



The True Cost of Capital

Assessing the true cost of borrowing from Opportunity Fund
and marketplace alternatives

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Presenters



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Agenda

Introduction and Key Findings

PRO Neighborhoods

Research Methods

Findings

Looking Ahead

Q&A



Prior Research



- shared vision
- shared values
- shared resources
- shared risks
- shared rewards





The True Cost of Capital

- The true cost of a small business loan is not easily discernable nor understood by most borrowers
- After calculating true cost, Opportunity Fund saves considerable sums:
 - **Our trucking loans cost 21% less** than typical equipment loans*
 - **Our online loans cost 40% less** than typical short-term online loans and **76% less** than typical merchant cash advances (MCAs)
 - **Our microloans cost 89% less** than typical auto title loans and **91% less** than typical personal installment loans

*For borrowers with credit scores <650



PRO Neighborhoods



PRO Neighborhoods: Neighborhood Revitalization

Promote neighborhoods of opportunity where diverse individuals and families at all income levels can thrive

**\$125 MM
over 5 Years**

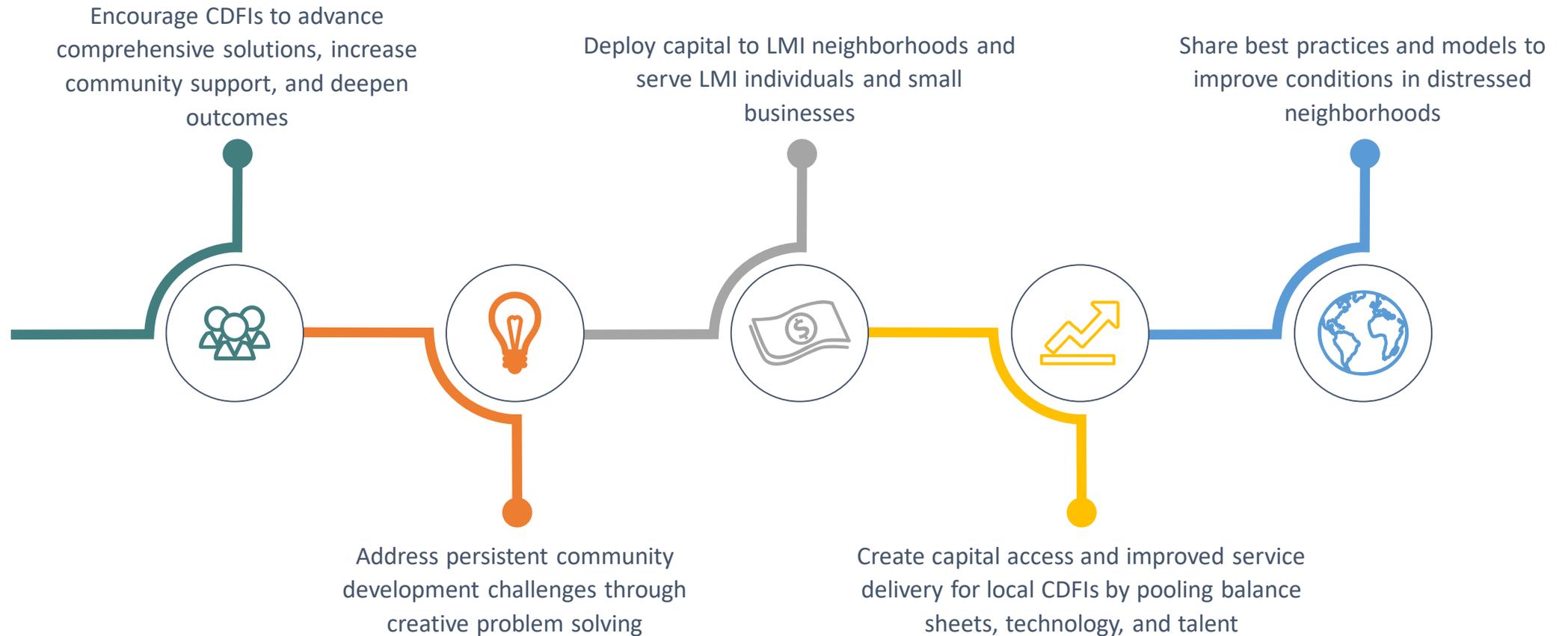
Focus Areas

- Forward-looking data and planning tools
- Market-based housing models
- Innovative collaboration models

