



# True Cost of a Loan

A Study by the Financial Health Network Prepared for Oportun

October 2021

# About This Report

This analysis was completed to better understand the true cost of Oportun's unsecured installment loans, relative to competitor products for those with near-prime or lower credit, particularly those who have little or no credit history.



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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 third-party pricing data, the true cost reflects 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 Financial Health Network conducted the analysis independently using third-party sources, with the exception of Oportun-provided data on its borrowers, repayment terms, and APR.**

**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

The True Cost of a Loan analysis facilitates comparisons across loan products, incorporating key aspects of the borrower's ability to access and repay the loan.

To quantify the national impact of Oportun installment loans for its borrowers, Oportun engaged the Financial Health Network to conduct a True Cost of a Loan analysis. The True Cost of a Loan analysis is a proprietary model developed by the Financial Health Network to quantify the total cost of credit products with various structures, and to facilitate comparisons among products for a typical borrower. Because credit products typically differ widely in their structures, consumers can face difficulties in assessing which loans will be the least costly.

Borrowers often rely on interest rates or minimum payment as indicators of affordability, but often end up paying significantly more than available credit alternatives over the life of the loan. It is also important to compare the actual credit products available to Oportun borrowers, based on prevalence and qualifications, rather than an ideal product that is not available. The True Cost of a Loan analysis takes into account all these considerations to produce a dollar amount that is easy to understand and compare nationwide.

In this analysis, we compare unsecured Oportun installment loans of \$500, \$1,500, and \$3,500 to likely alternative products for Oportun borrowers. We selected the alternative products based on the most likely options hypothetical borrowers could access, taking into account typical borrowers' credit profiles.<sup>1</sup> The majority of Oportun borrowers have subprime credit scores or no established credit score. By using proprietary credit underwriting methods, Oportun is able to extend loans to individuals who otherwise are limited to rent-to-own, subprime credit cards, and high-cost payday and installment loans.

Oportun installment loans are significantly less expensive than many of the products that the hypothetical borrowers would be able to access, providing not only an affordable short-term credit option, but also the ability to build positive credit history.

## Key Findings

Our analysis found that competitor products cost 6 times more on average than an Oportun loan of equal amount.<sup>2</sup>

### FOR A \$500 LOAN

Competitor products cost 7.8 times more on average than an Oportun loan of equal amount. In particular, online-only installment loans cost 24 times more on average.

### FOR A \$1,500 LOAN

Competitor products cost 5.1 times more on average than an Oportun loan, with payday loans and online-only payday loans costing 8.2 times and 8 times more on average, respectively.

### FOR A \$3,500 LOAN

Competitor products cost 4.4 times more on average than an Oportun loan. Payday loans cost 6.6 times more.

<sup>1</sup> Previous True Cost of a Loan studies included the cost of auto title loans compared with Oportun personal loans. We will include that analysis again in the next study in 2022.

<sup>2</sup> True costs represented here are the weighted averages across borrower profiles and representative state cohorts included in the model. Expense multiples represent a simple average across all loan amounts and competitor products.

The True Cost of a Loan analysis provides an expected cost over the life of the loan, which is rarely shared with a potential borrower. While providers are limited in their ability to predict individual borrower behavior and resulting costs, they do have aggregate, historical borrower behavior to inform estimates and assess their own affordability against competitor products.

Coupling typical borrower behavior and cash flow constraints with loan terms can provide a more realistic and meaningful assessment of loan affordability. This type of analysis is important to help customers make more informed choices and select credit products that best meet their needs.

## Customer Vignettes Overview

This report includes customer vignettes to further illustrate and compare the potential costs customers would incur using various loan products.



To pay \$3,500 in medical expenses, Brad and Paula could...

- A. Use an online lender and pay \$7,800 in interest and fees.
- B. Get an Oportun loan and pay only \$1,645 over 30 months.



To buy a \$500 laptop, Diana can pay either...

- A. \$1,000+ toward payday loans before defaulting due to balloon payments.
- B. \$879 through rent-to-own.
- C. \$102 to successfully repay the loan with Oportun.



To cover a \$1,500 car repair, Jacob could pay...

- A. \$568 in additional expenses to an installment lender.
- B. \$497 in interest and fees on a credit card.
- C. \$417 with a loan from Oportun.



Sarah needs \$500 for family wedding expenses. She can...

- A. Borrow from a payday lender and owe \$650 before defaulting and damaging her credit.
- B. Successfully repay the loan at a cost of \$102 with Oportun and build her credit profile.

# INTRODUCTION

Consumers in need of \$5,000 or less have limited affordable options, especially subprime borrowers.

Two-thirds of U.S. households are not financially healthy. Less than half of people in the U.S. report having enough savings to cover at least three months of living expenses.<sup>3</sup> A single unplanned expense can send a family in search of fast cash, and the costs of small-dollar loans vary widely. In 2020, U.S. households spent an estimated \$303 billion on everyday financial services and \$128.4 billion in interest and fees on just the four products used in this True Cost of a Loan analysis.<sup>4</sup> Households who are financially struggling disproportionately pay these costs. Lowering the overall cost of borrowing is an important step in supporting the financial health of subprime borrowers and those with limited access to affordable credit.

For consumers, it can be difficult to calculate the cost of credit because repayment behavior, fees, and ancillary products such as credit insurance all impact the cost to pay off the loan. An independent true cost analysis can provide data-based estimates of what a borrower can expect to pay as well as better information to consumers, providers, and policymakers on what a loan product typically costs. Consumers would benefit from access to this independent analysis at the point of sale and in online credit comparison tools.

