CRL
Center for Responsible Lending

Adding Fuel to the Fire: OppFi Hurts, Does Not Help, Borrowers' Credit Health

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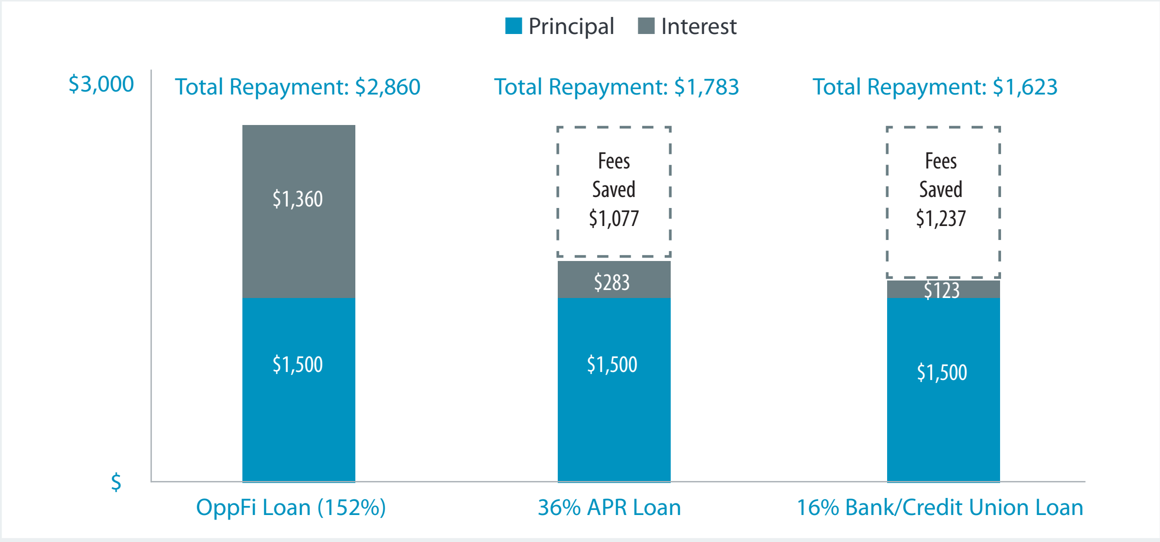
Opportunity Financial, also known as OppFi, is a consumer lending company based in Chicago, Illinois that offers personal installment loans. Although OppFi's stated mission is to "empower everyday consumers to rebuild their financial health," OppFi is a legacy subprime lender. The company uses a rent-a-bank scheme to evade consumer protections and charge customers triple-digit interest rates on its personal installment loan product.[1] In a rent-a-bank scheme, a lender partners with an out-of-state bank. The lender uses that bank's charter to make loans at rates up to five times greater than the 36% rate cap in place in many states where they operate.[2] With 95% of their loans made through rent-a-bank arrangements, OppFi predominantly relies on these bank partnerships to make high-cost loans to consumers in states that have prohibited such loans, due to their propensity to create a debt trap.[3]

Despite professing to provide an essential service to the credit and income constrained, OppFi saddles its customers with high-priced debt that is often difficult for borrowers to repay on time while meeting other financial obligations. This can lead to delinquency, default, or missed payments on other debts, which in turn can lead to late fees and sometimes debt collection lawsuits. Carrying high-cost debt can also make it harder for customers to qualify for loans with better terms, thereby reducing their access to more affordable credit.

OppFi Charges Consumers Triple-Digit Interest Rates for Large Loans

OppFi offers loans ranging from $500 to $4,000 with 9- to 18-month terms, charging Annual Percentage Rates (APRs) up to 160%.[4] OppFi reports that its average loan size is approximately $1,500 with an 11-month term. Its average effective interest rate on personal installment loans is 152%, showing that most consumers obtaining loans from OppFi pay nearly the highest rates offered.[5] To repay a $1,500 11-month loan with a 152% APR, a borrower would pay $1,360 in interest in addition to repaying the original amount borrowed (see Figure 1). Alternatively, to repay a $1,500 loan at 16% APR (a rate roughly equal to the typical interest rate on a credit card or loan from a bank or a credit union) a borrower would pay only $123 in interest and fees.

Figure 1: Total Repayment Costs for a $1,500 Loan with an 11-Month Term



Source: CRL calculations.