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PRO Neighborhoods: CDFI Collaborative Competition



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PRO Neighborhoods: Impact in Communities

Competition Impact To-Date

Five competitions, awarding more than \$98 million to 25 CDFI Collaboratives (more than 70 CDFIs)

Winners of the first three competitions raised an additional \$713 million in outside capital to issue 21,000+ loans to LMI customers and create or preserve 3,000+ affordable housing units and 11,000+ quality jobs

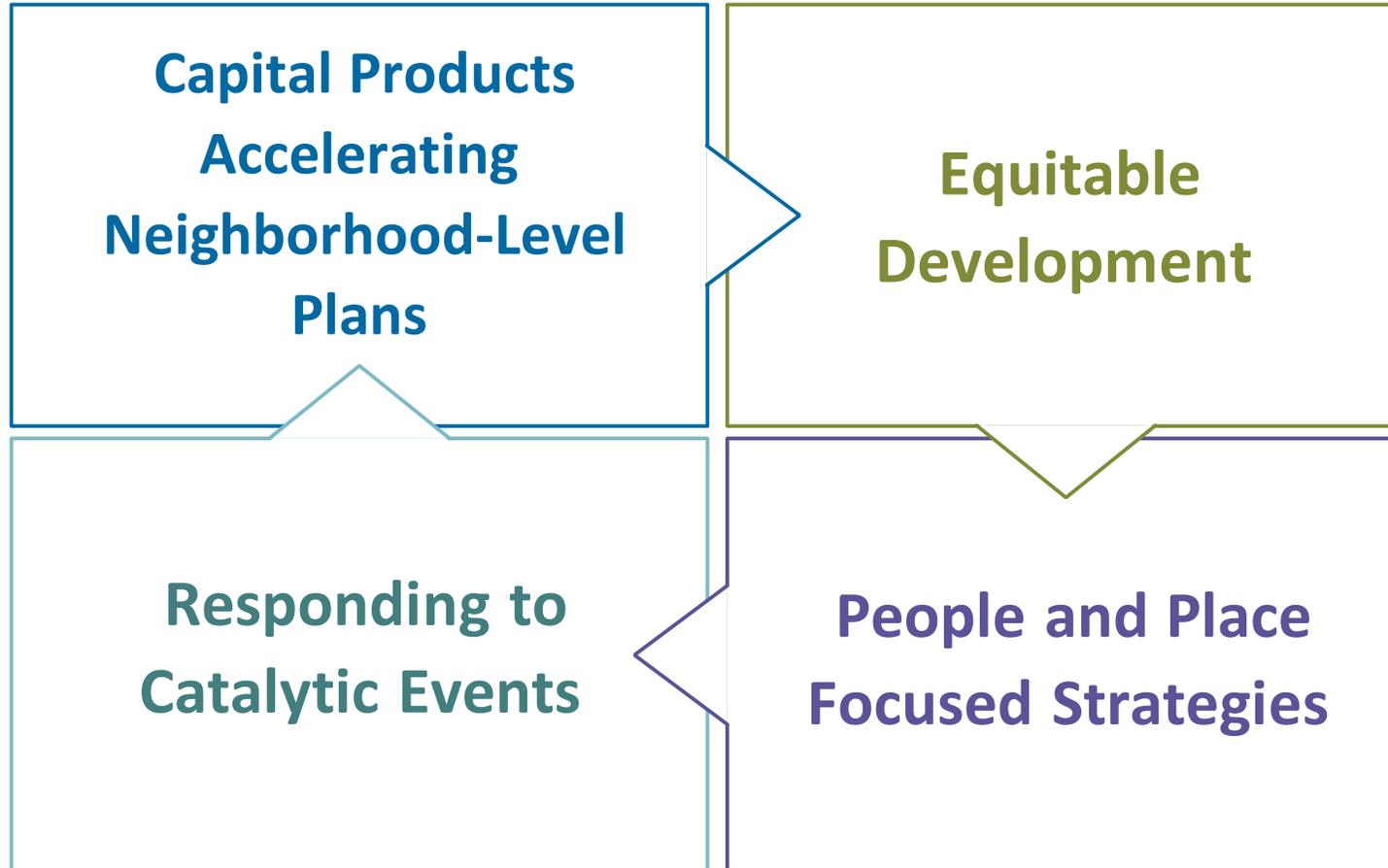
2019 Competition Insights

1. Majority are responding to catalytic community event
2. Strong representation of asset classes
3. Strong gender and diversity representation at executive level