For the national True Cost of a Loan analysis, we compared six products to Oportun installment loans: payday loans, online-only payday loans, credit cards, rent-to-own, installment loans, and online-only installment loans. To most accurately represent the true cost to a hypothetical Oportun borrower, we collected pricing data for two different credit profiles and modeled the data using two different household incomes. We combined the resulting costs based on the U.S. population across states, as well as Oportun borrower credit and income profiles. Across the three loan amounts, Oportun installment loans were consistently the most affordable, but the affordability of other products varied.

## *Total U.S. Spending on Fees and Interest in 2020*

<b>Credit Card – General Purpose</b>	<b>\$103.6B</b>
<b>Installment Loan</b>	<b>\$17.3B</b>
<b>Payday</b>	<b>\$4.5B</b>
<b>Rent-to-Own</b>	<b>\$3.0B</b>
<b>Total</b>	<b>\$128.4B</b>

<sup>3</sup> "Financial Health Pulse: 2020 Trends Report," Financial Health Network, 2020.

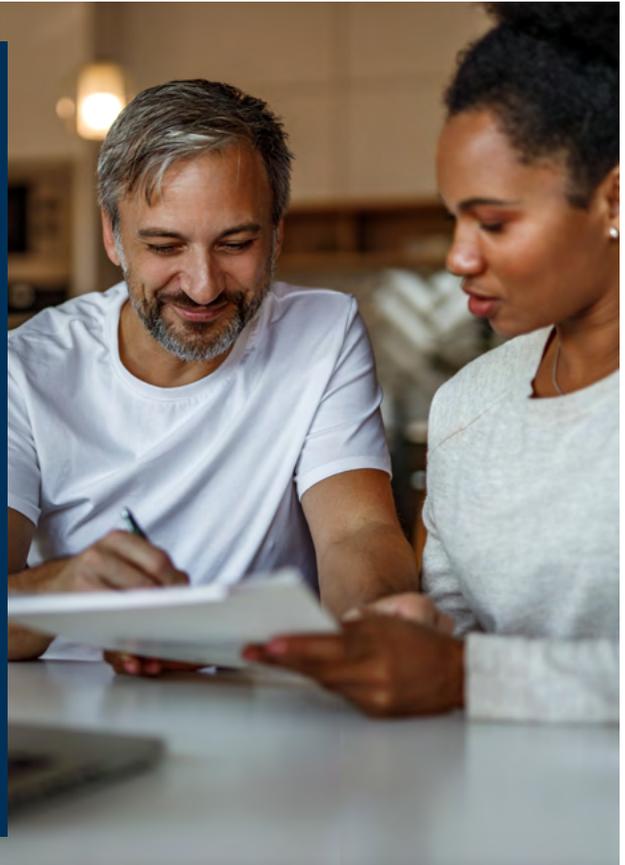
<sup>4</sup> "FinHealth Spend Report 2021," Financial Health Network, 2021.

# FINDINGS

Overall, we found that competitor products consistently cost more than an Oportun loan of equal size.

Competitor products cost 6 times more on average than an Oportun loan of equal amount.<sup>5</sup>

- For a \$500 loan, competitor products cost 7.8 times more on average than an Oportun loan of equal amount. In particular, online-only installment loans cost 24 times more on average.
- For a \$1,500 loan, competitor products cost 5.1 times more on average than an Oportun loan, with payday loans and online-only payday loans costing 8.2 times and 8 times more on average, respectively.
- For a \$3,500 loan, competitor products cost 4.4 times more on average than an Oportun loan. Payday loans cost 6.6 times more.



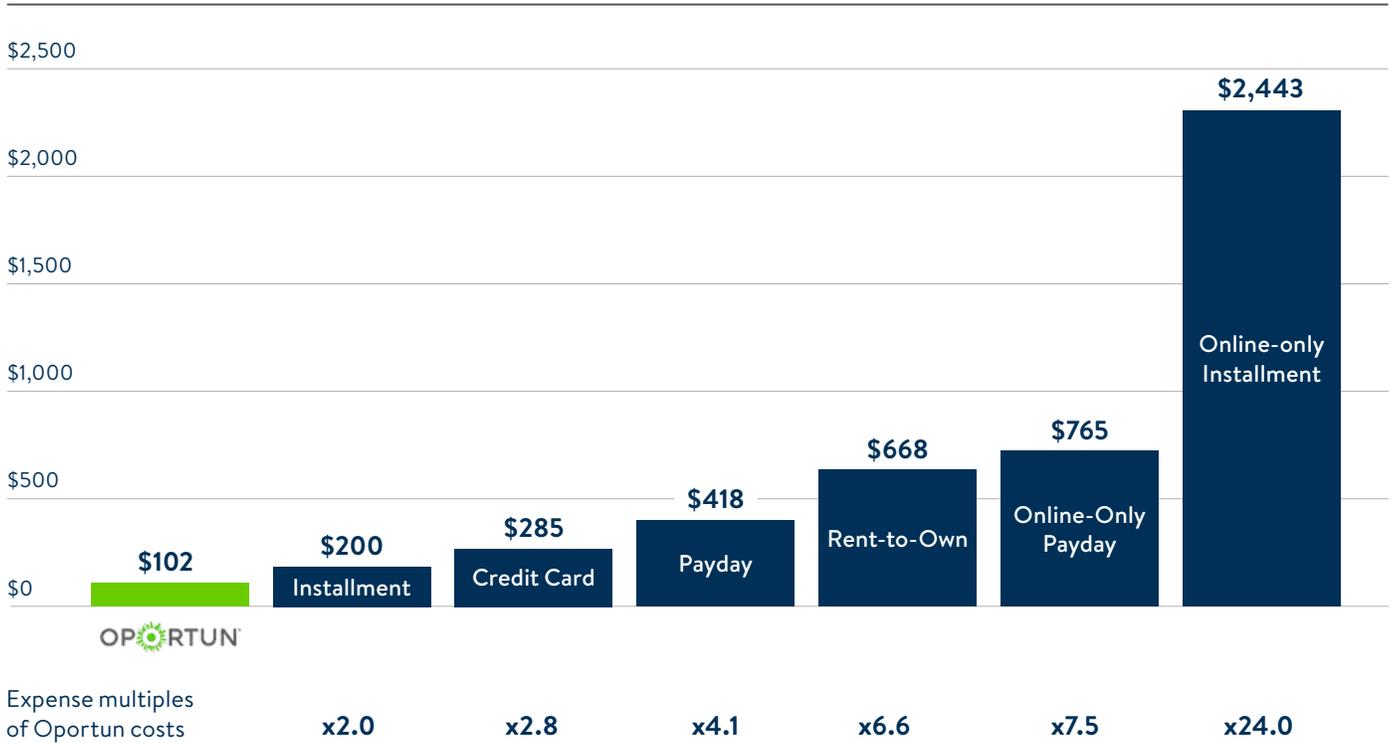
The findings clearly show that Oportun loans cost less across loan amounts. In addition, the profiled borrowers consistently avoided default with Oportun loans, while that was not the case for all other products. The cost of defaulting on a loan is difficult to quantify and the True Cost of a Loan model conservatively includes only one insufficient funds fee, plus the permissible penalty fees. However, defaulting also causes negative impacts beyond these fees, including damaged credit scores, collection efforts, and stress.

