January 22, 2019

Robert E. Feldman
Office of the Executive Secretary
ATTN: Comments
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20429

Re: RIN #3064-ZA04, Federal Deposit Insurance Corporation's Request for Information on Small-Dollar Lending

Dear Mr. Feldman:

Oportun, Inc. ("Oportun") welcomes the opportunity to submit this response to the Federal Deposit Insurance Corporation's ("FDIC") Request for Information Regarding Small-Dollar Lending. Oportun supports the FDIC's efforts to explore developments in the small-dollar credit market and ways to expand access to affordable credit for those that have unmet small-dollar credit needs.

Oportun's Mission and Business Model

At Oportun, we have dedicated ourselves to increasing access to responsible credit for traditionally underserved communities. We estimate that there are 100 million low-to-moderate income consumers in the United States who are not well served by other financial service providers: the credit invisibles and the mis-scored consumers. According to a December 2016 study by the Bureau of Consumer Financial Protection, or the BCFP, 45 million people in the United States are unable to access affordable credit options because they do not have credit scores. We estimate that there are another 55 million people in the United States who are "mis-scored," primarily because they have limited credit history. Our mission is simple: To provide inclusive, affordable financial services that empower our customers to build a better future.

In recognition of Oportun's primary mission of providing responsible, affordable loans to underserved consumers, promoting community development, and predominantly serving low-to-moderate income communities, Oportun has been certified by the United States Department of Treasury as a Community Development Financial Institution ("CDFI") since November 2009.

People with little or no credit history have limited options should they need to borrow money to fix a car, pay a deposit on a new apartment, take care of an emergency, or make a large purchase. The credit bureaus consider them "unscorable" and mainstream financial institutions consider lending to them to be both risky and unprofitable. That leaves many of them with no alternative but to turn to high-cost products.

Over the past twelve years we have developed advanced data analytics and technology to allow us to score 100% of our applicants, enabling us to serve those that other traditional financial institutions cannot. We have built a proprietary lending platform that processes large amounts of alternative data along with traditional credit bureau data and leverages machine learning to assess creditworthiness. Our application of advanced data analytics has enabled us to successfully underwrite loans to credit invisibles and mis-scored consumers, while growing rapidly and maintaining consistent credit quality since 2009. As part of our commitment to responsible lending, we verify income for 100% of our customers, and we only make loans to customers that our ability-to-pay model indicates should be able to afford a loan after meeting their other regular obligations and living expenses. We also use data analytics to determine the loan size and term based on our assessment of a customer's ability to pay. Our payments are designed to fit individual budgets, giving customers months, not weeks, to repay their loan.

Equally important, using advanced data analytics, Oportun has figured out how to serve these customers at scale: Since our inception through September 30, 2018, we have made more than 2.8 million loans and disbursed $6 billion dollars to more than 1.3 million unique customers, the vast majority of whom live in low-to-moderate income communities. Over fifty percent of these customers had no FICO score when they took out their first loan with us – Oportun helped these customers start establishing a credit history by reporting their loans to nationwide credit bureaus. In this way, Oportun is able to leverage alternative data and modeling techniques to provide access to credit to those who normally would not have such access.

With over 12 years of experience in the small-dollar credit market, Oportun respectfully submits the following information on Questions 3, 8, 10, 12, 13 and 18 for the FDIC's consideration.

FDIC Question #3: To what extent and in what ways do entities outside the banking sector currently satisfy the consumer demand for small-dollar credit products?

Consumers in need of small-dollar credit can find options outside the banking sector, but the majority of those options are high cost, often with triple-digit annual percentage rates and repayment options that carry a high risk of getting into a cycle of debt that may be difficult to break. According to a report issued in February 2018 by the Pew Charitable Trusts entitled *Standards Needed for Safe Small Installment Loans from Banks, Credit Unions,* "nonbank options for credit are often poor, with high-cost loans dominating the landscape." According to this report, 12 million Americans use payday loans annually, which carry APRs of around 400%. These alternative financial service providers have stepped in to meet the needs of consumers that mainstream financial institutions have historically not filled. However, outside the banking sector, there is not a shortage of small-dollar credit products, but there is a shortage of *affordable* options for these consumers who do not qualify for traditional bank credit products.