High Delinquency and Default Rates That Harm Customers Are Built into OppFi's Business Model

OppFi contends that it helps its customers build credit, and yet its loan portfolio's performance indicates otherwise. Although OppFi doesn't disclose its customers' delinquency rates or loan-level repayment outcomes, its astronomical charge-offs and high levels of default indicate that a sizable share of its customers are not successfully repaying their loans. In 2022, OppFi reported a 62% charge-off rate, and a 20% default rate on its outstanding principal balance.[6] OppFi's interest rates are so high that even with net charge-offs of around 40%, OppFi still comes out ahead. But large swaths of OppFi's customer base do not. Extremely high rates of loan delinquencies and defaults are embedded into OppFi's business model.

When asked during an investor call whether that heightened level of borrower default was sustainable for the business in the future, OppFi's CEO, Todd Schwartz, said high charge-off rates are the cost of doing business. Schwartz then explained to OppFi's investors that even with net charge-off rates in the low forties or high thirties, OppFi generates sufficient revenue to remain profitable. In describing how high default rates are not a threat to the business model, Schwartz's exact words were: "We'll always strive to kind of target that and hit that metric."[7] This stunning admission demonstrates that OppFi's business model permits more than one third of its customers—which number in the thousands—to suffer the adverse consequences of default.

Contrary to Its Marketing Claims, OppFi Loans Do Not Improve Customers' Credit Health

Despite OppFi's claims that its product improves the credit health of its customers, missed payments on loans and loan defaults lead to adverse credit outcomes that worsen borrowers' financial well-being. Previous CRL research measuring the credit and financial health outcomes of high-cost installment loan borrowers found that one in four borrowers with past due loans had their wages garnished and/or their car repossessed.[8]

Far more often than not, OppFi practices hurt borrowers' credit scores. OppFi reports the negative outcomes of its defaulted loan customers to credit reporting agencies, making it harder for them to access credit in the future. The District of Columbia Attorney General's office found that OppFi reports negative credit outcomes three times more frequently than it reports positive outcomes.[9]

OppFi Evades State Consumer Protections through Rent-A-Bank Schemes

Because OppFi charges triple-digit interest rates to maintain profitability despite its elevated default rate, the company currently originates 95% of its loans through "partnerships" with out-of-state banks to evade state rate cap laws.[10] Although OppFi does make direct loans without bank partners in states that have lax state rate cap laws, direct lending accounts for a small share of its business. All three of OppFi's bank partners—Finwise Bank, Capital Community Bank, and First Electronic Bank—are exclusively located in Utah, a state with no substantive interest rate limits.[11] And through these bank partnerships, OppFi has also made loans to more than 30 million adults living in states with interest rate cap laws that make it illegal for people living there to be charged triple-digit rates.[12]

There is little doubt that OppFi is the true lender and that its bank partners are not the lenders for their loans. SEC filings make clear that OppFi is responsible for the marketing, origination, and servicing costs of their OppLoan product. Moreover, Oppfi uses its own technology to make underwriting decisions.

Ultimately, the true lender is defined as the entity that holds the predominant economic interest in the loan in precedent upheld by state regulators and state attorney generals.[13] During a presentation to investors in 2021, OppFi shared the following: In the typical life cycle of a loan, they receive $1,657 in average revenue per customer. OppFi realizes all $530 in profits from the loan, and Finwise receives only a portion of the servicing costs, which totals $138.[14] Two months later, former OppFi CFO Shiven Shaw told investors that "[a]fter banks originate the product [loan] through a platform, we buy back the majority of economic interests."[15] OppFi seems more than willing to claim economic interest of the loan to reassure investors, contrary to what it tells state regulators.

Consumers, Policymakers, and Investors Should Scrutinize OppFi's Predatory Lending Practices

In October 2021, the District of Columbia Attorney General, Karl Racine, filed a lawsuit against OppFi for making allegedly illegal loans to more than 4,000 District residents. OppFi was evading the District's 24% interest rate cap on consumer loans through its rent-a-bank partnership with Finwise Bank, a state-chartered bank in Utah.[16] The lawsuit details how OppFi "misrepresent[ed] its high interest loans as fast and easy cash and falsely claim[ed] that its loans would help struggling consumers build credit."[17] Most District residents covered under this lawsuit received loans with a 160% APR—nearly seven times the District's rate cap of 24%. Ultimately, OppFi agreed to pay a $2 million settlement as compensation for the harms done to District residents who received loans in violation of the 24% rate cap.[18]

Overall, the harms of OppFi products and practices highlight the need for stronger consumer protections and regulations to prevent predatory lending practices and protect vulnerable borrowers. In the four states where OppFi lends directly, consumers, advocates, and policymakers should be aware of ongoing and problematic lending practices that result in high interest, high delinquency, and high default rates. In states where OppFi utilizes a rent-a-bank scheme, which accounts for 95% of its business, regulators should vigorously enforce existing state laws against OppFi, and state policymakers should ensure state consumer lending statutes are comprehensive and inclusive of rent-a-bank anti-evasion language. Consumers, policymakers, and investors should be fully aware of OppFi's history and remain vigilant to ensure sufficient safeguards for all families.