The products with the highest true cost tend to be those subject to fewer regulatory restrictions, particularly those that lack limits on price and target borrowers with limited alternative options. The total true costs reflected in the following charts show how much it would cost a hypothetical subprime borrower to be free and clear of the loan.

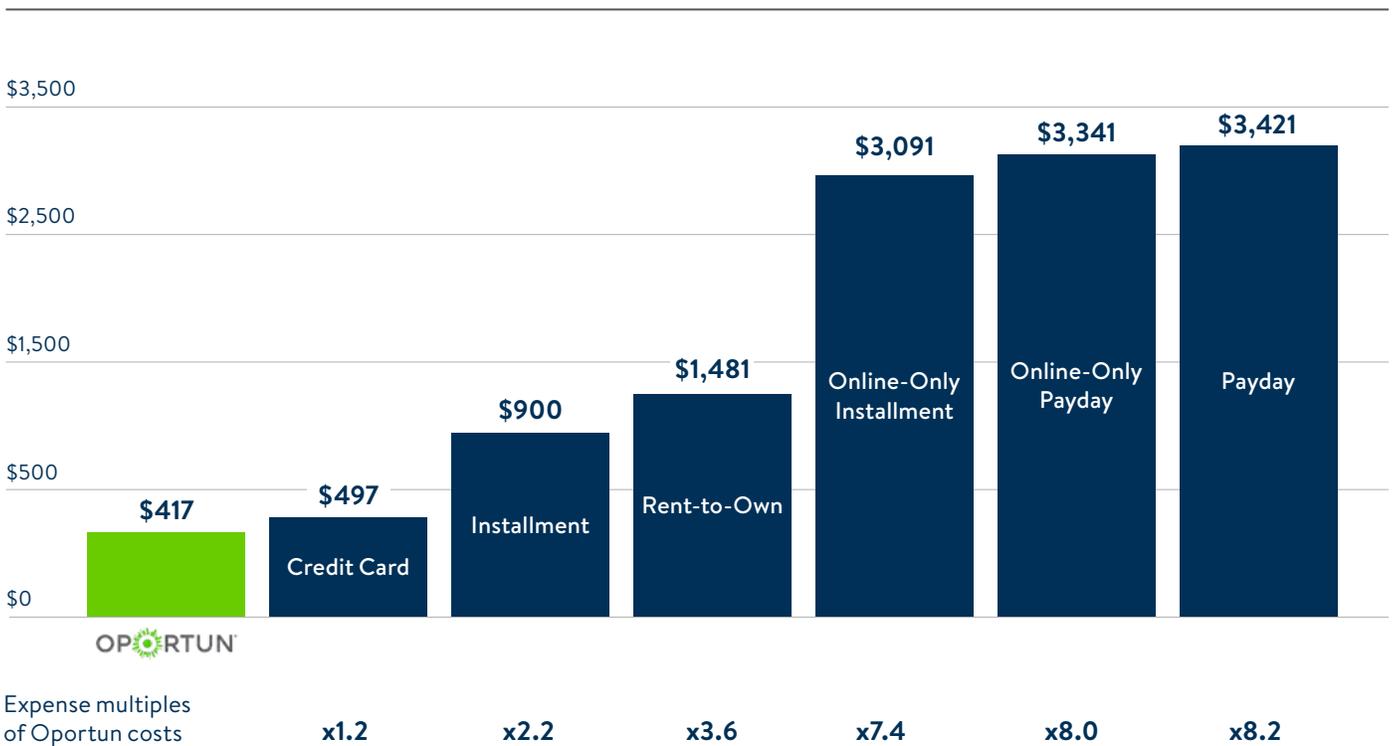
<sup>5</sup> True costs represented here are the weighted averages across borrower profiles and representative state cohorts included in the model. Expense multiples represent a simple average across all loan amounts and competitor products.