Oportun is an example of a responsible lender that provides affordable small-dollar credit to consumers in need. As a for-profit, mission-based state-licensed lender and CDFI, Oportun provides loans specifically designed to meet the credit needs of consumers who cannot access credit from mainstream institutions because they lack sufficient credit history. By providing affordably priced small-dollar, unsecured installment loans and reporting consumer performance to the nationwide credit reporting agencies, Oportun is able to satisfy the credit needs of its customers and help them start building a credit history.

We offer loans at a fraction of the price of competing alternatives typically available to people with little or no credit history. According to a study commissioned by Oportun in January 2017 entitled *Oportun, The True Cost of a Loan*, the Center for Financial Services Innovation (CFSI), a leading authority on consumer financial health, determined that alternative credit products typically available to individuals in Oportun's key geographic areas of operation are usually four times more expensive than Oportun loans, and can be up to seven times more expensive. Furthermore, as calculated by the model developed by CFSI which was last updated as of December 31, 2018, Oportun's customers have saved more than $1.4 billion in aggregate interest and fees by choosing an Oportun loan over one of the alternative options that are widely available to people with little or no credit history. This translates into an estimated average savings of $1,000 per customer on their first loan with us.

FDIC Question #8: What are the potential benefits and risks related to banks partnering with third parties to offer small-dollar credit?

Millions of people living in the United States need access to affordable small-dollar credit options, yet banks traditionally have not served this market, even though many of these same people may have bank checking accounts. By partnering with responsible lenders like Oportun, banks can be responsive to the credit needs of the low-to-moderate income people who live and work in their communities, while leveraging the technology of non-bank lending partners. Conversely, the bank partners can expand their reach by accessing more consumers who need small-dollar credit products but may not be aware of more affordable alternatives. By partnering with a bank, these companies can offer one product nationwide, reducing the cost and complexity associated with each of the individual states' unique installment lending laws. Such relationships are regulated by both the FDIC and states (many states require some form of licensing and supervision over the bank partner companies), ensuring proper consumer protection.

The FDIC has established guardrails for banks selecting and managing non-bank partners through several Financial Institution Letters published over the years, including Guidance for Managing Third-Party Risk, Bank Technology Bulletin on Outsourcing and Supervision of Technology Service Providers and Outsourcing Technology Services, to name a few. Thus far, those guardrails have been effective in ensuring that third party bank relationships have not been used to create either consumer risk or risks to the bank. The FDIC should continue to evolve these rules to ensure that active but responsible participation between banks and non-banks continue to help both sectors' businesses and their customers. One way to do so may be to amend the FDIC rules to incorporate responses to the FDIC's Request for Guidance on Rules related to Third Party Lending, issued in 2016.

FDIC Question #10: Are there any legal, regulatory, or supervisory factors that prevent, restrict, discourage, or disincentivize banks from offering small-dollar credit products? If so, please explain.

In 2007 the FDIC implemented the two-year Small-Dollar Loan Pilot Program designed to illustrate how banks can profitably offer affordable small-dollar loans as an alternative to high-cost credit products such as payday loans and fee-based overdraft programs. In its 2010 report on the program, the FDIC stated, "a key lesson learned was that most pilot bankers use small-dollar loan products as a cornerstone for building or retaining long-term banking relationships" but the report indicated that the small dollar loans were unable to achieve short-term profitability on their own.

This is due to a few factors, but most notably the FDIC's cap of 36% on the APR of the small dollar loans being offered in the program (which is consistent with the FDIC's Small Dollar Lending Guidelines), which makes it virtually impossible to achieve profitability on a small dollar loan. The reason for this is illustrated by the following table, which shows the disproportionate impact that a small prepaid finance charge has on the APR of a small dollar, shorter-term loan:

Disbursed Amount	Prepaid Finance Charge	Interest Rate	Term	APR	Finance Charge	Payment Amount	# of Payments	Total Payments
$500	$35	36%	7 months	56.76%	$103	$40	16	$603
$500	$0	36%	7 months	36%	$64	$37	16	$564

The top loan is representative of the first loan offered to new Oportun customers in California who don't have a credit history, under the Pilot Program for Increased Access to Responsible Small Dollar Loans (**"California Pilot Program"**). This loan has bi-weekly payments of $40, just $3.00 more than the bottom loan. However, because of the $35 prepaid finance charge, which is assessed to offset Oportun's costs to process the loan, the APR between the two loans differs by more than 20 percentage points.