Endnotes

[1] For more information on the harms of rent-a-bank activity and CRL's past advocacy on this issue please see letter, FDIC Must Stop Banks from Fronting for Predatory Lenders. (February 2022). *Center for Responsible Lending.* https://www.responsiblelending.org/research-publication/fdic-must-stop-banks-fronting-predatory-lenders and The Rent-A-Bank Scheme. *Center for Responsible Lending.* rent-a-bank-infographic.pdf (responsiblelending.org)

[2] Saunders, L. (2013). Why 36%? The History, Use, and Purpose of the 36% Interest Rate Cap. (p. 3) *National Consumer Law Center.* https://www.nclc.org/images/pdf/pr-reports/why36pct.pdf

[3] OppFi's 2022 SEC 10-K reported that 95% of originations were made by servicing bank partners. See OppFi United States Securities and Exchange Commission (SEC) Form 10-K for the fiscal year ended December 31, 2022. (March 2023). For access to OppFi SEC filings, see https://investors.oppfi.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=100317366849.

[4] OppFi publishes their loan pricing and terms on their website. https://www.opploans.com/rates-and-terms/

[5] OppFi United States Securities and Exchange Commission (SEC) Form 10-K for the fiscal year ended December 31, 2022. (March 2023). For access to OppFi SEC filings, see https://investors.oppfi.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=100317366849.

[6] Ibid.

[7] OppFi Inc. (OPFI) Q3 2022 Earnings Call Transcript. (November 2022). *Seeking Alpha.* https://seekingalpha.com/article/4555683-oppfi-inc-opfi-q3-2022-earnings-call-transcript

[8] Glottmann, S., Rios, C., and Pete Smith. (September 2022). Unsafe Harbor: The Persistent Harm of High-Cost Installment Loans. crl-safe-harbor-low-sep2022.pdf (responsiblelending.org)

[9] District of Columbia v. Opportunity Financial. Complaint for Violations of the Consumer Protection Procedures Act. (p. 8). OppLoans-Complaint-final.pdf (dc.gov) p. 8

[10] OppFi United States Securities and Exchange Commission (SEC) Form 10-K for the fiscal year ended December 31, 2022. December 31, 2022. (March 2023). For access to OppFi SEC filings, see https:/investors.oppfi.com/financials/sec-filings/sec-filings-details/default.aspx?FilingId=100317366849.

[11] OppFi is a direct lender to its customers in AL, GA, NV, and WI. For more information on OppFi's bank partners, see their website here, https://www.opploans.com/bank-servicing/.

[12] Author calculates the population totals of 18 and older individuals living in states where OppFi offers loans at a higher interest rate than state law permits through bank partnerships. To calculate state populations, the author used the "P3|Race for the Population 18 Years and Over" table from the 2020 Decennial Census. https://data.census.gov/table?q=&y=2020&d=DEC+Redistricting+Data+(PL+94-171)&tid=DECENNIALPL2020.P3. For the most current data on state rate cap laws for high-cost installment loans see, C. Carter. (June 2022). Predatory Installment Lending in the States. *National Consumer Law Center.* https://www.nclc.org/resources/predatory-installment-lending-in-the-states-2022/

[13] The OCC and FDIC Plan to Trample State Laws by Gutting the Longstanding "True Lender" Doctrine. (August 2020) *Center for Responsible Lending.* crl-gutting-true-lender-rule-10aug2020.pdf (responsiblelending.org)

[14] OppFi Investor Presentation (February 2021). https://www.opploans.com/wp-content/uploads/2021/01/Investor-Presentation-02.10.2021-final.pdf Slide 23.

[15] OppFi Inc. (OOPFI) CEO Jared Kaplan on Q2 2021 Results–Earnings Call Transcript. (August 2021). *Seeking Alpha.* https://seekingalpha.com/article/4447953-oppfi-inc-opfi-ceo-jared-kaplan-on-q2-2021-results-earnings-call-transcript

[16] Press Release, AG Racine Sues Online Lender for Making Predatory and Deceptive Loans to 4,000+ District Consumers. (April 2021). *Office of the Attorney General for the District of Columbia.* https://oag.dc.gov/release/ag-racine-sues-online-lender-making-predatory-and

[17] Ibid.

[18] Press Release, AG Racine Announces Over $2 Million Settlement with Predatory Online Lender Will Compensate Thousands of District Consumers. (November 2021). Office of the Attorney General for the District of Columbia https://oag.dc.gov/release/ag-racine-announces-over-2-million-settlement