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Second Party Opinion

OneMain Financial's Social Bond Framework

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Location: U.S. **Sector:** Financial services

Alignment With Principles

Aligned = ✓ Conceptually aligned = O Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

See Alignment Assessment for more detail.

Strengths

OneMain has a track record of operating as a socially responsible non-prime lender. The company's underwriting practices include personalized ability-to-pay evaluations, risk-weighted interest rates, transparent loan disclosures, and customer-friendly refund policies, all of which offer added protections to vulnerable borrowers.

OneMain has developed a strong social license to operate in the communities it serves. OneMain has demonstrated its commitment to mission-focused lending. It has done so through partnerships with local nonprofits to promote financial literacy, hosting free community-specific townhalls on personal finance topics, and supporting programs that enhance financial security and economic growth in underserved communities.

Weaknesses

The impact indicators OneMain intends to disclose are largely outputs rather than outcomes oriented. The company will disclose the number of loans, total loan amount disbursed, the average income levels of borrowers, and other metrics, but not the related social outcomes (e.g. improving credit scores or increased income of borrowers). This limits the insight into social projects' effectiveness.

Areas to watch

Broadly, the non-prime lending sector is exposed to regulatory penalties and recent increased scrutiny of its lending practices. OneMain's responsible lending practices mitigate potential social risks, but recent heightened exposure of the sector stems from concerns surrounding potential non-compliance with consumer protection laws, and there have been calls for greater transparency of the industry as a whole.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Founded in 1920 and based in Evansville, Ind., OneMain Finance Corp. (OneMain), the primary operating subsidiary of the holding company OneMain Holdings Inc., is a financial services company that engages in the consumer finance and insurance businesses. OneMain originates, underwrites, and services personal loans to non-prime customers secured by automobiles, other titled collateral, or nothing. The company also offers credit cards and credit insurance products. OneMain has a network of more than 1,300 branches and around 9,100 employees in 44 states, and it has a digital lending platform. It serves more than three million customers and had more than $22 billion in managed receivables outstanding as of Dec. 31, 2023.

OneMain's 2024 Social Bond Framework covers potential future unsecured social bond issuances and is separate from and does not supersede its 2022 ABS Social Bond Framework.

Material Sustainability Factors

Access and affordability

Nonbanking financial institutions (NBFIs) provide individuals and businesses with access to alternative financing options. While banks may offer financial services as a package deal, NBFIs usually unbundle these services, tailoring specific-purpose offerings for particular groups. However, challenges such as asymmetric information and limited financial literacy can result in high expenses for borrowers. Technology advances should help NBFI lenders improve their cost efficiencies and provide innovative product solutions.

Impact on communities

NBFIs have the capacity to impact a wide range of community issues by providing access to essential services for economically vulnerable groups. Providing access to essential services for economically vulnerable groups not only has the potential to alleviate income inequality but also fosters upward social mobility. The realization of this objective hinges on the responsible lending practices of NBFIs, which include transparent contractual terms, financial education programs, and support for borrowers encountering unexpected financial hardships. In contrast, when loan terms are obscured or predatory lending practices persist, these issues can exacerbate existing socioeconomic disparities in the customer base. By actively addressing these concerns, NBFIs can access new markets, achieve better financial performance, attract top talent, and mitigate their reputational and regulatory risk.

Responsible labeling and marketing

The financial services sector depends greatly on customer satisfaction and trust, yet opaque pricing and misleading sales have challenged customer trust for some NBFIs. While regulators are closely watching certain subsectors such as subprime lending, student loans, and residential mortgage origination/servicing, the industry's regulation and supervision is typically less strict than for banks and this can sometimes result in more aggressive underwriting or collection practices, or more opaque pricing considerations. Additionally, investors, regulators, and the broader public are exercising greater scrutiny on NBFIs' sustainable products, with much of the skepticism based on concerns that firms may use disclosures and sustainability-related labels on products and services as a marketing tool to appear more proactive on those issues than they truly are. These ethical challenges, if not properly managed with responsible marketing practices and customer engagement considerations, could pose material social risks to issuers. Regulation and consumer protection mechanisms have evolved over the past decade and should continue to help limit these risks in the financial services sector.

