OneMain Bid

On January 6, 2017, the company announced the commencement of a tender offer to purchase up to all of the outstanding shares of OneMain Holdings Inc (NYSE: OMF). OneMain is one of the largest consumer finance companies in the U.S. OneMain is a traditional private lender (100+ years of track record) providing consumer finance and insurance products and services through over 1,800 branches in 44 states.

IEG management's primary rationale for the offer was that they believe a combined entity could attain significant synergies and cost savings by converting OneMain's traditional bricks-and-mortar business model to an online model. IEG's management believes they have significant first mover advantage as they are one of the very few online lenders who have a license to operate in multiple states in the U.S covering more than half the U.S. population.

In June 2017, the company closed the tender offer after purchasing 151,994 shares of OneMain in exchange for 3.04 million shares of the company. All of the acquired shares were subsequently sold for $3.4 million in cash.

Valuation

The company announced a quarterly cash dividend of $0.005 per common share starting Q1-2017. A total of $0.015 has been paid to date over the past three quarters. As the company has yet to break-even, we speculate the announcement of dividends indicates management's positive near-term outlook.

Our projections are based on a 2017 year-end net portfolio size estimate of $6 million, and a 2018 year-end estimate of $10 million. We estimate revenues of $1.88 million in 2017, and $2.58 million in 2018.

Our forecast for 2017 is a net loss of $4.11 million (EPS: -$0.33), and for 2018 is a net loss of $3.60 million (EPS: -$0.20)

The following tables show the Price to Book ratios of a few of the major lenders in the U.S.

	Company	P/B
1	Capital One	1.6
2	Synchrony Financial	2.4
3	Discover Financial Services	2.8
4	Ally Financial	1.0
5	Navient Corp	1.3
6	Credit Acceptance	4.7
7	LendingClub Corporation	1.8
8	FirstCash, Inc.	6.0
9	Nicholas Financial, Inc.	0.6
	Average	**2.5**

Source: S&P Capital IQ

Based on an average P/B ratio of 2.5x, we estimate the fair value of IEG's shares is $1.14 per share.

Risk

We believe the company is exposed to the following key risks:

- Consumer finance lending is a highly competitive market. Although we believe the U.S. consumer credit market is healthy, unfavorable macroeconomic changes may impact consumer finance lenders and their ability to grow.
- The company's ability to consistently originate good quality loans at attractive yields is critical.
- Loan loss rates have to be maintained at reasonable levels.
- The company's ability to grow depends heavily on management's ability to raise capital (equity and debt).
- Only one director at this time.
- IEG has been operating in losses and has yet to generate profits.
- The average trading volume of IEG's shares has been low as the shares are tightly held; the CEO holds over 50% of the outstanding shares.

APPENDIX

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
Interest revenue	521,018	1,789,701	2,086,976	1,804,674	2,476,190
Other revenue	8,207	45,464	48,070	72,187	99,048
Total revenue	**529,225**	**1,835,165**	**2,135,046**	**1,876,861**	**2,575,238**
EXPENSES					
Salaries and wages	1,889,136	2,126,243	1,592,990	1,035,577	1,553,365
Advertising	459,804	950,905	373,350	365,076	723,232
G&A	1,531,765	1,773,129	1,881,409	2,575,254	2,317,729
Provision for credit losses	614,684	1,134,518	1,865,362	1,114,620	1,428,571
Depreciation and amortization	15,054	14,124	8,618	6,763	3,140
Total Operating Expenses	5,939,928	7,540,530	6,876,194	5,212,736	6,170,345
Loss from Operations	**(5,410,703)**	**(5,705,365)**	**(4,741,148)**	**(3,335,875)**	**(3,595,107)**
Misc expense / Tax	8,949	7,167	12,278	777,434	-
Net Income	**(5,401,754)**	**(5,698,198)**	**(4,728,870)**	**(4,113,309)**	**(3,595,107)**
EPS	-0.40	-2.39	-0.60	-0.33	-0.20