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PRO Neighborhoods: Competition Lessons Learned





Research Methods



Methodology

1. Select Opportunity Fund products
2. Develop borrower and product profiles
3. Identify plausible alternatives
4. Compute and compare true costs for Opportunity Fund products and alternatives



Analyzed 2,216 California loans between July 1, 2016 and September 30, 2018



Trucking

Equipment Finance Loans



Online

Short-term Online Loans and Merchant Cash Advances (MCAs)



Micro

Personal Installment and Auto Title Loans



Defining “True Cost”

Actual Total Amount Repaid Over Life of Loan
– Initial Principal

True Cost of a Loan



Characteristics of True Cost of Capital

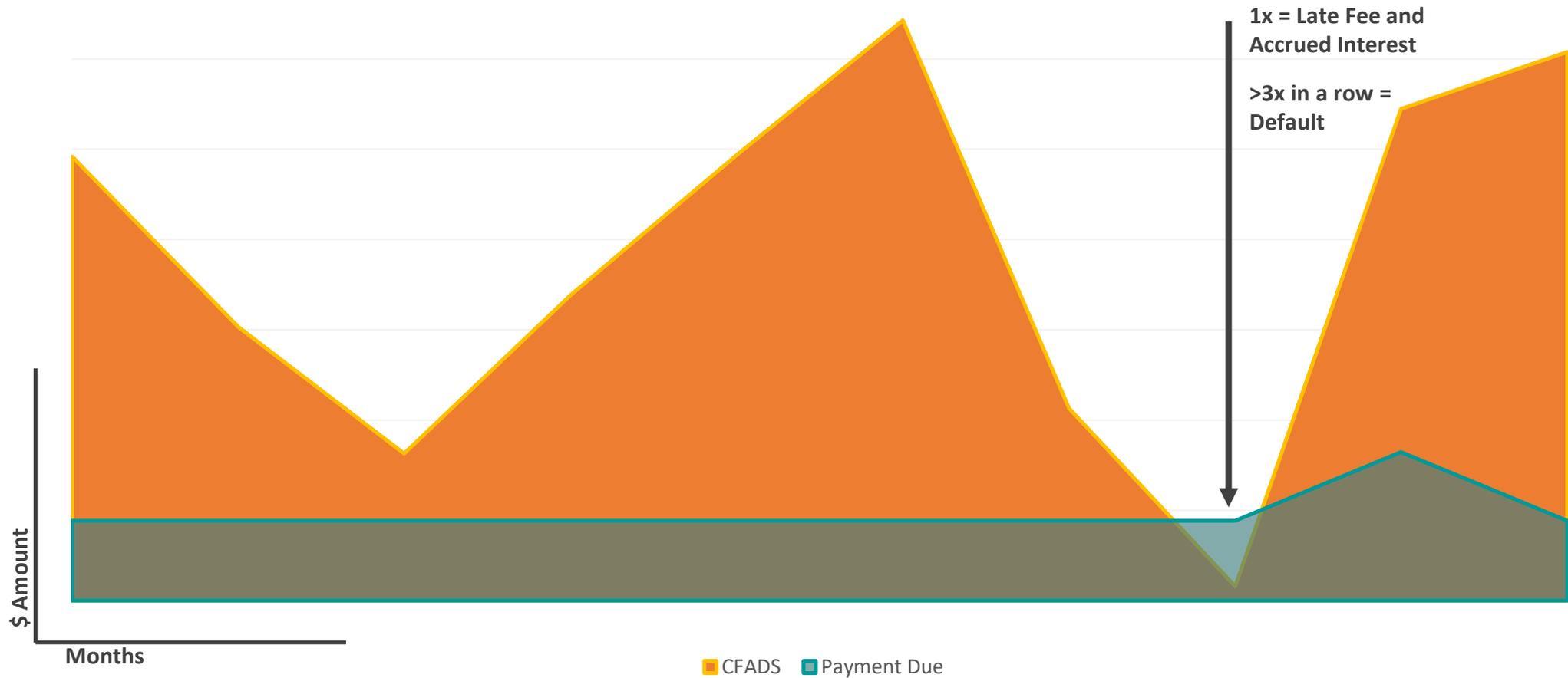
	Annual Interest Rate	Total Payment*	APR*	True Cost of Capital
Finance Charge	X	X	X	X
Origination Fees		X**	X	X
Income Volatility				X
Late Fees				X
Accrued Interest on Delinquent Balances				X
Restructuring, Reborrowing, and Other Borrower Action				X
Comparability Across Credit Products			X	X
				X

*Online payment calculators will often provide these two figures.

