



True Cost of a Loan

A Study of Oportun's Unsecured Personal Loan

January 2023

About This Report

The following analysis was commissioned by Oportun to better understand the true cost of Oportun's unsecured installment loans, relative to alternative products, for customer segments with specific income and credit profiles.



The True Cost of a Loan is a proprietary analysis developed by the Financial Health Network to quantify loan costs, accounting for affordability, loan terms, and timing of payments. Using typical borrower profiles and pricing data from secondary sources, the true cost estimates the total costs to fully repay a loan, including any reborrowing necessary to retire the loan. The True Cost of a Loan methodology is applicable for different loan structures and products, which can be difficult to compare using other metrics. It can also be used for specific geographies, or in this case, applied nationwide. The True Cost analysis is an exercise of calculating best estimates, based on the best data available for a subset of customer profiles. This analysis is not designed to be representative of the U.S. credit market at large.

The Financial Health Network conducted the analysis independently using secondary sources, with the exception of data provided by Oportun on its borrowers, repayment terms, and annual percentage rates (APRs).

The results of this work are of the Financial Health Network and do not necessarily represent the view of our funders, partners, or members.

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EXECUTIVE SUMMARY

In 2021, Oportun engaged the Financial Health Network to conduct a True Cost of a Loan analysis that reflected the expanding national reach of Oportun's unsecured personal loan product. The True Cost of a Loan analysis is a proprietary model developed by the Financial Health Network to estimate the total cost of credit products with various structures and to facilitate comparisons among products for a typical borrower. The 2022 analysis adds single-pay auto title loans as a comparison product.

Oportun aims to extend loans to individuals who might otherwise turn to rent-to-own, auto title loans, payday loans, or installment loans. The 2022 analysis compares Oportun unsecured installment loans of \$500, \$1,500, and \$3,000 to alternative products for Oportun borrowers based on the most likely options that a hypothetical subprime borrower might access.

By coupling typical borrower behavior and cash flow constraints with loan terms, the True Cost of a Loan analysis provides an expected cost over the life of the loan. This type of comparison helps providers evaluate their loan affordability against alternative products by providing a more meaningful, tangible metric than simple interest rates or minimum payments alone.

These findings come with caveats. This analysis compares a limited number of alternative products that borrowers might consider when shopping for a loan. These alternative products have varying degrees of difference in structure compared with Oportun's unsecured installment product.

Additionally, the secondary source pricing data used in the True Cost model is hypothetical in nature and hinges upon the information available for each loan type and customer profile. In other words, we are not able to compare how Oportun would price a loan for any given individual borrower with the way other lenders would price a loan for the same borrower. The following report and appendices disclose both the methodology and sources, as well as the limitations of the analysis.

Key Findings

Our analysis found that across the three loan amounts, alternative products included in the analysis could cost eight times more on average than an Oportun loan of equal amount.¹

- For a \$500 loan, alternative products could cost ten times more on average than an Oportun loan.
- For a \$1,500 loan, alternative products could cost six times more on average than an Oportun loan.
- For a \$3,000 loan, alternative products could cost four times more on average than an Oportun loan.

¹ True cost expense multiples represent a simple average across applicable alternative products for each loan amount.

INTRODUCTION

As of 2022, less than two-thirds of U.S. households are Financially Healthy as defined by the Financial Health Network's measurement framework, a slight decline from previous years.² This year also saw a decrease in households with sufficient short-term savings to cover at least three months of living expenses.³ Without a savings buffer in place to help them navigate financial shocks, households often turn to small-dollar credit to help them meet their financial needs.

In 2021, households in the U.S. spent an estimated \$305 billion in fees and interest for financial services, including \$36.2 billion in fees and interest for the four products featured in this report (see Table 1).⁴ These costs continue to fall disproportionately on traditionally underserved populations, including Black and Latinx households, households with low to moderate incomes, and households who are struggling financially. Managing the overall cost of borrowing is an important way to support the financial health of borrowers and build resilience, especially for subprime customers who may have limited access to quality, affordable credit options.

The 2022 True Cost of a Loan analysis compares six products to Oportun unsecured installment loans: payday loans, online-only payday loans, rent-to-own, installment loans, online-only installment loans, and single-pay auto title loans.⁵ Some product comparisons include companies, such as other installment lenders, that offer products similar to Oportun's unsecured installment loans. Other comparisons are made to products that are structured quite differently, such as products with balloon payments or loans that are secured. The addition of single-pay auto title loans broadens the scope of the study to include a secured loan product among the set of alternative products. This year's study also refreshed the customer profiles, loan amounts, and pricing data, all of which are detailed in the following sections.

By providing data-based estimates of what a hypothetical borrower could expect to pay over the life of these products, this analysis demonstrates the importance of establishing a measure of loan affordability anchored in the borrower's repayment experience.

Table 1. Total U.S. spending on fees and interest in 2021

Auto Title Loan	\$2.3B
Installment Loan	\$26.2B
Payday Loan	\$2.5B
Rent-to-Own	\$5.2B
Total	\$36.2B

² Andrew Dunn, Andrew Warren, Necati Celik, & Wanjira Chege, "Financial Health Pulse® 2022 U.S. Trends Report," Financial Health Network, September 2022.

³ Ibid.

⁴ Elaine Golden, Hannah Gdman, Meghan Greene, & Necati Celik, "FinHealth Spend Report 2022," Financial Health Network, April 2022.

