Tapping in to an untapped market

An in-depth look at consumers with credit challenges

Understanding the impact of credit issues

From making ends meet to paying off debt, many people are overwhelmed by financial obstacles. And for those with less-than-perfect credit, the difficulties can quickly add up.

Snap Finance wanted to know more about those facing credit challenges, specifically those with FICO® credit scores below 670. To better understand the impact of having a lower credit score, we surveyed consumers with and without credit challenges to learn how they shop and pay for what they need.

Snap's research is designed to help retailers better understand and meet the needs of consumers facing credit challenges.

Highlights

1. **Who are consumers with bad credit or no credit?**
2. **How do credit issues affect shopping behaviors?**
3. **What's the impact of a lower credit score on finances?**
4. **How can retailers maximize the tertiary financing opportunity?**
5. **What are the takeaways for retailers?**

1

Who are consumers with bad credit or no credit?

They may not be who you think. People who struggle to secure traditional financing may be employed and have assets such as a home or a car. Like other consumers, they likely structure their loan and credit payments around their paydays and can be just as responsible and thoughtful with their finances. But maybe they haven't established credit yet, or perhaps their low score is due to missed payments, recent charge-offs, or high debt-to-income ratios.

Consumers with lower credit scores make up a significant portion of the population – and retailers' potential customer base. According to recent research from Experian and Oliver Wyman, 57 million Americans have subprime credit.[1] That means most lenders won't lend to them, at least not at the same interest rates as prime borrowers.

What's a subprime credit score? There's no magic cut-off number that lenders use but a subprime FICO score is generally considered to be anything below 670. A score between 580 and 669 is considered fair, and one between 300 and 579 is poor.[2]

Key demographics of consumers with credit challenges

39% are millennials

51% are renters

44% work full time

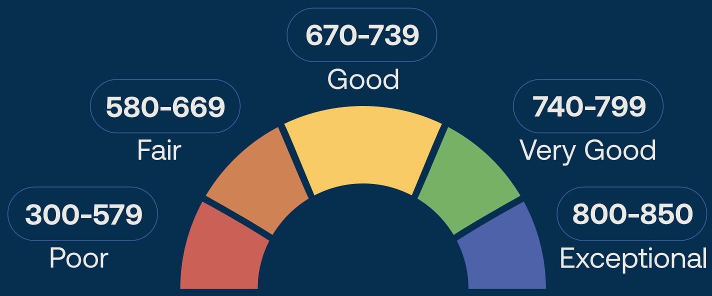
70% have an income below $50K

65% do not have a college degree

Source: Snap Finance, 2023[5]

35% of consumers have a FICO score below 670[3]

FICO score ranges



Source: myFICO[4]

The impact of a limited credit history

Lenders and other companies often look at credit reports to determine if a potential borrower has a good track record of paying off debts. That's a problem for the 19% of American adults (49 million consumers) who don't have conventional credit scores. That includes 28 million who are credit invisible, with no mainstream credit file at the major credit bureaus (Experian, Equifax, and TransUnion), and 21 million who are unscorable, with too little information in their credit file to generate a conventional credit score.[1]

70% of those with low credit scores live paycheck to paycheck[5]

The high cost of bad credit

People with lower credit scores face roadblocks that make it more difficult to achieve their financial goals.

Fewer financing options. A lower credit score may mean consumers don't qualify for traditional credit cards, in-store financing, loans, or other options.

High interest rates. Because it's riskier to lend to people with poor credit histories, borrowers with low credit scores often pay much higher interest rates and financing costs.[6]

Costlier insurance premiums. Many insurance companies use credit-based insurance scores to determine premiums, and a lower score can lead to higher premiums.[7]

Fewer housing options. Landlords may use credit reports and scores to screen potential tenants. With a lower score, a landlord may refuse to rent to a consumer, ask for a larger deposit, or insist on a cosigner.

Lost career opportunities. As part of the hiring process, many employers perform credit checks to gauge an applicant's reliability and money management skills.

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How do credit issues affect shopping behaviors?

People with low credit scores often find themselves adjusting their shopping behaviors to accommodate their financial situation. They may go without a big-ticket purchase or choose a less expensive item than the one they really want or need.

Snap Finance found several differences – and similarities – in how consumers with credit challenges shop for what they need, compared to those with higher credit scores.