# Cost Comparison by Loan Amount

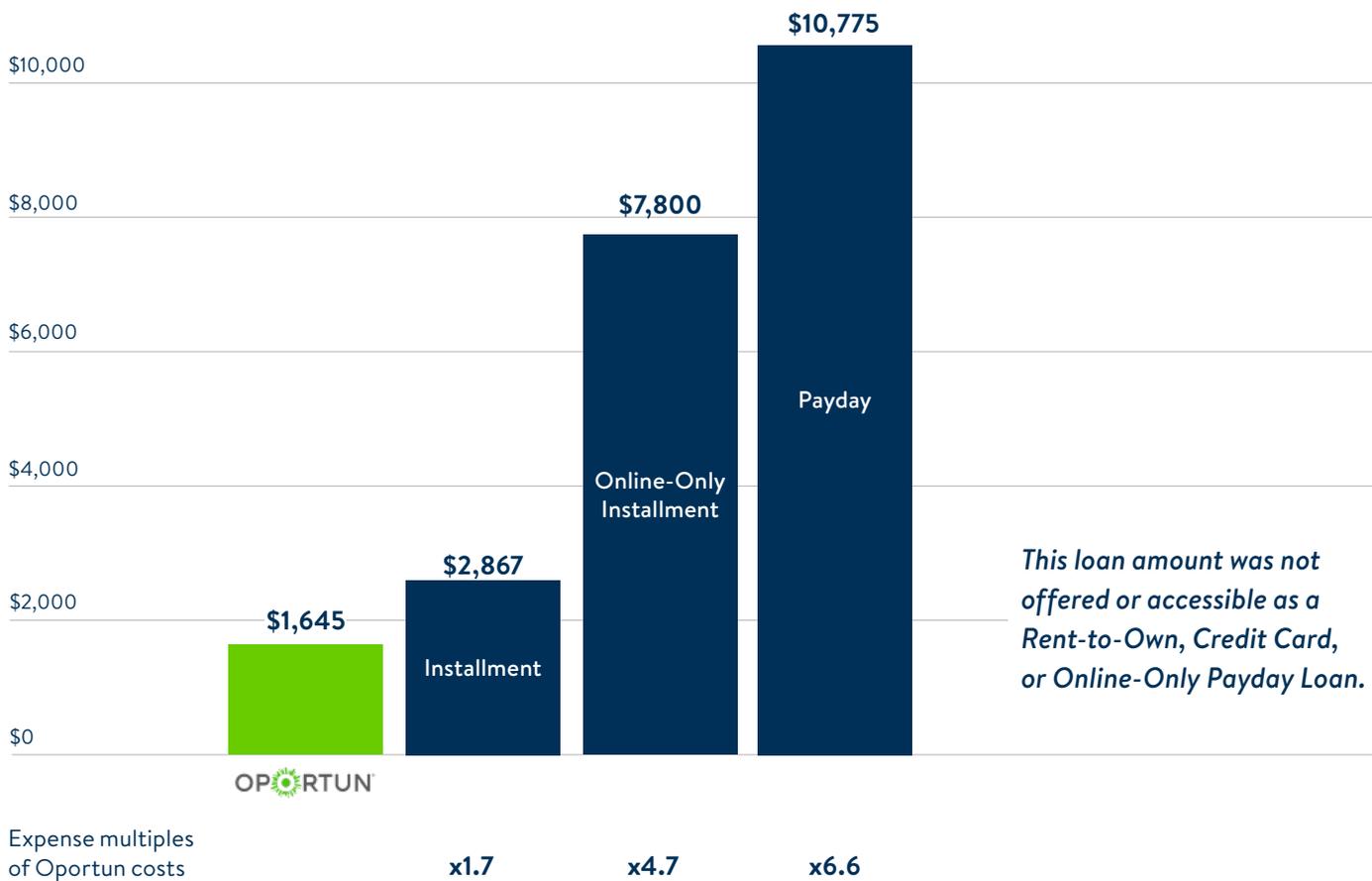
## \$500 Loan Amount



## \$1,500 Loan Amount



## \$3,500 Loan Amount



# Customer Vignettes

On the following pages, we have laid out four customer vignettes to better illustrate the borrower experience, using Oportun borrower profiles and pricing data gleaned through our research.<sup>6</sup> These use cases simulate the typical borrower experience across competitor

products and align with the assumptions embedded in the True Cost of a Loan model (for further information on these assumptions, see Appendix B). In essence, the following examples are meant to put a face to the numbers and shed light on how terms play out over the life of a loan.



## Brad and Paula

Brad and Paula's annual household income is \$65,000. Neither Brad nor Paula have a viable credit score. Their 9 year-old son, Alex, falls ill with appendicitis and needs emergency surgery. The family has health insurance, but they are still responsible for an out-of-pocket cost of \$3,500 for Alex's hospital stay.

To cover the bill, they can...

### SCENARIO A

**...take out a \$3,500 installment loan from an online lender that doesn't require a credit check.**

In this scenario, they agree to an APR of 164.06% over a repayment term of 22 months. Every month, they make a payment of \$507.86. At the end of the loan term, **Brad and Paula have paid nearly \$7,800 in interest on the loan.**

### SCENARIO B

**...take out a \$3,500 Oportun installment loan.**

In this scenario, using proprietary underwriting data and scoring, Oportun is able to offer an APR of 34.55% for a term of 30 months. They make payments of \$83.65 every two weeks. At the end of the loan term, **Brad and Paula have paid \$1,645 in interest and fees on their loan.**



<sup>6</sup> These illustrative use cases do not report identifying features of any individual. Names, circumstances, and credit needs are all hypothetical and meant to represent typical Oportun customers.