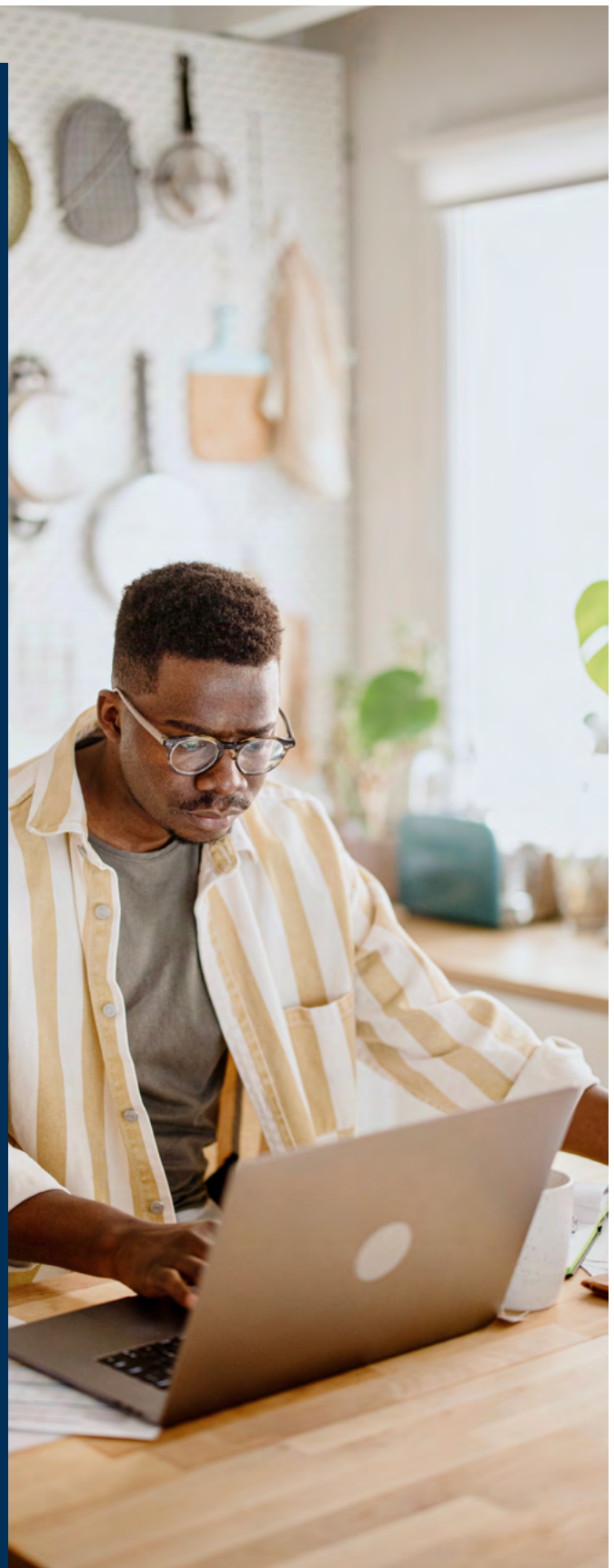
⁵ Throughout, we differentiate between single-pay auto title loans, which are typically short-term loans repaid in a single lump sum, and installment auto title loans, which are not featured in this report.

Unsecured Versus Secured Personal Loans

Personal loans fall into one of two categories: secured or unsecured. **Secured loans** require a borrower to offer up an asset as collateral, while **unsecured loans** do not. In the context of consumer financial health, secured and unsecured loans each have benefits and drawbacks.

Secured loans can facilitate access to larger loan amounts, especially for borrowers with subprime credit scores who might not qualify for an unsecured loan. However, defaulting on a secured loan could result in a borrower losing access to the collateralized asset, such as their personal vehicle, which could create [cascading challenges](#) for a financially struggling borrower.

Unsecured loans place greater risk on the lender, given that the borrower does not provide collateral. To account for that risk, lenders may offer unsecured personal loans in smaller amounts, charge higher annual percentage rates (APRs), and/or require the borrower to have a prime or near-prime credit score to qualify. These requirements can create barriers to accessing or building credit for subprime consumers.



METHODOLOGY IN BRIEF

Modeling the True Costs of Borrowing

The True Cost calculation is based on what a hypothetical consumer ultimately pays to become free and clear of the loan, outside the initial amount borrowed. The model takes into account factors other than pricing metrics, such as APR; what the borrower can reasonably afford to pay back each month (based on estimated monthly cash flow); the estimated rates, fees, and terms that dictate repayment requirements; and whether the loan structure typically leads to a cycle of reborrowing beyond the stated terms of the loan.

This report incorporates updated customer profiles, loan amounts, alternative product categories, and pricing data while refining and maintaining the unique methodology created for the 2021 analysis. At a national level, the model generates a true cost estimate for alternative products compared to Oportun loans of equal size. The analysis is based on:

- Three loan amounts representing typical Oportun borrower experiences; \$500 represents the common minimum loan amount for new and returning customers, and \$1,500 and \$3,000 represent typical experiences for the customer profiles described by this report.⁶
- Six select alternative products that approximate likely alternatives for Oportun borrowers at the studied loan amounts. Not all products are comparable at all three loan amounts; some products aren't offered or accessible at the higher loan sizes or the pricing data was too limited to reach a reasonable estimate (see Table 2). This year's report replaces subprime credit cards with single-pay auto title loans.
- Four unique borrower profiles composed of two different credit profiles and two different household incomes, and estimated borrower monthly cash flow. This year's analysis includes a refined cash flow estimate that better accounts for the impact of inflation on typical household expenditures.
- Regulatory state groupings that allow us to represent the variety of small-dollar lending regulatory environments in the U.S. and collect illustrative pricing estimates from across the country for select alternative products.
- Research on the typical borrower repayment experience for select alternative products.

⁶ Source: March 2022 Oportun unsecured personal loan borrower data. The average amount borrowed by returning Oportun customers in March 2022 was approximately \$4,500, which was excluded from this report to maintain comparability to alternative products. We included the \$1,500 loan amount in its stead.

Table 2. Loan amounts across alternative products

	\$500	\$1,500	\$3,000
Single-Pay Auto Title	✓	✓	
Rent-to-Own	✓	✓	
Payday	✓	✓*	
Online-Only Payday	✓	✓	
Installment	✓	✓	✓
Online-Only Installment	✓	✓	✓

* This loan amount is only feasible in some states due to regulatory limits on payday loan amounts and number of simultaneous loans.

Constructing Typical Borrower Profiles

The four borrower profiles outlined in Table 3 were created using Oportun data from January 2022. These profiles allow the True Cost model to estimate what a composite Oportun borrower would have spent on select loan alternatives, compared with the total cost of an Oportun unsecured installment loan of equal size.

Both credit score and income are important factors in determining access to and cost of credit products. Customers with low credit scores may have limited options for accessing credit, especially at higher loan amounts. Household income determines the cash flow borrowers have available to cover repayment (see Appendix C).

After calculating the true cost of a loan for each of the borrower profiles relevant to the product category, these costs are weighted to reach a total cost estimate proportional to the share of Oportun borrowers that each profile represents.

Table 3. Borrower profiles⁷

1	\$42,500 annual income and < 550 FICO® Score or unscorable credit file
2	\$73,500 annual income and < 550 FICO Score or unscorable credit file
3	\$42,500 annual income and 630 FICO Score
4	\$73,500 annual income and 630 FICO Score

⁷ January 2022 Oportun unsecured personal loan borrower data were used to determine borrower income and credit profiles. Fifty percent (50%) of borrowers had estimated gross annual incomes of \$42,458 or below; an additional 30% of borrowers had estimated gross annual incomes up to \$73,455. Thirty percent (30%) of borrowers had FICO Scores of 549 or lower, including no FICO Score; another 35% of borrowers had scores up to 627. Figures were rounded for clarity.

