



## SOME LENDERS OVERPROMISE ON 36%

Several Alternative Financial Service (AFS) lenders claim that they can lend to nonprime consumers under a 36% rate cap in the same way that high interest rate lenders can, but this is simply untrue. The products offered by these “low cost” lenders (including OneMain Financial, Oportun, Aura, and Marketplace lenders) are not the same as those offered by lenders with rates that exceed 36%.

### Oportun

*“[O]ur analysis found that **Oportun** has filed so many lawsuits in [Texas] that it would remain among the most litigious debt collectors even if it filed 60% fewer debt claims.”*

ProPublica<sup>1</sup>

On July 28, 2020, Oportun announced that it would provide loans under a self-imposed 36 percent rate cap.<sup>2</sup> The company made this announcement after several media outlets contacted them about its debt collection practices. These outlets found that Oportun was the leading filer in small claims courts in both California and Texas yet claimed to be a responsible lender and was even certified as a Community Development Financial Institution (CDFI).

In addition to its tendency to sue nonprime consumers at higher rates than other installment lenders, Oportun also has high loan amount and longer loan durations. According to its financial statements, Oportun’s average loan size is \$3,100 and loan duration is 33 months, which makes these loans very different than loans from high interest lenders.<sup>3</sup>

<b>Comparison Chart</b>	<b>Lenders &gt;36%</b>	<b>Oportun</b>
<i>Loan Amount</i>	\$500 – \$3,000	\$3,100
<i>Loan Duration</i>	2 – 24 months	33 months
<i>Borrower FICO</i>	High 600s – 730	NA



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### OneMain Financial

*“Since early March, we’ve [OneMain Financial] been underwriting only the loans that meet our return hurdles in a 2008-2009 recession scenario, which included **cutting out higher risk unsecured lending...**”*

OneMain Financial<sup>4</sup>

During COVID-19, when nonprime consumers needed access to credit, OneMain Financial significantly reduced its loan portfolio to higher risk consumers despite repeatedly claiming that it was able to make loans to nonprime consumers under a 36% rate cap. This jeopardized many consumers who were already struggling to access small-dollar credit.

In addition, OneMain Financial offers loans that differ from “high interest lenders.” The comparison chart below highlights those differences.

<b>Comparison Chart</b>	<b>Lenders &gt;36%</b>	<b>OneMain Financial</b>
<i>Loan Amount</i>	\$500 – \$3,000	\$9,300
<i>Loan Duration</i>	2 – 24 months	24-60 months
<i>Borrower FICO</i>	High 600s – 730	630 – 650

It is clear that OneMain Financial’s products are not necessarily cheaper simply because it has a lower interest rate. Consider the following example:

- A high interest rate lender offers a \$1,000 loan for 1-year with a 100% APR.
  - Total fees would equate to about \$1,000.
  - Loan payments would equate to \$83 per month for 12 months.
- OneMain Financial offers a \$9,300 loan for 3-years with a 36% APR.
  - Total fees would equate to about \$10,044.
  - Loan payments would equate to \$279 per month for 36 months.

Despite the “high interest lender” having a triple-digit APR, the consumer is better off with the “high interest loan” than the loan from OneMain Financial, especially if they only needed a small-dollar, short-term loan.



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### Aura

*“Making the math work on small, credit building loans with interest rates below 36% is a **major challenge**.”*

Aura<sup>5</sup>

On January 11, Aura stopped touting the benefits of a 36% rate cap because, unfortunately, the company shut down.<sup>6</sup> For years, Aura received financing from angel investors to stay afloat and received additional benefits as a certified CDFI. Despite these many benefits, Aura was not able to profitably lend small-dollar loans to nonprime consumers under a self-imposed 36 percent rate cap.

Admitting that “overall profitability still remained elusive,” Aura decided to close its operations altogether rather than increasing its fees in order to provide credit access to those who need it the most.

### Marketplace Lenders

Members of the Marketplace Lenders Association (MLA) claim to support a 36 percent rate cap for consumers, but it is clear that they have very different business models than that of high-interest lenders. Several examples are listed below:

**Affirm** is a “rent-to-own” lender, which is helpful for consumers looking to lease furniture. It is not helpful for nonprime consumers who need revenue to cover an emergency expense. In addition, Affirm is able to charge a low APR because it generates most of its revenue from merchant fees and not from loan fees.

**LendingClub** is another example of a lender that supports a 36% rate cap. However, it has not had a profitably year in its entire history, which is why it is becoming a national bank and leaving its designation as a “marketplace lender.”

**Upstart** is another member of MLA supporting a rate cap. However, their loans are not small dollar. Their minimum loan amount is \$7,000 in Massachusetts and \$6,000 in Ohio with loan terms between 3 and 5 years. That is vastly different than the loan structures of high-interest lenders.



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## ENDNOTES

<sup>1</sup> Ren Larson and Kiah Collier, "How We Found Out How Many Debt Collection Lawsuits Oportun Inc. Filed During the Pandemic," ProPublica, August 31, 2020. Available at: <https://www.propublica.org/article/how-we-found-out-how-many-debt-collection-lawsuits-oportun-inc-filed-during-the-pandemic>.

<sup>2</sup> "Oportun to cap new loan originations at an 'all-in' 36% APR," Oportun, July 28, 2020. Available at: <https://investor.oportun.com/news-releases/news-release-details/oportun-cap-new-loan-originations-all-36-apr>.

<sup>3</sup> "Investor Presentation," Oportun, December 2020. Available at: <https://investor.oportun.com/static-files/5b418418-decf-450f-809e-eb773f757d51>.

<sup>4</sup> OneMain Holdings' (OMF) Earnings Call for Q3 2020.

<sup>5</sup> James Gutierrez, "Farewell Aura, Your Mission Endures," LinkedIn, January 11, 2021. Available at: <https://www.linkedin.com/pulse/farewell-aura-your-mission-endures-james-gutierrez/?trackingId=8LFaEeiiRhm3BZOHNcH3ww%3D%3D>.

<sup>6</sup> Kevin Wack, "Hammered by pandemic, consumer lender Aura shuts down," American Banker, January 11, 2021. Available at: <https://www.americanbanker.com/news/hammered-by-pandemic-consumer-lender-aura-shuts-down#:~:text=Hit%20hard%20by%20the%20pandemic,Financial%20has%20suspended%20its%20operations>.