## Diana

Diana lives with her partner and their daughter. Their annual household income is \$37,500 and neither adult has a viable credit file. Diana's daughter's laptop just broke, and she needs a new one for high school.

Cash is tight, so Diana can either...

### SCENARIO

#### A

*...take out a \$500 payday loan from an online payday lender that doesn't require a credit check.*

In this scenario, she agrees to a loan rate of \$23.53 per \$100 borrowed for a two-week term. However, at the end of the term Diana is only able to pay \$48 back on the loan balance after paying the \$117.65 owed in fees and interest. The rest of her paycheck goes toward housing and food. Her loan automatically rolls over for another two weeks. Every payday, Diana rolls over the loan again, unable to pay off her balance. After eight rollovers, **Diana has paid more than \$1,000 in fees and interest, and defaults on her loan.**

### SCENARIO

#### B

*...go to a rent-to-own store and sign an agreement for a laptop worth \$500.*

In this scenario, the store doesn't require a credit check, and she agrees to make a weekly automatic payment of \$28.08 over 49 weeks. She also has the option to pay off the laptop early within the first 12 weeks at the "same as cash" price of \$816.55. Diana is able to make her payments on time, but she isn't able to build up the lump sum needed to claim the "same as cash" price. At the end of her repayment period, **Diana has paid \$878.91 in fees for her daughter's laptop – much more than the \$500 laptop itself.**

### SCENARIO

#### C

*...take out a \$500 Oportun installment loan, which does not require a credit score to apply.*

In this scenario, Diana agrees to an annual percentage rate (APR) of 35.95% for a term of 12 months. Diana makes a \$22.43 payment every two weeks. **At the end of the loan term, Diana has paid \$102 in fees and interest on her loan.**





## Jacob

Jacob lives with his spouse and their young son. Their annual household income is \$65,000, and Jacob has a credit score of 640. The family car just broke down and the local mechanic quoted \$1,500 to fix it.

Jacob needs the car to get to and from work, so he can...

### SCENARIO

## A

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

In this scenario, after a credit check, Jacob agrees to an APR of 40.31% over a repayment term of 19 months. Every month, he makes a payment of \$106.17. At the end of the loan term, **Jacob has paid \$568 in interest and fees on the loan.**

### SCENARIO

## B

*...charge the cost to his credit card.*

In this scenario, because of Jacob's FICO score, his credit card charges him 19.10% annual interest rate and a \$52 annual fee. Jacob has other bills to pay, so he pays off around 11% of his balance each month or the \$15 minimum, whichever is larger. It takes him 44 months to pay off the \$1,500 balance and **costs Jacob around \$497 in interest and fees.**

### SCENARIO

## C

*...take out a \$1,500 Oportun installment loan.*

In this scenario, after checking Jacob's credit, Oportun agrees to an APR of 35.41% for a term of 18 months. Jacob makes payments of \$52.13 every two weeks. At the end of the loan term, **Jacob has paid \$417 in interest and fees on his loan.**





## Sarah

Sarah lives with her mother and her young daughter. Her annual household income is \$37,500, and Sarah has a 640 credit score. Sarah's sister is getting married and has chosen Sarah as the maid of honor. Sarah needs to buy her dress, a wedding gift, and several other items for the upcoming event, but she doesn't have the money this month. To help her cover these one-time expenses, she can...

### SCENARIO *...head to a local payday lender and take out a \$500 loan.*

#### A

In this scenario, the lender doesn't require a credit check, and Sarah agrees to a loan rate of \$23.50 per \$100 borrowed for a two-week term. However, at the end of the term, due to cash flow restrictions, Sarah is only able to pay back \$48.92 of the balance after paying the \$117.50 owed in fees and interest. She rolls her loan over for another two weeks, but is still unable to pay off her balance. Multiple rollovers are prohibited in her area, so Sarah defaults on her loan – sending her loan to collections and lowering her credit score. She paid over \$230 in fees and interest and owes over \$400 in unpaid balance and non-sufficient funds fees. **The \$500 loan could cost Sarah more than \$650.**

### SCENARIO *...take out a \$500 Oportun installment loan.*

#### B

After checking her credit, Oportun agrees to an APR of 35.95% for a term of 12 months. Sarah makes payments of \$22.43 every two weeks. At the end of the loan term, **Sarah has paid \$102 in interest and fees on her loan.**



# METHODOLOGY

## Modeling the True Costs of Borrowing

To more accurately measure the total cost of a loan, the Financial Health Network developed a model to compare loan types. The model focuses on what the consumer ultimately pays to be free and clear of the loan, beyond the amount they initially borrowed. The model takes into account what the borrower can reasonably afford to pay back each month; the standard rates, fees, terms that dictate those repayment requirements; and whether the loan structure typically leads to a cycle of debt or to successful repayment that reflects the stated terms of the loan – all factors not captured in other comparison metrics such as APR.

By comparing the repayment experience of typical borrowers using identically sized loans, the model demonstrates comparative cost by calculating the full amount a borrower will spend to repay each loan (and how long it takes), or else default or find alternate means of repayment (such as borrowing from friends and family or taking out a debt consolidation loan) in the case that available income never “catches up” with the amount owed.

## Loan Amounts and Competitor Products

We calculated true costs for three loan amounts – \$500, \$1,500, and \$3,500 – across six competitor credit products. The competitor products reflect what an Oportun customer would most likely use if an Oportun loan was not available to them. The loan amounts represent typical Oportun borrower experiences, with \$500 at the lower end for first-time Oportun borrowers and \$3,500 representing returning customers.