Typical Market Pricing

Illustrative pricing information on average fees, rates, and terms informs how true cost is modeled for each product category. When paired with borrower cash flow, it demonstrates how a borrower might repay each loan. Pricing estimates for the 2022 model are derived from a combination of secondary sources and price quotes from a sampling of providers (see Appendix B). Pricing sources vary across product types, depending on the availability of loan pricing information including rates, fees, terms, and typical borrower behavior, when available.

Pricing information is typically less available for higher loan amounts. One reason for this is that lenders tend to rely more heavily on credit histories when underwriting larger loans; without detailed information about a loan applicant's credit, lenders are unable to make reliable price quotes. Market share, local availability, and willingness of lenders to provide pricing information all informed the sample of personal loan providers included in the model. These constraints limited the volume and reliability of data available to inform the cost model.

A Note on Applicability

While the True Cost analysis provides a measure of loan costs, these findings should not be interpreted as generalizable. The pricing data used in the True Cost model is hypothetical in nature and hinges upon information availability for each loan type and customer profile; there are likely higher- and lower-priced products available to our customer profiles in the market at large. True costs for customers fitting other income/FICO profiles may also differ from those that we calculate in this report.

Additionally, the state grouping model is unable to account for all the nuances across loan availability, pricing, and structure (e.g., maximum loan size, maximum number of outstanding loans, maximum number of rollovers) across the U.S. For full details on methodology and limitations, please see the appendices.

FINDINGS

Across the three loan amounts, alternative products could cost **eight times more** on average than an Oportun loan of equal amount.⁸

- For a \$500 loan, alternative products could cost ten times more on average than an Oportun loan.
- For a \$1,500 loan, alternative products could cost six times more on average than an Oportun loan.
- For a \$3,000 loan, alternative products could cost four times more on average than an Oportun loan.

The product comparisons detailed here reflect products that borrowers might consider when shopping for a loan, and the resulting true costs vary substantially among alternative product categories. These true cost differentials are driven by differences in pricing inputs (e.g., interest rates, payment amounts, terms), repayment structure (e.g., how many times, if at all, the loan rolls over), and the degree to which the comparison products' structures differ from Oportun's unsecured installment loans. Across loan amounts, online-only payday loans and online-only installment loans result in higher true cost estimates.

Single-pay auto title loans also result in comparatively higher true cost estimates at the \$500 and \$1,500 loan amounts. Akin to payday loans, single-pay auto title loans can result in a series of rollovers or renewals if the borrower is unable to repay the loan principal plus interest and fees in a single lump sum. This cycle of reborrowing can result in a significantly higher cost over time.

Additionally, because single-pay auto title loans are secured with the borrower's vehicle, defaulting on the loan can result in the borrower losing possession of their vehicle.⁹

The total true costs reflected in the following charts show how much it would cost the hypothetical borrowers to be free and clear of the loan. True costs represent applicable interest costs, fees, or default penalties over the course of the loan and do not capture indirect costs such as time or transportation. For example, for an installment loan, the model uses an estimated APR (which commonly captures interest and typical fees but not optional ancillary charges such as insurance) to calculate what a borrower would pay back over the life of the loan. The true cost is the total amount paid minus the loan principal. The \$3,000 loan amount was not modeled as a rent-to-own, payday, online-only payday, or single-pay auto title loan; for these products, data were unavailable at this loan amount and/or less likely to be accessible to our borrower profiles.

⁸ True cost expense multiples represent a simple average across applicable alternative products for each loan amount.

⁹ The True Cost model assumes that defaulting on a single-pay auto title loan results in repossession of the collateralized vehicle for the \$1,500 loan amount. We include the lost resale value of the car into the cost of defaulting for the \$1,500 loan amount, less any surplus value. (Once the outstanding balance is recouped, we assume any remainder is returned to the borrower.)