To avoid the potential for exclusion of responsible small-dollar lending, Oportun respectfully requests that the FDIC clarify in its Small Dollar Lending Guidelines that there is no automatic 36% APR limitation on small-dollar bank loans (including those made through third-party lending arrangements). To curb any potential abuses with such loans, the FDIC could look to state laws such as the California Pilot Program, which introduces the concept of limiting interest rate, while allowing for a small origination fee to offset some of the costs to originate responsible loans.

FDIC Question #12: What factors may discourage consumers from seeking responsible, prudentially underwritten small-dollar credit products offered by banks?

Serving customers who use small-dollar loans requires understanding the unique needs of these customers. For many banks, small-dollar loan consumers are not their typical customer base for consumer credit, and so banks will need to consider alternative approaches for many aspects of their business, from branch locations, customer service options, bank hours, collections and servicing practices, to different loan terms and product features that cater to the needs of the small-dollar consumers.

For example, many of these consumers do not have checking or savings accounts, either because they cannot afford the fees often associated with such accounts, or because there is a mistrust of large financial institutions. Banks will need to consider the lack of these accounts when designing their small-dollar loan products, to ensure loan disbursement and repayment options do not assume the consumer will have a checking or savings account. Many lenders currently use a repayment system that is automated and electronic, with the vast majority of their customers paying back loans via automated clearing house access to the borrower's bank account. These characteristics are to be expected for prime or near-prime clientele, but limit access for underserved borrowers who may need small-dollar credit. Banks should consider alternative repayment channels including cash payment both in the banks' branches or through networks of payment processors located in convenient locations in the community. Additionally, making monthly payments can be challenging for these consumers, who live paycheck to paycheck. A bi-weekly or semi-monthly payment option to align to the borrower's paycheck frequency is a more attractive option that allows a customer to better align loan payments with their income cycle and budget.

Many customers who need access to small-dollar loans work multiple jobs or have shift work. Traditional bank hours would be a barrier for these customers, who have difficulty leaving work to take care of their financial needs. Instead, having access to banks on nights and weekends, when these customers are available, would better serve their needs. To overcome some mistrust, the bank branches or kiosks may need to be physically located in the communities, and banks may need to hire employees from the community who understand the needs of these consumers.

Finally, while many small-dollar loan consumers will appreciate the convenience of the ability to apply for a loan or making a payment online, a significant percentage of this population prefer cash payments. Therefore, it will be important for banks offering small-dollar credit to provide the ability to conduct face-to-face cash transactions at convenient hours and locations in the community.

FDIC Question #13. Are there specific product features or characteristics of small-dollar loan products that are key to meeting the credit needs of consumers while maintaining prudent underwriting?

There are a variety of small-dollar lending models that help consumers through times of need, and although we don't assume that there is a one-size fits all approach that should be taken by the FDIC in mandating product features, we can speak about our own experiences at Oportun.

Over the years we have evolved the design of all aspects of our product (including product structure, underwriting and servicing) to better meet the needs of our customers and ensure their success. For instance, our credit underwriting process is designed to gather information that our customers can easily supply, which has enabled us to meet the credit needs of people who would otherwise be ineligible such as those who are paid in cash or who are seasonal workers. Additionally, our proprietary risk model evaluates each loan based on our determination of the customer's ability to pay the loan in full and on schedule by the stated maturity, leading to better outcomes compared to alternative credit products. Because our customers do not traditionally have debt, we utilize a residual income analysis rather that the traditional analysis used by many banks based upon debt to income ratios.

We offer a simple and easy to understand, affordable, unsecured product that offers a fixed interest rate and payment amount, fully amortized with the payment designed to fit within the customer's budget. Our loans do not have prepayment penalties or balloon payments, and range in size from $300 to $6,000 (up to $9,000 for returning customers) with terms between six months and 46 months.