BALANCE SHEETS (in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
ASSETS					
CURRENT					
Cash and cash equiv.	433,712	485,559	322,441	1,026,359	0
Loans receivable - current, net	4,316,316	7,124,702	6,374,908	6,000,000	10,000,000
Other receivables	25,882	76,262	84,851	90,234	247,619
Prepaid expenses		7,276	12,955	4,512	6,190
Total Current Assets	**4,775,910**	**7,693,799**	**6,795,155**	**7,121,105**	**10,253,810**
PP&E	36,100	28,511	19,322	12,559	9,419
Loans Receivable - long term					
Security deposits	39,329	35,839	7,470	7,470	7,470
Loan costs, net	77,781				
Total Assets	**4,929,120**	**7,758,149**	**6,821,947**	**7,141,134**	**10,270,699**
LIABILITIES					
CURRENT					
A/P & accrued expenses	172,139	96,441	1,060	156,382	462,776
Deferred rent	28,429	11,522		-	-
CEO accrued consulting fees	106,588				
Total Current Liabilities	**307,156**	**107,963**	**1,060**	**156,382**	**462,776**
Debt	2,230,000			-	3,209,139
SHAREHOLDERS EQUITY					
Equity	17,075,216	28,031,636	31,931,206	36,208,380	39,417,519
Accumulated deficit	-14,683,252	-20,381,450	-25,110,319	-29,223,628	-32,818,735
Total shareholders' equity (deficiency)	**2,391,964**	**7,650,186**	**6,820,887**	**6,984,752**	**6,598,784**
Total Liabilities and Shareholders Equity	**4,929,120**	**7,758,149**	**6,821,947**	**7,141,134**	**10,270,699**

STATEMENTS OF CASH FLOWS (in US$) - YE Dec 31st	2014	2015	2016	2017E	2018E
OPERATING ACTIVITIES					
Net loss	-5,401,754	-5,698,198	-4,728,869	-4,113,309	-3,595,107
Adjusted for items not involving cash:					
Provision for credit losses	614,684	1,134,518	1,865,362		
Depreciation & amortization	15,054	14,124	8,618	6,763	3,140
Loss on disposition of P&E		12,582	571		
Change in assets:					
Deposits		3,490	28,369		
Other receivables	-25,882	-50,380	-8,589	-5,383	-157,385
Prepaid expenses		-7,276	-5,679	8,443	-1,679
Change in liabilities					
AP & accrued expenses	554,867	452,285	74,118	155,322	306,394
Deferred salary	907,598	118,412			
Deferred rent	-20,415	-16,906	-11,522	0	0
NET CASH USED IN OPERATING ACTIVITI	**-3,302,159**	**-3,959,568**	**-2,777,621**	**-3,948,164**	**-3,444,637**
INVESTING ACTIVITIES					
Net Loans	-4,504,945	-3,942,905	-1,115,567	374,908	-4,000,000
Marketable Securities				3,400,106	
Purchases of PP&E					
Advances to CEO	0	-95,003			
Advance to officer	-9,009	-19,117			
NET CASH USED IN INVESTING ACTIVITI	**-4,513,954**	**-4,057,025**	**-1,115,567**	**3,775,014**	**-4,000,000**
FINANCING ACTIVITIES					
Payments for buyback of common stock			-209,099		
Proceeds from long term debt	1,730,000			-	3,209,139
Proceeds from short term loans	669,980	400,000			
payments on short term loans	-419,980	-400,000			
Repayment of senior debt		-2,230,000			
Prepaid preferred share redemption		-160,000			
Deposit on common shares to be issued	1,834,112				
Dividends paid	-114,115	-220,974	-35,517	-149,236	0
Proceeds from issuance of preferred stock		6,100,000	246,000	1,303,184	
Proceeds from issuance of common stock	4,267,949	4,579,414	3,728,686	-276,880	3,209,139
NET CASH FROM FINANCING ACTIVITIE!	**7,967,946**	**8,068,440**	**3,730,070**	**877,068**	**6,418,278**
INCREASE IN CASH FOR THE YEAR	151,833	51,847	-163,118	703,918	-1,026,359
CASH, BEGINNING OF THE YEAR	281,879	433,712	485,559	322,441	1,026,359
CASH, END OF THE YEAR	**433,712**	**485,559**	**322,441**	**1,026,359**	**0**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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