Cost Comparisons by Product and Loan Amount

Figure 1. True cost estimate for a \$500 loan

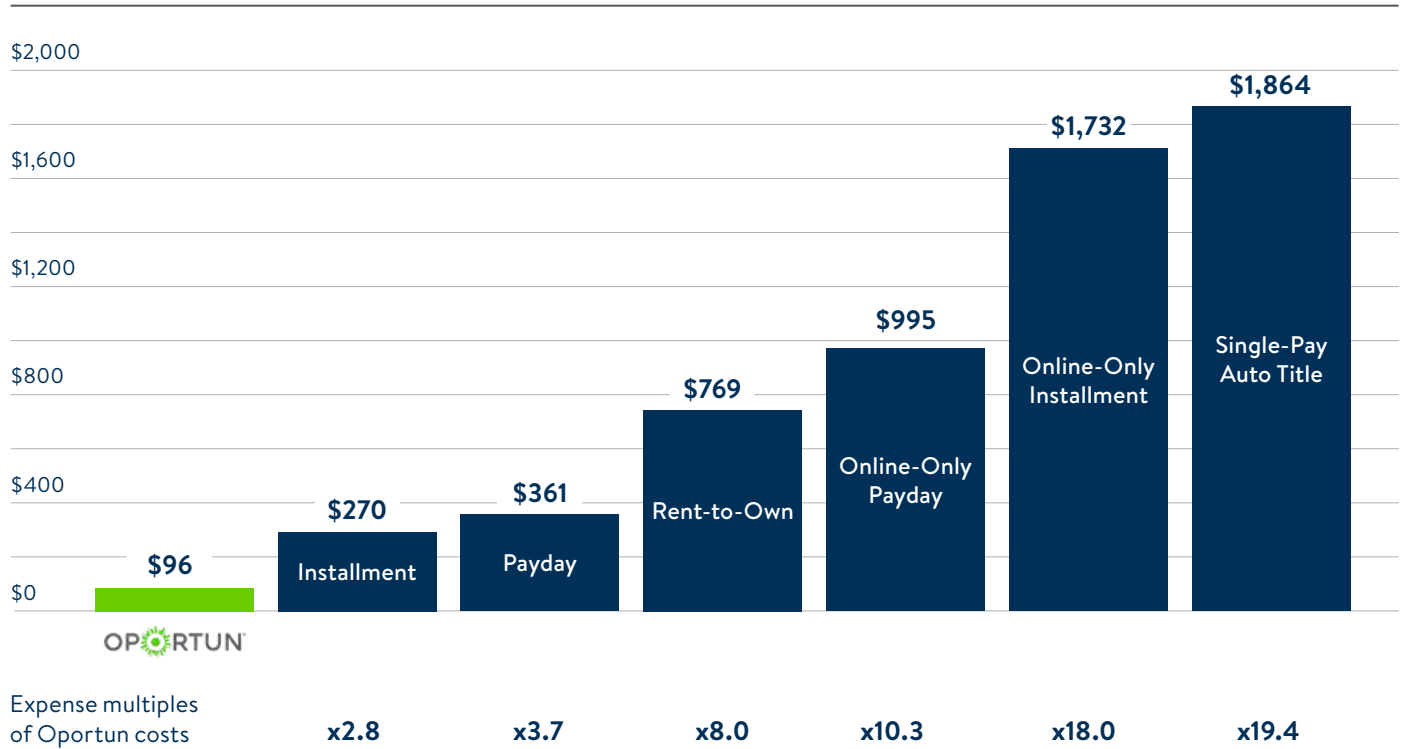


Figure 2. True cost estimate for a \$1,500 loan

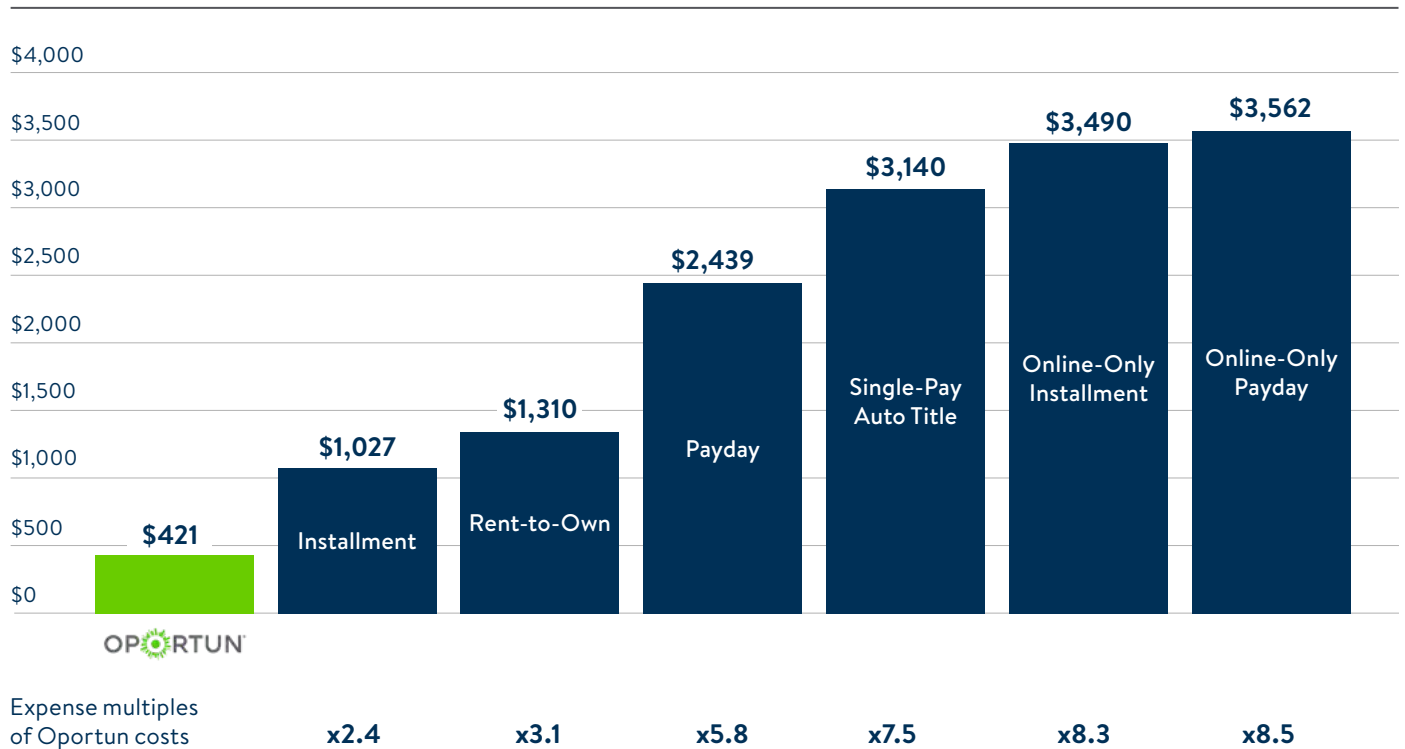
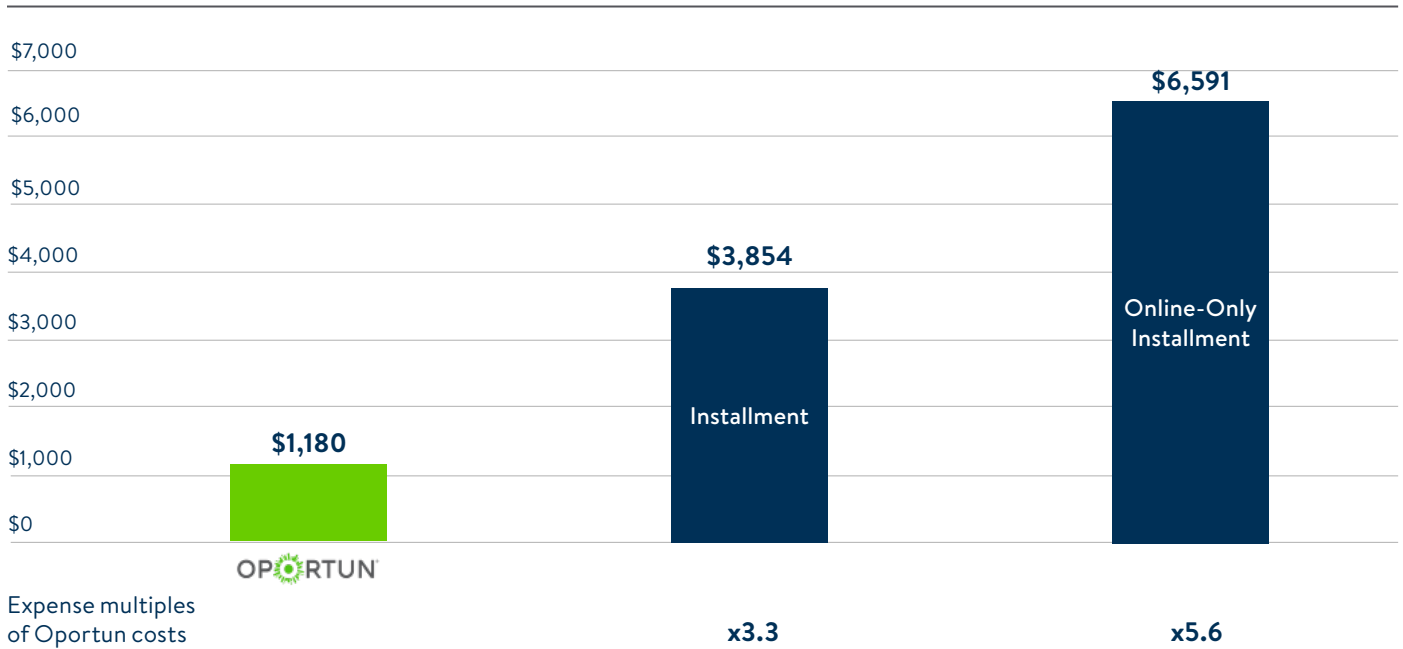