**Origination fees will only appear in monthly payments if they are folded into the repayment amount.

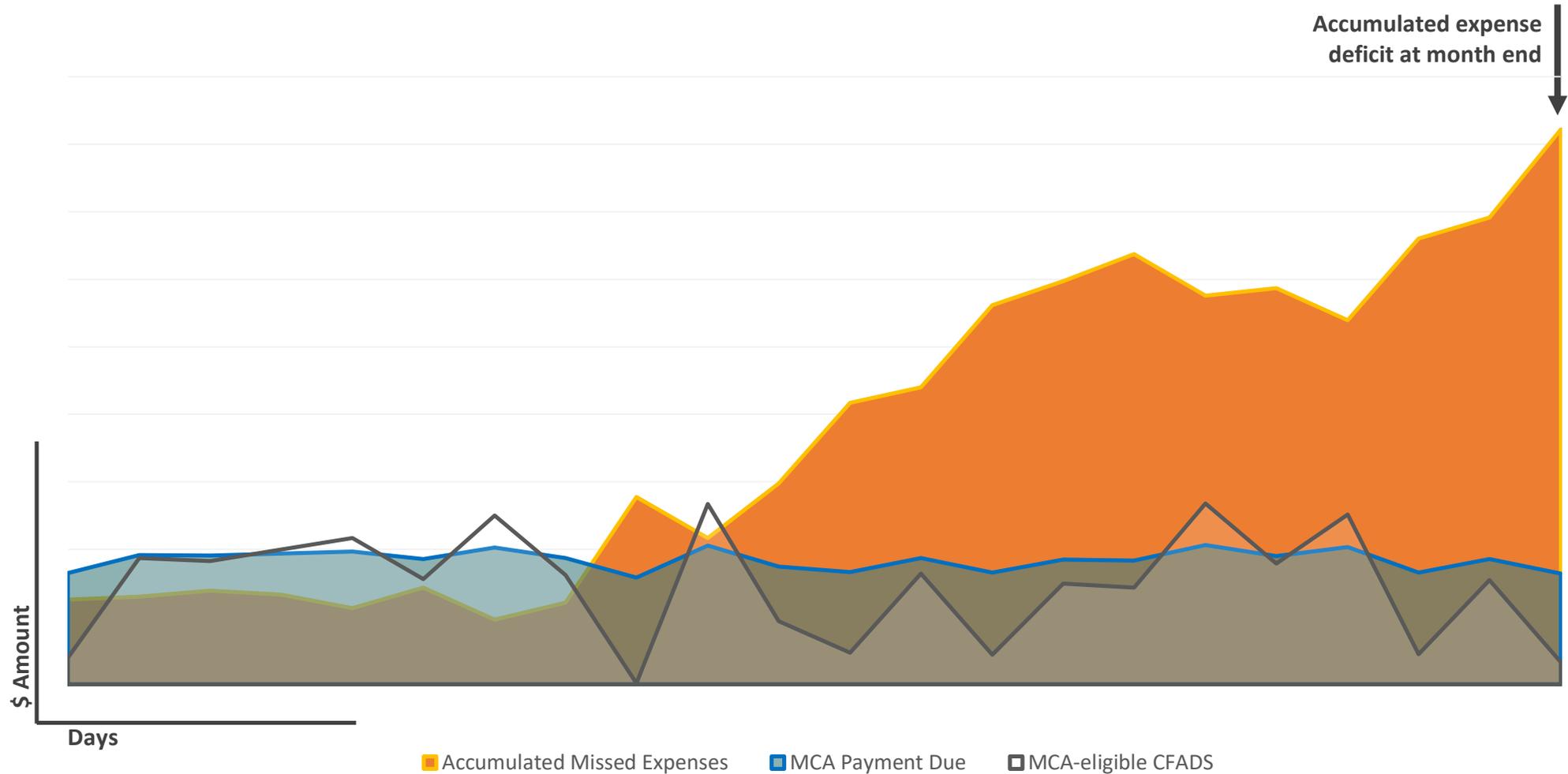


Incorporating Cash Flow Volatility in Loan Repayment





Incorporating Cash Flow Volatility in MCA Repayment





Assumptions and Limitations

- Utilized a *typical* borrower in quantifying the cost differences, individual borrowers with different characteristics will see different costs