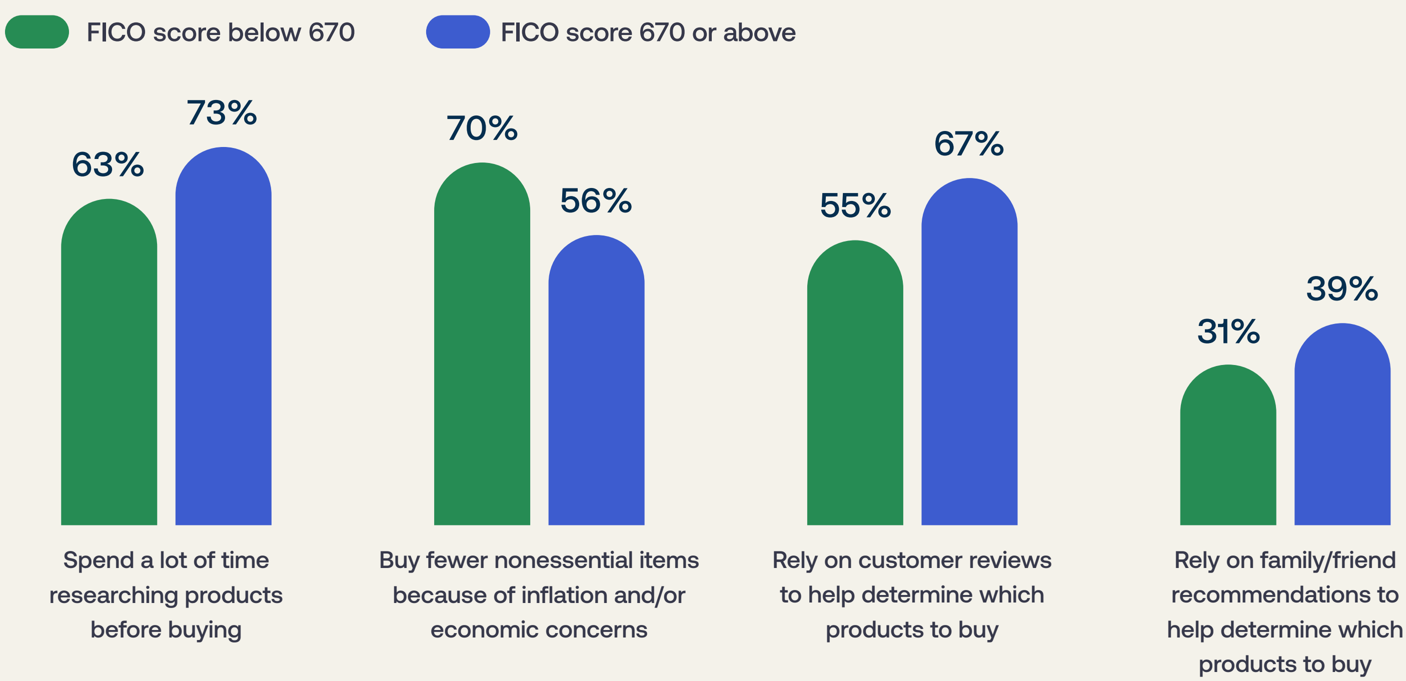
Before they buy

No matter their credit score, most consumers shop around for deals and spend time researching the products they want to buy. However, our research found that 63% of those with lower credit scores research products before they buy, compared to 73% of those with higher scores.

When it comes to reviews, those with credit challenges are also less likely to rely on customer reviews and recommendations from family and friends before they buy, compared to those with higher scores.

That means those with lower credit scores may be less ready to make a buying decision than other shoppers. Offering this customer segment more assistance, guidance, and product education can help retailers close the sale.