Figure 3. True cost estimate for a \$3,000 loan



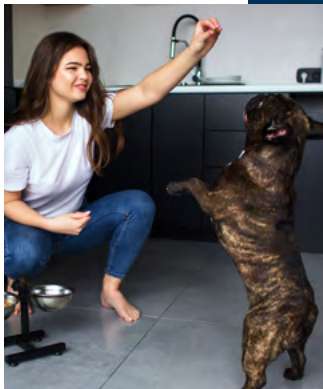
A Loan in the Life

Using Personas To Illustrate Potential Credit Options for Typical Oportun Customers

The following series of hypothetical personas further illustrates the above findings. Each hypothetical persona contextualizes the potential borrower experience across loan products and amounts. These personas use Oportun borrower profiles, average estimated rates and terms, and information gleaned from this study about the typical borrower repayment experience.

The following scenarios are not based on real customers. Names, circumstances, and credit needs are hypothetical and rely on the assumptions and limitations embedded in the True Cost of a Loan model. (For further information on these assumptions, see the appendices).

\$500 Loan: A Cost Comparison



Hypothetical Persona

Andrea

Pet owner with a modest budget

FICO Score: 630

Annual income: \$42,500

Available monthly cash flow after expenses: \$267 (\$133 per payday)

Why she needs a loan: Unexpected \$500 vet bill for her dog

A trip to the vet could easily result in \$500 in charges, even for something as routine as dental work for the family dog or cat. In this scenario, Andrea encounters some unexpected veterinary bills for her dog. With an annual household income of \$42,500 and a credit score of 630, she has about \$133 left over each payday, which comes every two weeks. **To pay for the veterinary expenses, Andrea might:**

SCENARIO

A

Take out a \$500 payday loan from a local lender.

In this scenario, Andrea applies for a payday loan that doesn't require a credit check and charges an average rate of \$6.90 per \$100 borrowed for a two-week term. At the end of the two weeks, she pays the \$34.52 in fees and interest, after which she only has \$98.97 left over to pay towards the principal. Andrea defaults on the loan because she resides in Illinois, a state that prohibits payday loan rollovers. This would send the loan to collections, which can lower her credit score. Andrea would owe \$426.03 in unpaid balance and nonsufficient funds fees, so the \$500 loan could end up costing her \$491.51.

SCENARIO

B

Head to a local lender and take out a \$500 installment loan.

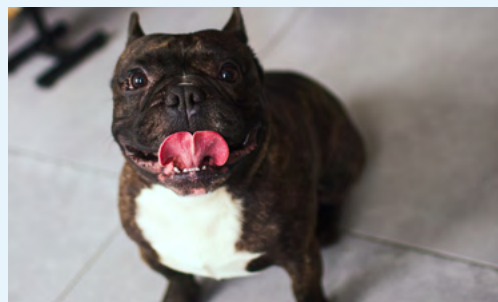
In this scenario, Andrea applies for an installment loan (which includes a credit check) and agrees to an average APR of 73.42% over a term of 9 months. Each month, she would pay \$74.77 to the lender, resulting in a true cost of around \$162.51 for the \$500 loan.

SCENARIO

C

Take out a \$500 unsecured installment loan from Oportun.

In this scenario, Andrea applies for an Oportun installment loan. After a credit check, she agrees to an average APR of 35.75% over a term of 12 months. Every two weeks, she would make a payment of \$23.35, resulting in a true cost of \$96.31 for the \$500 loan.





Hypothetical Persona

Howard

Broken phone and limited credit history

FICO Score: < 550

Annual income: \$73,500

Available monthly cash flow after expenses: \$1,116

Why he needs a loan: Phone breaks suddenly; a suitable replacement costs \$500

When a smartphone suddenly breaks, many people need to replace it immediately to keep up with personal and work obligations. In this scenario, Howard's phone breaks while on a vacation that has already exhausted his monthly budget. With an annual household income of \$73,500 and no viable credit file, Howard might not have cash or a credit card available to cover the purchase of a new phone. **In order to replace the broken phone, Howard might:**

SCENARIO

A

Head to a local auto title lender for a \$500 title loan.

In this scenario, Howard might prefer to provide his vehicle's title as collateral in lieu of a credit check. Assuming he agrees to pay an average rate of \$20.41 per \$100 borrowed and a 30-day term, at the end of the term, Howard would pay off the interest and principal in a lump sum, for a total cost of \$102.07 in fees and interest for the \$500 loan.

SCENARIO

B

Go to a rent-to-own store and sign an agreement for a phone worth \$500.

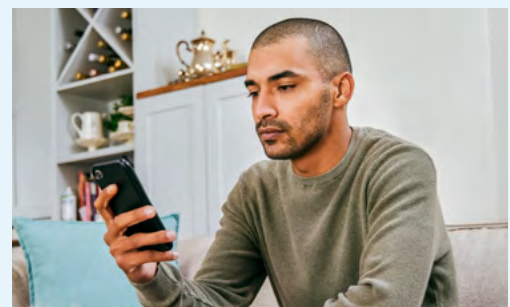
In this scenario, the store doesn't require a credit check. Howard might agree to make an average weekly automatic payment of \$27.84 over 55 weeks, with plans to purchase the phone outright for the "same as cash" price of \$824.66 – an option that is available to him during the first 12 weeks of the repayment cycle. After making payments for three weeks, Howard would accumulate enough cash flow to claim the "same as cash" price in the fourth week. This brings the true cost in fees for the rental purchase to \$324.66.

SCENARIO

C

Take out a \$500 unsecured installment loan from Oportun.