- Model results are conservative estimates
- Estimates do not account for variability across industries and business types
- Alternative product information is indicative, but data sources on small business loan pricing are scarce



Findings



Trucking Loans



**Santos,
Commercial Truck Driver**

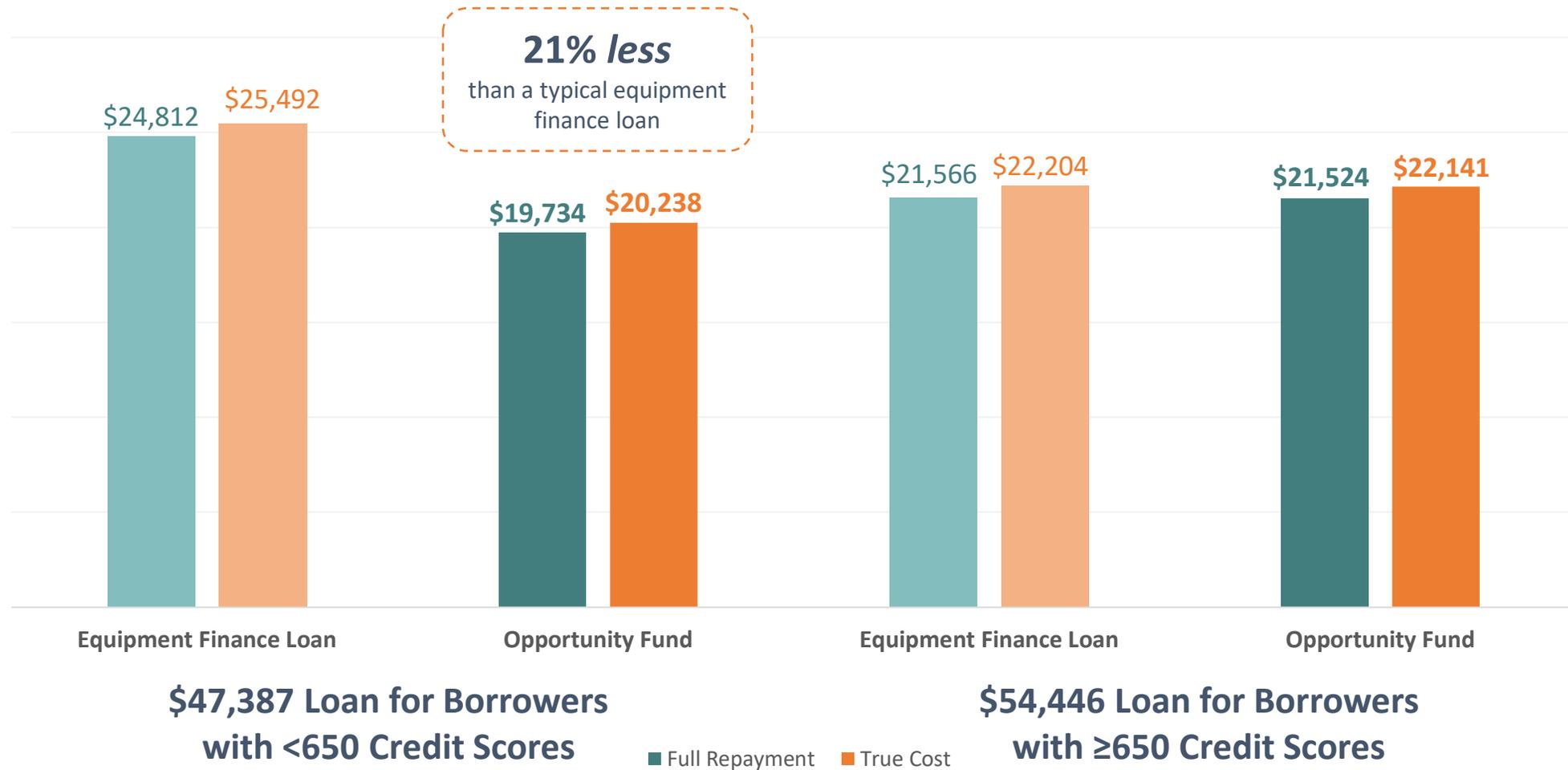
**394 trucking loans
issued to borrowers
with a
<650 credit score**