We serve our customers how, where and when they want to be served - via our end-to-end mobile origination solution, over the phone, or at any of hundreds of convenient retail locations open 7 days a week in the communities we serve, with staff who understand our customers' needs. We set loan repayment schedules to match our customers' pay cycles, which helps our customers establish positive credit history and improves our performance as a business.

We also strive to increase opportunities for our customers by reporting their repayment history to the nationwide credit bureaus, thereby helping our customers develop a credit history. Since inception, we've helped over 650,000 customers who came to us without a FICO score begin establishing a credit history. In addition, we embed timely credit education into the loan disbursement process to ensure that our customers, many of whom are new to credit, understand the terms and payment obligations of their loans and how timely and complete payment will help them build positive credit. Our collections staff also strive to work with the customer to understand the reason for their inability to repay and to put them in the correct hardship program to meet their needs. We also offer customers access to free financial coaching by phone with a nonprofit partner and referrals to other nonprofit financial health resources in their community.

In total all of these components of Oportun's product and process design help ensure that our customer outcomes are positive. Although there is not one aspect that uniquely ensures success for our customers, we encourage the FDIC to provide guidance to banks lending in the small-dollar credit area to take these product design features into consideration when offering their products.

FDIC Question #18. How can technology be leveraged to improve consumers' experiences and reduce potential risks to consumers associated with small-dollar credit products?

Although many financial technology providers of innovative lending products are leveraging technology, Oportun's capabilities are unique in that we leverage technology to provide responsible, affordable small-dollar products to customers who are traditionally underserved by banks and other financial institutions.

Technology has been an essential component of Oportun's ability to affordably and profitably meet the credit needs of its customers while providing a positive experience. For over twelve years, we have used advanced data analytics and leveraged machine learning to develop and consistently improve our credit underwriting models. We are able to score 100% of the customers who come to us through the innovative application of alternative data in our platform. Our scoring models are developed by leveraging over one petabyte of data derived from traditional as well as alternative data sources, and the accumulation of proprietary data from more than 6.2 million customer applications, 2.8 million loans and 54.8 million customer payments. We also use data analytics to set loan amounts and terms to fit individual budgets, giving customers months, not weeks, to repay.

We rely on technology and data analytics for all facets of our business, from loan application through disbursement, to servicing and collections. Our proprietary lending platform leverages customer and alternative data and applies advanced data analytics to successfully underwrite loans to credit invisibles and mis-scored consumers, while maintaining consistent credit quality. Our data infrastructure and processes allow us to derive insights that continuously improve efficiency and effectiveness in our operations. Examples of ways that we use technology to provide affordable credit options to those who traditionally are underserved are:

- Loan applications are supported by our proprietary lending platform that feeds application information from various geographies and channels into a centralized processing system. Across our omni-channel network, loan applications are gathered and processed entirely digitally, allowing for a consistent customer experience with instant credit pre-approved across these channels.

- We use our proprietary risk model, now in its ninth version, to evaluate the creditworthiness of an applicant as well as his or her ability to pay the loan while meeting regular financial obligations and living expenses.

- We verify income, address and identity through our technology platform, enabling centralized, consistent and effective fraud management measures.

- Disbursement is supported by our technology platform, providing for system generated loan disclosure documents to ensure uniform compliance and effectively tracking distribution of funds to customers across a broad network of retail locations and under our mobile origination platform.

- Our end-to-end mobile origination solution provides convenience to prospective customers. Our customers complete a loan application, are notified in seconds whether they are preapproved and take pictures of their documents for verification. If approved, customers' loan proceeds are deposited directly into their bank account.

- Our digital loan application allows our customers to transact with us seamlessly through their preferred method: via our end-to-end mobile origination solution or online, in person at one of over 300 retail locations or over the phone through our contact centers.

Oportun continues to invest in credit data and analytics capabilities to find ways to better serve our customers and provide small-dollar credit access to more customers by leveraging technology.

We appreciate the opportunity to provide insights into how Oportun has been able to provide inclusive, affordable small-dollar loans that empower our customers to build a better future for over twelve years. We appreciate the FDIC's efforts to expand access to credit in the small dollar credit area through FDIC insured banks.

Respectfully,

[redacted]

Joan Aristei
Oportun, Inc.
General Counsel and Chief Compliance Officer