In this scenario, Howard applies for an Oportun installment loan. After a credit check, he might agree to an average APR of 35.75% over a term of 12 months. Every two weeks, Howard would make a payment of \$23.35, resulting in a true cost of \$96.31 for the \$500 loan.



\$1,500 Loan: A Cost Comparison



Hypothetical Persona

Sadie

Commuter with car troubles

FICO Score: < 550

Annual income: \$42,500

Available monthly cash flow after expenses: \$267 (\$133 per payday)

Why she needs a loan: Unexpected car repair that costs \$1,500

For many people, their personal vehicle is their main mode of transport, so vehicle repairs can be urgent. In this scenario, Sadie uses her car to get to and from work each day, and she discovers that her car is in need of some significant repairs. With an annual household income of \$42,500 and no viable credit score, Sadie might not have cash available to cover the \$1,500 vehicle repair. **In order to pay the mechanic quickly and get her car in working order, Sadie might:**

SCENARIO

A

Take out three \$500 payday loans from online payday lenders that don't require a credit check.

In this scenario, after agreeing to an average rate of \$23.53 per \$100 borrowed and a two-week term for each of the loans, Sadie will only be able to pay the interest owed on some of those loans, and the loans will roll over for an additional two weeks. This cycle would continue until Sadie eventually defaults on her loans, with a total cost of \$4,604.38 for \$1,500 in loans.

SCENARIO

B

Take out a \$1,500 installment loan from a local lender.

In this scenario, the lender might offer Sadie a \$1,500 loan at an average APR of 146.32% over a term of 13 months. Every month for 13 months, Sadie would make a payment of \$233.86, bringing the true cost of her \$1,500 loan to \$1,596.95.

SCENARIO

C

Take out a \$1,500 unsecured installment loan from Oportun.

In this scenario, Sadie applies for an Oportun installment loan. After a credit check, she agrees to an average APR of 35.49% over a term of 17 months. Every two weeks, Sadie would make a payment of \$51.89, resulting in a true cost of \$420.67 for the \$1,500 loan.





Hypothetical Persona

Oscar

Homeowner in need of furnishings

FICO Score: 630

Annual income: \$73,500

Available monthly cash flow after expenses: \$1,116

Why he needs a loan: Buying a sofa set that costs \$1,500

Furnishing a home can require significant time, money, and effort. Oscar is shopping for a sofa to make his home a comfortable place for visiting family and friends. With an annual household income of \$73,500 and a credit score of 630, Oscar might not have cash available to purchase a \$1,500 sofa outright. **In order to finance his new furniture, Oscar might:**

SCENARIO

A

Head to a local auto title lender for a \$1,500 title loan.

In this scenario, Oscar would provide collateral in the form of a vehicle title. Assuming he agrees to pay an average rate of \$20.41 per \$100 borrowed and a 30-day term, at the end of the term, Oscar would pay off the interest and fees (\$306.20) and have only \$809.41 left to put towards paying down the principal. Oscar would have to roll the loan over two more times before he could pay down the full principal amount. This would bring the total cost to \$1,224.81 for the \$1,500 loan.

SCENARIO

B

Go to a rent-to-own store and sign an agreement for a sofa set worth \$1,500.

In this scenario, the store doesn't require a credit check, and Oscar might agree to make an average weekly automatic payment of \$38.96 over 88 weeks, with plans to pay off the sofa within the first 12 weeks at the "same as cash" price of \$1,789.75. After making payments for seven weeks, Oscar would accumulate enough cash flow to claim the "same as cash" price in the eighth week. This would bring the true cost in fees for the rental purchase to \$289.75.

SCENARIO

C

Take out a \$1,500 unsecured installment loan from Oportun.

In this scenario, Oscar applies for an Oportun installment loan. After a credit check, he might agree to an average APR of 35.49% over a term of 17 months. Every two weeks, Oscar would make a payment of \$51.89, resulting in a true cost of \$420.67 for the \$1,500 loan.



\$3,000 Loan: A Cost Comparison



Hypothetical Persona

Vera

New homeowner juggling expenses

FICO Score: 630

Annual income: \$73,500

Available monthly cash flow after expenses: \$1,116

Why she needs a loan: Moving costs like truck rental, movers, and move-in fees

Buying and moving into a new home can result in many unexpected costs for a household. Vera needs quick access to extra funds to help pay for moving truck rental, movers, and other related costs. With an annual household income of \$73,500 and a credit score of 630, Vera typically has about \$1,116 left over each month. **To access the \$3,000 she needs to cover her quickly-approaching move, Vera might:**

SCENARIO

A

Take out a \$3,000 installment loan from an online lender that doesn't require a credit check.

In this scenario, Vera might agree to an average APR of 139.17% over a repayment term of 28 months. Every two weeks, she makes a payment of \$169.44. At the end of the loan term, this would bring the true cost to \$6,591.10 for a \$3,000 loan.

SCENARIO

B

Take out a \$3,000 installment loan from a local lender.

In this scenario, the lender might offer Vera a \$1,500 loan at an average APR of 32.05% over a term of 29 months. Every month for 29 months, she would make a payment of \$149.35, bringing the true cost of her \$3,000 loan to \$1,357.02.

SCENARIO

C

Take out a \$3,000 unsecured installment loan from Oportun.

In this scenario, after a credit check, Vera agrees to an average APR of 35.13% over a term of 24 months. Every two weeks, she would make a payment of \$81.38, resulting in a true cost of \$1,179.86 for the \$3,000 loan.



CONCLUSION

By quantifying the expected cost of alternative loan products for typical Oportun borrowers, the True Cost of a Loan analysis provides Oportun with insight into the affordability of their unsecured loans versus likely alternatives with varying structures. Oportun's mission is to extend loans to individuals who might otherwise be excluded from mainstream financial services because they have limited or no credit history. The 2022 analysis compares Oportun unsecured installment loans of \$500, \$1,500, and \$3,000 to likely alternative products for Oportun borrowers based on the most likely options that a hypothetical subprime borrower would access.

As the true cost estimates and hypothetical scenarios outlined in this report show, Oportun loans can be significantly less costly than alternative products, as they often have lower rates and more affordable terms than the surveyed market alternatives. These estimates, however, should not be interpreted as generalizable to the small-dollar lending market as a whole. Given the limitations of the methodology, there may be higher- or lower-cost products in the market, and varying outcomes for borrowers depending on a range of factors such as borrower characteristics, income volatility/seasonality, regulatory environment, and loan availability.