The effect of credit scores on shopping habits and preferences



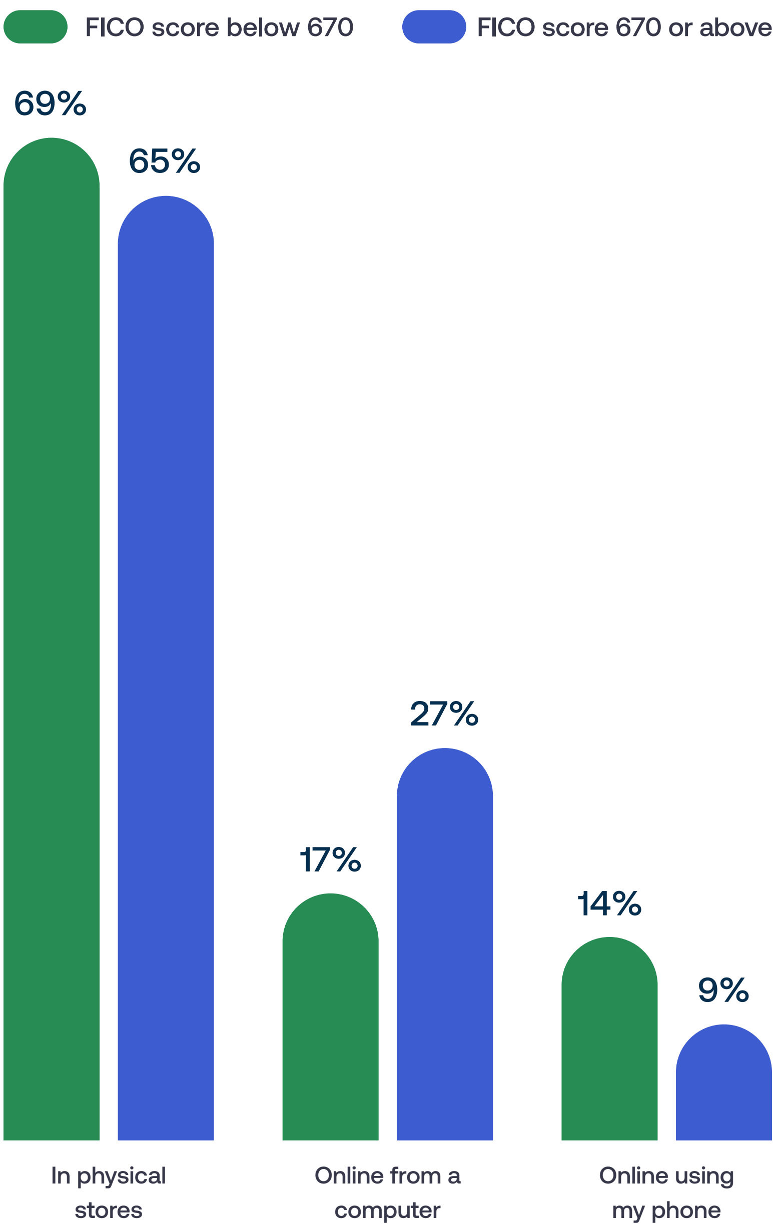
Findings based on proprietary research. Snap Finance, 2023.

Getting what they need

Inflation and a rising cost of living have led many consumers to cut back on discretionary spending.[8] Snap found 70% of consumers with credit scores below 670 are cutting back on nonessential purchases, including vacations and clothing, compared to 56% of those with higher credit scores. However, for purchases of more essential categories, consumers of all financial backgrounds are shopping at similar rates.

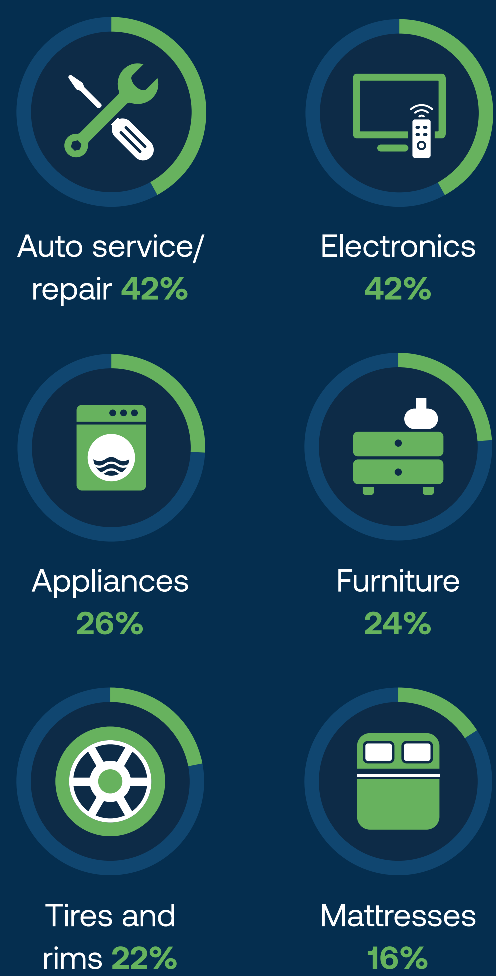
Where consumers purchase big-ticket items

(Purchases $500+)



What credit-challenged consumers are buying

(Product category purchases in last six months)



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What's the impact of a lower credit score on finances?

Money worries keep a lot of people up at night. For those with lower credit scores, the stakes are even higher. Here's what Snap Finance found.

70% often worry about finances

74% would have difficulty paying for a major unexpected expense

86% don't feel good about their financial situation

And when life happens – the dishwasher breaks down or the car needs new tires – the worries add up.

Savings can cushion the blow from unexpected expenses. But our research found that among those with credit scores below 670 who have savings accounts, 58% have less than $500 in savings. In stark contrast, 50% of those with higher scores and savings accounts have more than $10,000 in savings.