**1,124 trucking loans
issued to borrowers
with a
≥650 credit score**

**Compared to:
Equipment
finance loans for
borrowers with
<650 and ≥650
credit scores**



Opportunity Fund Saves Truckers Over 20%





Online Loans



Vladimir and Jim, Alan Desk Business Interiors

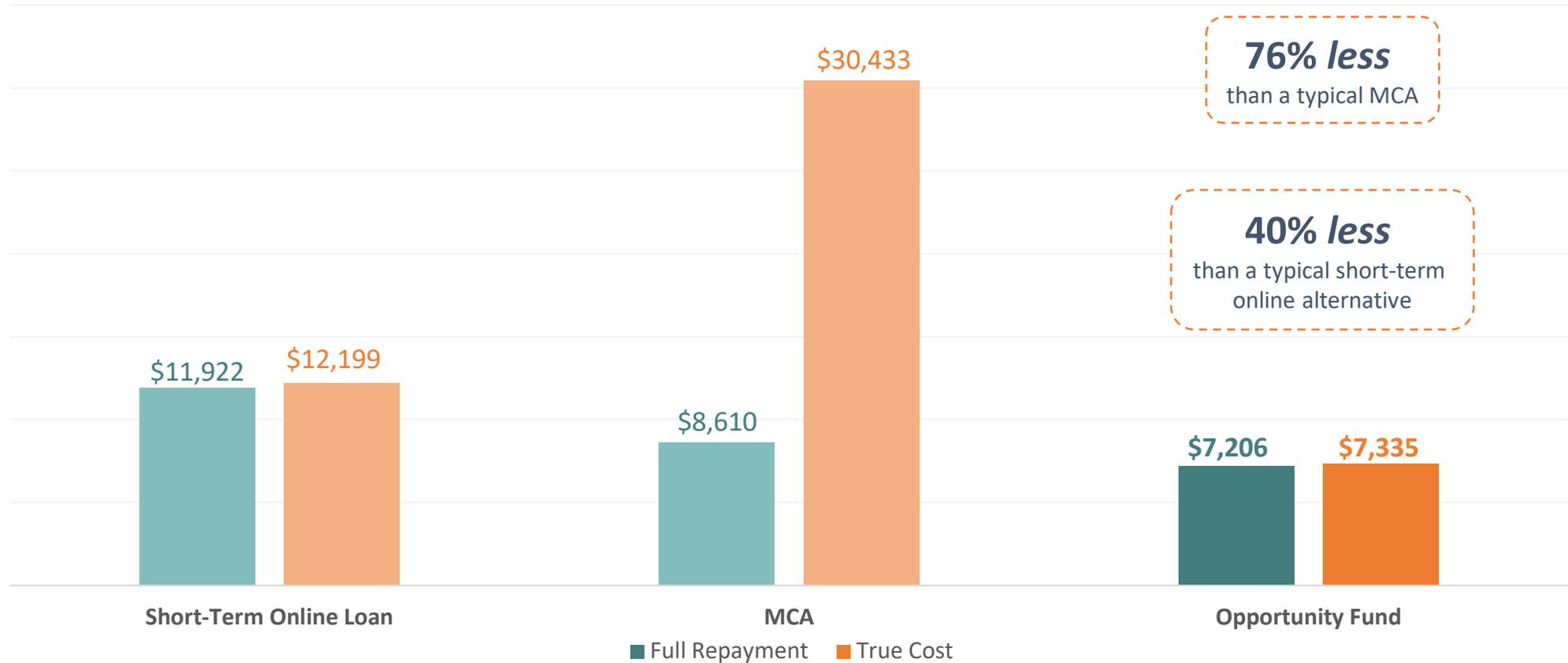
265 LendingClub referral loans

Compared to:
Short-term online loans and merchant cash advances (MCAs)