Climate transition risk

NBFIs are highly exposed to climate transition risk through their financing of economic activities that affect the environment. The number, scope, and ambition of regulatory requirements regarding greenhouse gas emissions will increase significantly for certain sectors, including the automotive sector. For example, there are increasing rising risks related to bans on the sale of new internal combustion engine (ICE) vehicles and their use in urban areas, the imposition of stricter vehicle fuel efficiency standards, and regulations applying to emissions that will be felt across the value chain. For instance, California and New York plan to prohibit the sale of new ICE vehicles by 2035.

Issuer And Context Analysis

The social projects included in the framework address OneMain's most material sustainability factors. We consider access and affordability, impact on communities, and responsible label and marketing to be the most material factors for OneMain. Through its social bond framework, OneMain intends to support socioeconomic progress and the financial empowerment of borrowers in underserved areas that face credit-restrictive lending options and many of whom are lower-income individuals. OneMain works to improve financial inclusivity through a diversified product suite with multiple personalized loan offerings, fairer loan terms, and personalized customer service to protect borrowers against financial illiteracy. OneMain's extensive digital services and branch network is rooted in rural communities and works to make lending more accessible for rural borrowers.

OneMain's focus on providing access to credit to underserved communities can help alleviate income inequality and foster upward social mobility. Through its social bond framework, OneMain commits to allocating at least 75% of loans to women and minority borrowers. According to the U.S. Federal Reserve, 65% of Black and 59% of Hispanic adults who make less than $50,000 per year and applied for some form of credit were denied credit or approved for less than what was requested. Access to credit for these populations can be a positive force multiplier for socioeconomic advancement in these communities due to its potential to help customers build their credit history. Furthermore, OneMain has pledged $25 million to support Minority Depository Institutions (MDIs) to enhance financial security and economic growth in underserved communities. Other community engagement initiatives by OneMain include relief programs, free community-specific townhalls on personal finance topics, delivering food and other items, and collaborating with local food banks to assist families affected by natural disasters. Additionally, through its Credit Worthy program, OneMain trains high school students about managing their finances, allowing them to develop positive financial habits early in life.

OneMain is a socially responsible non-prime lender with transparent marketing and labelling practices. OneMain ensures transparency in its lending process by providing a robust customer bill of rights, transparency in fees, optional financial literacy resources, and bilingual translation, when appropriate. OneMain also underwrites loans to customers with personalized ability-to-pay evaluations, risk-weighted interest rates, and a 60-day, no-questions-asked full refund policy on a customer's purchase price of optional products such as insurance or a pro-rated refund after 60 days. OneMain also maintains a seven-day cool-off period that allows customers to cancel loans without penalty. We consider these lending procedures, which mitigate the social risks associated with lending to vulnerable, underserved populations, as best practices that are not common in the non-prime lending sector.

OneMain's reporting on environmental factors is in its nascent stage. As OneMain's purpose is primarily driven by its social mission, its sustainability reporting primarily focuses on social metrics and initiatives. The company is yet to measure and report on its greenhouse gas emissions and other environmental metrics, and targets for key environmental metrics is limited. We do not expect any material changes to OneMain's environmental reporting in the immediate future.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond principles.

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✕

✓ Social Bond Principles, ICMA, 2023

✓ Use of proceeds

We consider the framework's social project category aligned, and the issuer commits to allocating the net proceeds issued under the framework exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds. The framework states a look-back period of 12 months, which we consider a best practice compared to the industry average of 36 months. Furthermore, OneMain will disclose the proportion of proceeds used for financing in its annual allocation reporting.

✓ Process for project evaluation and selection

OneMain's social bond framework outlines the processes and internal bodies responsible for evaluating and selecting qualifying borrowers. OneMain commits to using the net proceeds to acquire loans in counties deemed to be "credit insecure" or "credit-at-risk", which are identified by the Federal Reserve Bank of New York. Additionally, 75% of eligible loans will be determined to be from racial minorities (as defined by the Federal protected classes definition of race) and/or women. A committee consisting of compliance, accounting, treasury, public policy, and impact staff is responsible for annual oversight and approval of the portfolio of qualifying social loans and for annual reporting.