With little room for error, 31% of those with credit challenges told us they rely on financing to make ends meet.

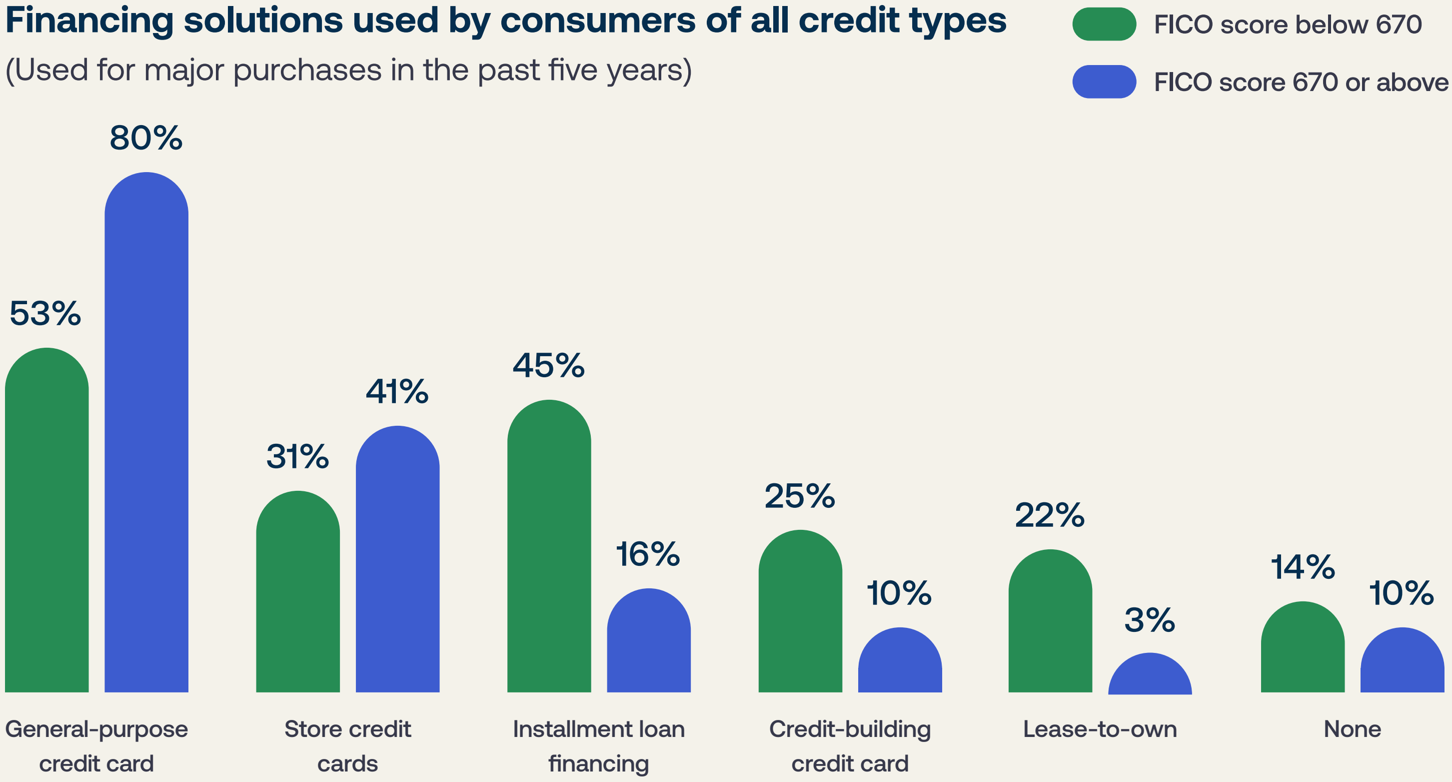
Paying over time

When expenses are higher than budgets and savings allow, financing can help consumers get what they need now and pay over time. Retailers that offer more financing options can reach more customers and increase sales.

Among consumers with credit challenges, 45% have used installment loans and 22% have used lease-to-own financing to pay for major purchases in the past five years.

Financing solutions used by consumers of all credit types

(Used for major purchases in the past five years)



Making a financing decision

How do consumers decide what form of financing to use? About a fourth (27%) of those with lower credit scores apply for financing with multiple companies and compare offers.

In-store advertising and a knowledgeable sales force play an important role in informing customers about financing options. Among those with lower credit scores, 14% trust retail associates to recommend the best financing for their situation.

To help customers and close the sale, retailers should ensure their sales team is well-versed in available financing options and can easily walk customers through the application process for each.