True Cost of MCA Towers Over Cost of Opportunity Fund

\$29,186 loan





Alejandra, Ale's Bissu Makeup Store

Microloans

433 working capital loans (\leq \$21,000) issued to borrowers with:

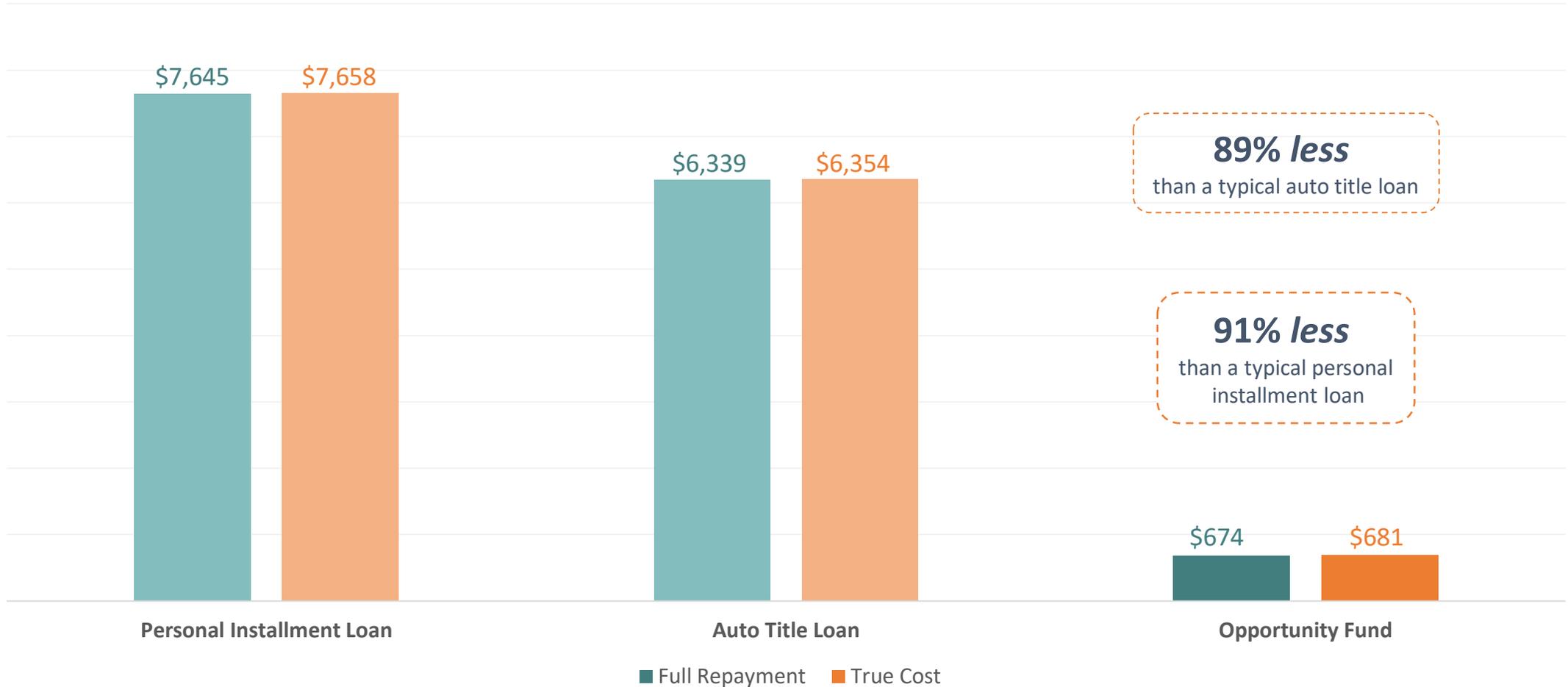
- No credit score
- Credit score <620
or
- Less than four tradelines in credit history

Compared to:
Personal installment and auto title loans



Microloan Borrowers Save Substantially

\$4,620 loan





Looking Ahead



Where Do We Go From Here?

- Innovate lending practices – \$87 billion capital gap for underserved businesses
- Bolster research – industry-wide data for small business lending
- Enact borrower protections – federal truth-in-lending act





**Imagine what
would happen if
every
entrepreneur
had access to
affordable
credit**

Shannen, Enos CPR



Q&A



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