Further research focused on actual borrower outcomes could shed more light on the true costs of borrowing for subprime consumers. As subprime borrowers continue to need small-dollar credit products that help them absorb financial shocks, Oportun can serve an important role in the market by offering these borrowers responsible and affordable small-dollar credit products.



APPENDICES

Appendix A: State Grouping Methodology

The small-dollar lending regulatory environment varies widely from state to state and is difficult to capture in a single snapshot. The state grouping model is built to capture this variability to the best of our ability, but it is unable to account for all the nuances in loan availability, pricing limits, and structure.

Keeping with the state grouping methodology developed for the True Cost of a Loan study prepared for Oportun in October 2021, states were grouped first by regulatory environment and second by cost of living, resulting in nine cohorts.

States were arranged into three groupings based on the strictness of its regulatory rate caps for a sampling of installment, payday, and single-pay auto title loans. Then, each regulatory grouping was split into cost of living tertiles. This resulted in nine total state cohorts, as seen in Table A1. The model used the most populous state from each group to model the true cost.¹⁰

Table A1. State groupings

Regulatory Strictness ¹¹		Cost of Living ¹²	
Low Strictness	AL, DE, ID, IN, KY, LA, MO, MS, NM, NV, SC, TN, TX, UT, WI	High	DE, SC
		Medium	ID, LA, MO, NM, TX , UT
		Low	AL, IN, KY, MS, NV, TN , WI
Medium Strictness	AK, AZ, CA, CO, FL, GA, HI, IA, KS, MA, MI, MN, ND, NH, OH, OK, OR, RI, WA, WY	High	CA , CO, FL, HI, MA, MN, OR, WA
		Medium	AK, AZ, GA , IA, NH, RI
		Low	KS, MI, ND, OH , OK, WY
High Strictness	AR, CT, DC, IL, MD, ME, MT, NC, NE, NJ, NY, PA, SD, VA, VT, WV	High	CT, DC, MD, NJ, NY , VA, VT
		Medium	IL , ME, MT, NC, NE
		Low	AR, PA , SD, WV

Bolded states indicate the representative state used for each group.

¹⁰ State-level population data sourced from the U.S. Census Bureau, *State Population Totals and Components of Change: 2020-2021*.

¹¹ Key public sources used to understand state regulations and APR limits include “*Predatory Installment Lending in the States: 2020*,” National Consumer Law Center, February 2020; “*U.S. Payday Interest Rates*,” Center for Responsible Lending, 2021; and “*Car Title Loan Regulation*,” Consumer Federation of America, 2016.

¹² Cost of living sourced from the Massachusetts Institute of Technology’s *Living Wage Calculator*, which estimates the required gross annual income for two adults – with one working – to cover basic living expenses in each state.

Appendix B: Typical Market Pricing for Select Alternative Products

Pricing sources vary across product types, depending on the availability of loan pricing information including rates, fees, terms, and typical borrower behavior when available. In situations where secondary sources were unavailable, the model uses loan pricing information collected through provider mail offers, websites, and lender cold calls, referred to as “secret shopping.”

The hypothetical nature of the secret shopping approach to loan pricing data collection hinges upon information availability. Lenders were frequently reluctant to share their rates and fees over the phone, preferring that the borrower complete an application and soft credit pull before disclosing pricing information.

In other instances, lenders provided ranges for the APRs or terms that might be available to a borrower (rather than a specific estimate). In these cases, the model assumes an inverse relationship between installment loan APR and loan term and estimates an APR based on the average loan term of an Oportun loan of equal size.

These constraints limited the model’s ability to fully capture the range of loan pricing available to these customer profiles in the market at large. The broader goal of modeling each product to best capture the typical borrower experience informs all assumptions made in the model. Table B2 details these product-level assumptions.

Table B1. Pricing estimates for small-dollar credit products

	\$500 Loan	\$1,500 Loan	\$3,000 Loan
Oportun Loan	35.75% APR	35.49% APR	35.13% APR
Single-Pay Auto Title	\$20.41 per \$100 borrowed		N/A
Rent-to-Own	325.95% markup	215.99% markup	N/A
Payday	\$6.90 to \$24.71 per \$100 borrowed, depending on location ¹³		N/A
Online-Only Payday	\$23.53 per \$100 borrowed		N/A
Installment	186.98% APR (FICO < 550)	146.32% APR (FICO < 550)	180.49% APR (FICO < 550)
	73.42% APR (FICO ~630)	40.72% APR (FICO ~630)	32.05% APR (FICO ~630)
Online-Only Installment	588.15% APR	333.38% APR	139.17% APR

¹³ Payday rates are based on regulatory limits and do not reflect the availability of cash advance loans. For Texas, rates were based on quarterly financial services activity reports.

Table B2. Pricing sources and assumptions

Product Category	Pricing Sources	Additional Inputs	Model Assumptions
Oportun Unsecured Personal Loan	Oportun ¹⁴	N/A	<ul style="list-style-type: none"> If available cash flow (monthly cash flow divided by two) is sufficient to make the full biweekly (every two weeks) payment amount, then the borrower will make these payments consistently for the entirety of the loan term. Total cost is the total repayment amount (including interest and origination fee) minus the loan principal.
Single-Pay Auto Title	Auto Title Loans: Market practices and borrowers' experiences , The Pew Charitable Trusts, March 2015; Single-Payment Vehicle Title Lending , Consumer Financial Protection Bureau, May 2016; Edmunds.com appraisal calculator ; Oportun collateral data	Maximum Amount Borrowed Per Loan: \$1,500 Default Penalty (NSF): \$34 Assumed Collateral Resale Value: \$2,526.50	<ul style="list-style-type: none"> Assume a 30-day payment schedule. Using available cash flow, borrower first pays interest owed on the loan. The remaining funds go towards paying off the loan balance. If at the end of 30-day cycle the balance is not paid in full, the loan rolls over up to 12 times (one year), or until the total interest and fees paid is greater than or equal to the resale value of the collateralized car (which is then considered a default). Cost of defaulting on a \$500 loan is a \$34 nonsufficient funds fee plus the unpaid balance. Cost of defaulting on a \$1,500 loan is a \$34 nonsufficient funds fee plus repossession of the collateralized auto, minus any surplus value. (Surplus equals resale value of car minus unpaid balance). We do not attempt to quantify the indirect costs of losing one's car, such as time spent commuting or other hardships.
Rent-to-Own	Price quotes from Aaron's, Rent-a-Center, and Flexshopper.com	"Same as Cash" Price: \$824.66 to \$1,789.75	<ul style="list-style-type: none"> Payments are made weekly for a predetermined loan term. If available cash flow (monthly cash flow divided by four) is sufficient to make the weekly payment (which includes fees), then any remaining funds accumulate for the following week, and so forth. If the accumulated available cash flow reaches the "same as cash" price within the first 12 weeks of the payment term, then this price is claimed and the repayment cycle ends early. If the "same as cash" price is not claimed within the first 12 weeks, then the weekly payments continue for the length of the loan term. Total cost is the total fees paid or the "same as cash" price fees, if applicable.