In addition, OneMain provides information related to its risk-management processes, which include the identification and management of social risks associated with the projects. For example, its custom budget and ability-to-pay analysis help customers develop a better understanding of their financial situation before and after borrowing. Additionally, OneMain outlines a comprehensive customer bill of rights that aims to protect borrowers. The framework also outlines a list of prohibited loan types including those for gambling and illegal activities.

✓ Management of proceeds

OneMain commits to track the allocation of net proceeds from social bond issuances on an annual basis. It will deposit net proceeds into a general fund account and it will earmark an amount equal to the net proceeds for eligible social loans. Once earmarked for allocation, social loans may be used as collateral for non-social securitizations. In case of divestment, cancellation, or repayment of an allocated social loan, or if an allocated loan no longer meets the eligibility criteria, OneMain will reallocate the proceeds to an eligible social project. Unallocated proceeds will be invested in cash or cash equivalent instruments in accordance with OneMain's liquidity management procedures.

✓ Reporting

OneMain commits to reporting annually on the allocation of social bond proceeds on its website until the maturity of the social bonds. The annual reporting will include information about the portfolio of qualifying loans, including the average loan balance, number of loans to borrowers in eligible areas, average net income of borrowers in credit insecure areas, and average balance of credit insecure borrowers' loans compared to the average balance of all borrowers' loans. The report will also include the net proceeds from each designated social bond issuance and the unpaid principal balance of loans to individuals in credit insecure areas as a percent of OneMain's total portfolio. The company will engage a qualified third party to verify and provide limited assurance on the allocation of social bond proceeds.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

OneMain expects to allocate 100% of proceeds from the bonds issued under its framework to finance or refinance a portfolio of loans granted to borrowers who, at the time of origination, were considered vulnerable and/or historically underserved, with at least 75% of eligible loans to be from racial minorities or women.

Social project categories

Financial inclusion

The loans will target borrowers within credit-insecure counties based on the Federal Reserve Bank of New York's reporting. In our view, the company's promotion of financial inclusion in targeted populations contributes to its sustainability objectives of alleviating poverty, promoting economic growth, and reducing inequalities.

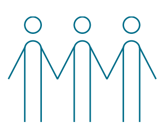
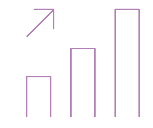
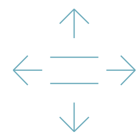
Analytical considerations

- Eligible portfolios will consist of loans to borrowers who typically face barriers accessing financing and financial instruments. In addition to these guidelines, at least 75% of the balance of loans financed by social bonds will be from racial minorities or women.
- OneMain asserts that greater availability of financial education and access to transparent and responsible products will help build the targeted populations' access to credit, improve their financial wellbeing, and increase financial inclusivity in the market. High interest rates can increase the financial risk to vulnerable borrowers, which could negatively affect these borrowers (namely because of the financial burden of high monthly loan installments and the risk of default). However, OneMain performs an ability-to-pay assessment for all borrowers and lends based on customers' net income or take-home pay, rather than gross personal or household incomes. The company also has a self-imposed maximum interest rate of 36% for all loans, even when not required by state law.
- OneMain gathers personal data using machine-learning and ability to pay analysis, from bureau information, alternative data, and proprietary data, which can help support more affordable rates for borrowers. This can also increase risk to data breaches or leaks. In part to mitigate this, OneMain maintains a corporate cyber risk insurance policy, conducts annual risk assessments on its cybersecurity capabilities, and complies with New York State Department of Financial Services' cybersecurity regulations.
- While OneMain commits to annual reporting of its allocation of social bond proceeds, the quantitative indicators chosen by OneMain do not directly measure the social outcomes of financed projects. That said, we believe defining social outcomes is difficult for many lenders and therefore view OneMain's social impact reporting practices as being in line with current market practices.

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs		
Financial Inclusion	 **1. No poverty***	 **8. Decent work and economic growth***	 **10. Reduced inequalities***

*The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying our Integrated Analytical Approach for Use -of-Proceeds Second Party Opinions, July 27, 2023
- S&P Ratings ESG Materiality Maps, July 20, 2023

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