We selected the six competitor products based on the most likely alternative products for Oportun borrowers for the three loan amounts.<sup>7</sup> Nonetheless, not all products are available at all loan amounts. The model excludes any competitor products that were deemed infeasible due to factors such as regulatory limitations, loan amount, or product unavailability (see Table 1).

Importantly, we distinguish between storefront lenders and online-only lenders due to their differential pricing. Storefront lenders – many of which utilize online channels, as well – have brick and mortar locations in one or more states and thus adhere to state-specific pricing and other regulatory limits. Online-only lenders – which include tribal and offshore lenders – do not necessarily reflect the state-specific limitations, allowing us to use a nationwide price.

<sup>7</sup> Previous True Cost of a Loan studies included the cost of auto title loans compared with Oportun personal loans. We will include that analysis again in the next study in 2022.

Table 1: Loan Amounts Across Competitor Products

	\$500	\$1,500	\$3,500
Oportun Loan	✓	✓	✓
Online-only Installment	✓	✓	✓
Storefront Installment	✓	✓	✓
Online-only Payday	✓	✓	
Storefront Payday	✓	✓*	✓*
Rent-to-own	✓	✓	
Credit Card	✓	✓	

\*These loan amounts are only feasible in some states due to regulatory limits on payday loan amounts and number of simultaneous loans.

## Typical Market Pricing for Competitor Products

### Nationally Representative Pricing for State-regulated Products

State-level regulation greatly influences pricing and availability for payday and installment loans.<sup>8</sup> To obtain reliable, nationally representative pricing estimates for these competitor products, we gathered average fees, rates, and terms data from providers across nine representative state cohorts. These state cohorts were designed to represent the diversity of small-dollar lending regulatory environments and costs of living across the 50 states. This allowed us to reach a blended national price estimate based on state population size.

Using third-party analysis, states were classified as having low, medium or high levels of regulatory strictness for payday and installment loans and low, medium, or high cost-of-living. The most populous state in each of the nine cohorts was used in gathering pricing data for relevant products. For a more detailed overview of our state grouping methodology, see Appendix A.

<sup>8</sup> See "Payday Loan Consumer Information," Consumer Federation of America, and "Predatory Installment Lending in the States," National Consumer Law Center, May 2021, for state-by-state summaries of payday and installment loan regulations.

## Nationally Representative Pricing for National Products

For loan products where state-level regulation does not greatly influence pricing, we obtained nationally representative pricing data on fees, rates, and terms in a number of ways. Wherever possible, we relied on national-level pricing estimates from secondary sources we deemed credible, consistent with other estimates, and regularly updated.

For products where secondary source data was not available or deemed insufficient due to outdated data or missing methodological source data, we collected pricing data from a sample of

national providers, such as rent-to-own providers Aaron's and Rent-A-Center, or installment lenders World Finance and OneMain Financial. For further information on our pricing methodology and sources, see Appendix B.

These average fees, rates, and terms formed the constraints within which we modeled repayment of loans of equal amounts across multiple products for purposes of comparison. We then determined true costs by assessing how a borrower can repay according to these fees, rates, and terms, in concert with the cash flow available to them.

**Table 2: National Estimates for Small-Dollar Credit Pricing**

	<b>\$500 Loan Amount</b>	<b>\$1,500 Loan Amount</b>	<b>\$3,500 Loan Amount</b>
Oportun Loan	35.95% APR	35.41% APR	34.55% APR
Online-only Installment	401.0% APR	233.1% APR	164.1% APR
Storefront Installment	127.24% APR (FICO <550)	70.18% APR (FICO <550)	66.65% APR (FICO <550)
	89.02% APR (FICO 640)	40.31% APR (FICO 640)	32.35% APR (FICO 640)
Online-only Payday	\$23.53 per \$100		
Storefront Payday	\$10-\$23.50 per \$100, depending on state <sup>9</sup>		
Rent-to-own	Cost: 272.06%	Cost: 231.75%	Rental products not available at this loan amount
Credit Card	21.5% EIR <sup>10</sup> (FICO <550)	Credit line not available to subprime borrowers	Credit line not available to subprime or nonprime borrowers
	19.1% EIR (FICO 640)	19.1% EIR (FICO 640)	

<sup>9</sup> Payday rates are based on regulatory limits and do not reflect the availability of cash advance loans. For Texas, rates were based on [financial services activity reports](#), and for Wisconsin and Delaware, pricing information was collected by contacting local lenders.

<sup>10</sup> EIR, or Effective Interest Rate, is a proxy for APR used by the [Consumer Finance Protection Bureau](#) to measure the cost of interest to credit cardholders. EIR is a function of annualizing the total of all interest charges consumers paid divided by those consumers' cycle-ending balances.

# Borrower Profiles

This model uses available borrower cash flow to understand the total cost of each loan alternative, including the need, where applicable, for borrowers to enter a cycle of repeat borrowing before they amass enough funds to pay off the total amount owed, as well as the propensity to default on loans when they cannot break this cycle.

We calculated borrower cash flow by identifying the average household income and living expenses for typical Oportun customers. To best represent the majority of Oportun borrowers, we calculated cash flow using two annual income profiles for a borrower: \$37,500 and \$65,000.<sup>11</sup>

We extrapolated household cash flow by subtracting typical household expenses for a single-earner family of three using the Bureau of Labor Statistics' Consumer Expenditure Survey (see Table 3).

This analysis identified the maximum amount an Oportun customer could afford to repay on a monthly basis after accounting for basic needs and obligations, in effect adhering to a "best-case scenario" in which they can put all disposable income toward loan repayment. This led to the most conservative result the model can provide in terms of time and money spent to repay a loan.