¹⁴ Oportun pricing and customer data were not independently verified by the Financial Health Network.

Product Category	Pricing Sources	Additional Inputs	Model Assumptions
Payday	<p>State regulatory maximums for Florida, Illinois, Iowa, Michigan, South Carolina, South Dakota, Tennessee, and Texas, and Texas Office of Consumer Credit Commissioner Credit Access Business Activity Reports</p> <p>Payday loans are prohibited in New York and thus omitted from model</p>	<p>Maximum Amount Per Loan: \$500 to \$1000, varies by state</p> <p>Maximum Rollovers: 0 to 4, varies by state</p> <p>Default Penalty: \$15 to \$34 NSF fee plus any additional fees permissible, varies by state</p>	<ul style="list-style-type: none"> Assume a two-week payment schedule. The loan automatically rolls over in two-week cycles until the loan balances are paid in full, state regulations prohibit further rollovers (and thereby outstanding balances default), or the cumulative interest and fees paid are greater than or equal to twice the loan principal (which is then considered a default). Cost of defaulting is the unpaid balance, plus whatever fee amount is permissible by the state. Total cost is total fees paid plus default fees, if applicable.
Online-Only Payday	<p>“Final Rule: Payday, Vehicle Title, and Certain High-Cost Installment Loans,” Consumer Financial Protection Bureau, Fed. Reg. Vol. 82, No. 221, November 17, 2017</p>	<p>Amount Borrowed Per Loan: \$500</p> <p>Default Penalty (NSF): \$34</p>	<ul style="list-style-type: none"> Assume two-week loan cycles and loans of \$500. For the \$1,500 loan amount, we assume three concurrent payday loans of \$500 each. Use available cash flow (monthly cash flow divided by two) to first pay interest owed on the loan(s). The remaining funds go towards paying off the loan balance(s). Any loans with unpaid balance automatically roll over in two-week cycles until the loan balances are paid in full or the cumulative interest and fees paid are greater than or equal to twice the loan principal (which is then considered a default). Cost of defaulting is a \$34 nonsufficient funds fee plus the unpaid balance. Total cost is total fees paid plus default fees, if applicable.
Installment	<p>For FICO < 550: Mail offers for Southern Finance, Covington Credit, Century Finance, and Regional Finance; Advance America price quotes</p> <p>For FICO 630: Mail offers for World Finance, Covington Credit, 1st Franklin Financial, Regional Finance, Republic Finance, Heights Finance, Western Finance; OneMain and World price quotes</p>	N/A	<ul style="list-style-type: none"> If available cash flow is sufficient to make the full monthly payment amount, then the borrower will make these payments consistently for the entirety of the given loan term. If available cash flow is insufficient to make the full monthly payment amount, it is assumed that the borrower profile would not have access to the loan and is therefore omitted from the overall averages. Total cost is the total repayment amount (including interest and standard fees) minus the loan principal.
Online-Only Installment	<p>Netcredit, RiseCredit, Plain Green Loans, RSVP Loans, Little Lake Lending, and Mobiloans web quotes</p>	N/A	<ul style="list-style-type: none"> If available cash flow is sufficient to make the full monthly payment amount, then the borrower will make these payments consistently for the entirety of the given loan term. If available cash flow is insufficient to make the full monthly payment amount, it is assumed that the borrower would not have access to the loan and is therefore omitted from the overall averages. Total cost is the total repayment amount (including interest and standard fees) minus the loan principal.

Appendix C: Borrower Cash Flow

This model applies available borrower cash flow to understand the total cost of each loan type, including the need, where applicable, for borrowers to enter a cycle of repeat borrowing. This repeat borrowing, often referred to as loan rollovers or loan renewals, can occur if borrowers have not amassed enough funds to pay off the total amount owed, and can result in the borrower paying more fees and interest over time and/or defaulting when they are unable to break this cycle. Borrower cash flow is calculated by using the two annual household income profiles for typical Oportun borrowers, from which we subtract typical household expenses by income level using the Bureau of Labor Statistics' Consumer Expenditure Survey, adjusted for inflation using the Consumer Price Index (see Table C1).¹⁵

The cash flow estimator assumes conservative spending and identifies the maximum amount an Oportun customer can afford to repay on a monthly basis after accounting for basic needs and obligations. The model adheres to a “best-case scenario” in which a borrower can put all disposable income toward loan repayment. Additionally, income and expenses are kept consistent month to month and therefore do not account for household cash flow volatility or seasonality.

Table C1. Basic cost of living for a family of three ^{16, 17}

Expenditure Type	Pre-Tax Annual Household Income	
	\$42,500	\$73,500
	Minus Average Annual Expenditures	
Taxes (payroll tax, federal & state income tax, less deductions and key credits)	-\$2,160	-\$10,126
Food at Home*	-\$4,503	-\$5,646
Housing	-\$18,379	-\$23,785
Transportation	-\$9,700	-\$14,590
Healthcare	-\$4,554	-\$5,966
	= \$3,204 (estimated net annual income)	= \$13,387 (estimated net annual income)
	= \$267 (monthly available cash flow)	= \$1,116 (monthly available cash flow)

* Does not include expenditures for food outside the home or alcoholic beverages.

¹⁵ The 2020 U.S. Bureau of Labor Statistics Consumer Expenditure Survey data were adjusted using the change in average Consumer Price Index (CPI) from 2020 to the average of H1 2022 CPI in key spending categories: food, housing, transportation, and healthcare.

¹⁶ “Table 1203. Income before taxes: Annual expenditure means, shares, standard errors, and coefficients of variation,” Consumer Expenditure Surveys, U.S. Bureau of Labor Statistics, September 2021.

¹⁷ Figures adjusted for inflation using the Consumer Price Index (see footnote 15).



About the Financial Health Network

The Financial Health Network is a trusted resource for business leaders, policymakers, and innovators united in a mission to improve the financial health of their customers, employees, and communities. Through research, advisory services, measurement tools, and opportunities for cross-sector collaboration, we advance awareness, understanding, and proven best practices in support of improved financial health for all.

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