**Table 3: Basic Cost of Living for a Family of Three**

<b>\$37,500 (pre-tax annual household income) minus average annual expenditures:</b>	<b>\$65,000 (pre-tax annual household income) minus average annual expenditures:</b>
\$3,522 (payroll tax, federal income tax, less deductions)	\$8,165 (payroll tax, federal income tax, less deductions)
\$3,636 (food at home)*	\$4,318 (food at home)*
\$14,851 (housing)	\$18,274 (housing)
\$7,459 (transportation)	\$10,377 (transportation)
\$4,038 (healthcare)	\$4,673 (healthcare)
<b>= \$3,994 (estimated net income) / 12 months</b>	<b>= \$19,193 (estimated net income) / 12 months</b>
<b>= \$333 in monthly available cash flow</b>	<b>= \$1,599 in monthly available cash flow</b>

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

<sup>11</sup> Jan. 1 - April 30, 2021, Oportun borrower data was used to determine borrower income and credit profiles. 50% of borrowers reported \$37,500 or less in annual income, 30% reported income between \$37,501 and \$65,000.

Table 4: Borrower Profiles

01	\$37,500 annual income and <550 FICO score or unscorable credit file
02	\$65,000 annual income and <550 FICO score or unscorable credit file
03	\$37,500 annual income and 640 FICO score
04	\$65,000 annual income and 640 FICO score

The model uses two borrower credit profiles because credit score – or a lack thereof – is a primary driver of access and pricing for alternative products. The two subprime credit profiles represent the majority of Oportun borrowers: One represents those with FICO credit scores at or below 550 (including no score), and one represents those with FICO scores of 640.<sup>12</sup> It was important to represent the credit profile of both people with such limited credit that they may not have many credit options and people who have stronger credit profiles, such as Oportun’s returning customers.

After calculating the true cost of a loan for each borrower profile and small-dollar credit alternative, the Financial Health Network applied these costs proportionally to reach a blended total cost estimate that a composite Oportun borrower would have spent on loan alternatives, compared with the total cost of an Oportun installment loan of equal size.

<sup>12</sup> Jan. 1 - April 30, 2021 Oportun borrower data was used to determine borrower income and credit profiles. 30% of borrowers had FICO scores of 550 or lower, including no FICO score; another 35% of borrowers had scores up to 641.

# CONCLUSION

The True Cost of a Loan analysis provides a realistic quantification of costs that typical borrowers encounter across relevant loan products.

Oportun installment loans are significantly less costly for each alternative loan amount analyzed, and the potential costs among the alternatives vary widely. This is information that lenders typically do not show to borrowers. The alternative products vary greatly in their structure, making it hard for borrowers and even policymakers to assess affordability and consumer benefits among the options. Our analysis of three different loan amounts and multiple borrower profiles ensures that the alternatives and pricing are specific to Oportun borrowers, providing Oportun with independent, quantifiable analysis of their customer impact.



# APPENDIX A

## State Grouping Methodology

To build a model that is both efficient and accurate, we opted to create a method of grouping states, first by regulatory environment and second by cost of living. After creating these state cohorts, we selected one representative state per cohort from which to collect pricing and cost of living data. We then used that data to model the true cost of a loan for several states at once.

### Grouping States by Regulatory Limits

By utilizing reliable public data sources to understand state regulations and APR limits for installment loans and payday loans, we assigned each state a numerical score based on the strictness of its regulatory rate caps for a sampling of installment and payday loans.<sup>13</sup>

This exercise resulted in nine total state cohorts, as seen in Table A1. We used the most populous state from each group to model the true cost. For payday loans, pricing is based on the limit in these representative states. For installment loans, we used borrower profiles and additional data to collect representative pricing.

Based on these state scores, we created the **three regulatory cohorts** below:

- Low (*most permissive regulatory environment*): 12 states
- Medium: 21 states
- High: 18 states

Then, we analyzed cost of living data to group like states within each of these groups into **three income tertiles**:<sup>14</sup>

- 1st tertile: \$91,237 – \$111,583
- 2nd tertile: \$84,167 – \$90,928
- 3rd tertile: \$77,928 – \$84,140

**Table A1: State Groupings**

	States	Cost of living
Low Strictness	AL, DE, ID, IN, LA, MO, MS, NM, SC, TN, UT, WI	1st tertile: <b>DE</b>
		2nd tertile: LA, NM, WI, UT
		3rd tertile: AL, ID, IN, MO, MS, TN, SC
Medium Strictness	AK, AZ, CA, CO, FL, GA, HI, IA, KS, KY, MA, MI, MN, ND, NV, OH, OK, RI, TX, WA, WY	1st tertile: <b>CA</b> , CO, HI, MA, MI, RI, WA
		2nd tertile: AK, <b>FL</b> , GA, IA, MN, NV, OH
		3rd tertile: AZ, KS, KY, ND, OK, <b>TX</b> , WY
High Strictness	AR, CT, DC, IL, MD, ME, MT, NC, NE, NH, NJ, NY, OR, PA, SD, VA, VT, WV	1st tertile: CT, DC, MD, NH, NJ, <b>NY</b> , OR, VA, VT
		2nd tertile: IL, ME, MT, NC, NE, <b>PA</b>
		3rd tertile: <b>AR</b> , SD, WV

*Bolded state indicates the representative state used for each group.*

<sup>13</sup> Sources include “*Predatory Installment Lending in the States: 2020*,” National Consumer Law Center, February 2020, and “*U.S. Payday Interest Rates*,” Center for Responsible Lending, 2021.

<sup>14</sup> Required pre-tax income for two working adults with two children from Massachusetts Institute of Technology’s *Living Wage Calculator*, 2021.

# APPENDIX B

## Detailed Pricing Methodology

Pricing sources vary from product to product. For instances where national data was unavailable, we collected loan price quotes from a sample of providers (chosen based upon market share and local availability) by using provider mail offers, visiting websites, or contacting providers over the phone.

We also collected information on loan terms, fees, and, when available, typical borrower behavior. Our goal was to model each product to best capture the typical borrower experience. Whenever a choice presents itself, the model errs toward a conservative estimate of consumer costs. These product-level assumptions are detailed in Table B1.

**Table B1: Pricing Sources and Assumptions**

	Pricing Sources	Additional Inputs	Model Assumptions
Oportun Loan	Oportun	-	<ul style="list-style-type: none"> <li>If available cash flow (<i>monthly cash flow divided by two</i>) is sufficient to make the full biweekly (<i>every two weeks</i>) payment amount, then the borrower will make these payments consistently for the entirety of the loan term.</li> <li>Total cost is the total repayment amount (<i>including interest and origination fee</i>) minus the loan principal.</li> </ul>
Online-only Installment	RiseCredit.com (operated by Enova), Plain Green Loans, and Mobiloans website quotes	-	<ul style="list-style-type: none"> <li>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. Total cost is the total repayment amount (<i>including interest</i>) minus the loan principal.</li> <li>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.</li> <li>Total cost is the total repayment amount (<i>including interest and standard fees</i>) minus the loan principal.</li> </ul>

	Pricing Sources	Additional Inputs	Model Assumptions
Storefront Installment	<p><b>For FICO &lt;550:</b> Mail offers for Mariner Finance, Regional Finance, and World Finance; Advance America price quotes</p> <p><b>For FICO 640:</b> Mail offers for Mariner Finance, Regional Finance, Covington Credit and World Finance; OneMain Financial price quotes</p>	-	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Total cost is the total repayment amount (<i>including interest and standard fees</i>) minus the loan principal.</li> </ul>
Online-only Payday	<p><u><i>“Final Rule: Payday, Vehicle Title, and Certain High-Cost Installment Loans,”</i></u> Bureau of Consumer Financial Protection, Fed. Reg. Vol. 82, No. 221, November 17, 2017</p>	<p><b>Amount Borrowed Per Loan:</b> \$500</p> <p><b>Default Penalty (NSF):</b> \$34</p>	<ul style="list-style-type: none"> <li>• Assume two-week loan cycles and loans of \$500. For the \$1,500 loan amount, we assume three concurrent payday loans of \$500 each.</li> <li>• Use available cash flow (<i>monthly cash flow divided by two</i>) to first pay interest owed on the loan(s). The remaining funds go towards paying off the loan balance(s).</li> <li>• 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 (<i>which is then considered a default</i>).</li> <li>• Cost of defaulting is a \$34 non-sufficient funds fee plus the unpaid balance.</li> <li>• Total cost is total fees paid plus default fees, if applicable.</li> </ul>

	Pricing Sources	Additional Inputs	Model Assumptions
Storefront Payday	<p>State regulatory maximums for DE, WI, TN, MI, FL, TX, as well as price quotes from Loan Till Payday, EZ Cash, Advance America, Check into Cash, and Texas Office Of Consumer Credit Commissioner <a href="#">Credit Access Business Reports</a></p> <p>In NY, IL, and AR, payday loans are either prohibited entirely or regulated such that we assume a typical borrower would not have access to a payday loan.</p>	<p><b>Default Penalty:</b> \$15-\$30 NSF fee plus any additional fees permissible, varies by state</p>	<ul style="list-style-type: none"> <li>The loan automatically rolls over in two-week cycles until: the loan balances are paid in full, state regulations prohibit further rollovers (<i>and thereby outstanding balances default</i>), or the cumulative interest and fees paid are greater than or equal to twice the loan principal (<i>which is then considered a default</i>).</li> <li>Cost of defaulting is the unpaid balance, plus whatever fee amount is permissible by the state.</li> <li>Total cost is total fees paid plus default fees, if applicable.</li> </ul>
Rent-to-own	<p>Price quotes from Aaron's, Rent-a-Center, and Flexshopper.com</p>	<p><b>"Same as cash" Price:</b> \$816.55 - \$1,895.09</p>	<ul style="list-style-type: none"> <li>Payments are made weekly for a predetermined loan term. If available cash flow (<i>monthly cash flow divided by four</i>) is sufficient to make the weekly payment (<i>which includes fees</i>), then any remaining funds accumulate for the following week, and so forth.</li> <li>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.</li> <li>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.</li> <li>Total cost is the total fees paid plus the "same as cash" price fees, if applicable.</li> </ul>
Credit Card	<p><a href="#">"The Consumer Credit Card Market Report,"</a> Bureau of Consumer Financial Protection, August 2019</p>	<p><b>Avg Annual Fee (monthly):</b> \$3.67-\$4.33</p> <p><b>Avg Repayment Rate:</b> 7%-11% of balance, or \$15, whichever is larger</p>	<ul style="list-style-type: none"> <li>Payments are made monthly and include interest and average annual fee (<i>divided into 12 monthly installments</i>).</li> <li>Repayment rates are based on average cardholder behavior as reported by the CFPB. Monthly payment amounts are a function of credit card balance and are determined by credit profile. For FICO &lt;550, borrowers pay 7% of the balance or \$15, whichever is larger, and for FICO 640, borrowers pay 11% or \$15, whichever is larger.</li> <li>Total cost is the total interest and fees paid to pay off the balance.</li> </ul>



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