Top 10 factors in choosing a financing company

(Among those with credit scores under 670)

1. Lowest ongoing payment amount
2. Application doesn't impact credit score
3. Total cost of financing plan
4. Lowest money down at time of purchase
5. Easy, quick application
6. Ability to pay off early and avoid charges
7. Confidence in getting approved
8. Quick access to funds
9. Private information is kept secure
10. Highest approval amount

If financing options weren't available, 44% of credit-challenged customers would go to a different store

Financing brings increased buying power

Shoppers often spend more with financing. Not only does it reduce the pain of paying upfront, paying over time also increases purchasing power. With financing, shoppers can get more expensive or better quality items – or simply buy more of what they want or need. And retailers can increase their average order volume.

On a recent purchase, 58% of credit-challenged consumers spent more because financing was available. Among those who spent more, 79% increased their purchase by $100 or more.

Financing can be the difference between customers getting what they need or walking away empty-handed.

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How can retailers maximize the tertiary financing opportunity?

When individuals need to purchase big-ticket, essential items, such as tires, appliances, or furniture, they often turn to financing. Shoppers who don't qualify for financing from a primary lender may be approved by a secondary lender under different terms.

But what if they don't qualify for traditional financing? Subprime or tertiary financing, including lending and lease-to-own financing solutions, can help fill that gap for consumers, especially in a tight economy. For merchants, tertiary financing can translate to new market opportunities, increased sales, and a competitive edge in the marketplace.

Almost half (42%) of U.S. consumers say their credit scores prevented them from obtaining a financial product in the past year.[9] That number rises dramatically for those with poor credit. Snap Finance found that among consumers with a credit score below 670, 76% have been turned down for financing.

It can take years for a credit score to recover from late or missed payments, bankruptcy, or other items on a credit report. In the meantime, consumers with credit challenges still need new tires, furniture, mattresses, appliances, and other essential items.

Technology-driven solutions

The rise of fintech has introduced innovative subprime or tertiary financing solutions. Leveraging advanced analytics, machine learning algorithms, and artificial intelligence, companies have been able to create more accurate risk profiles, allowing them to offer credit to subprime consumers who might have been overlooked by traditional lenders.

These tech-driven solutions provide quick and transparent financing options, significantly enhancing the borrowing experience for subprime consumers. Fintech solutions have automated the financing process, making it more efficient and less time-consuming. This automation is a boon for merchants, as it allows them to offer financing options seamlessly at the point of sale, whether in-store or online.

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Takeaways for retailers

In today's competitive market, offering financing solutions to consumers from a wider financial background can help retailers expand their customer base, increase sales, and build brand loyalty.

Here are the potential benefits for retailers considering tertiary or subprime financing for their customers.

Broader reach. Offering financing options for all credit types can help more consumers get what they need. Retailers shouldn't overlook a large segment of their potential customer base.

Increased sales. Paying over time makes higher-priced items accessible to more customers. Offering that option to more customers through tertiary financing can lead to increased average order values and sales volume.

Customer loyalty. Helping customers get what they need, no matter their financial background, can help build loyalty and encourage repeat business.

Greater visibility. Consumers shop where they know they can get what they need. Promoting the availability of more financing options on signage and social media can help drive traffic.

Competitive advantage. Offering more financing options can differentiate businesses from competitors that don't provide those options.

No-hassle financing. Businesses are paid by most financing companies when the customer receives their merchandise. The customer then makes regular payments to the financing provider until the account is paid in full.

Fostering a more inclusive approach to financing

Offering additional financing options can be a lifeline for customers with lower credit scores, enabling them to access goods and services that may otherwise be out of reach.

For retailers, providing those options translates to a broader customer base, increased sales, and the potential for stronger customer loyalty. Retailers can leverage advanced technology to streamline the experience for their customers, providing quick, efficient, and transparent financing options. Offering financing solutions for those with credit challenges is an opportunity to drive business growth in today's dynamic market.

The bottom line? A more inclusive approach to financing creates a win-win situation for consumers and businesses.

About Snap Finance

Snap Finance harnesses the power of data to empower consumers of all credit types to get what they need. Launched in 2012, Snap's technology brings together more than a decade of data, machine learning, and nontraditional risk variables to create a proprietary decisioning platform that looks at each customer through a more holistic, human lens. Snap's flexible lease-to-own and loan solutions are changing the face and pace of consumer retail finance.[1]

For more information, visit Snap Finance.

Snap-branded product offerings include retail installment contracts, bank installment loans, and lease-to-own financing. Talk with your local Snap sales representative for more details on which product qualifies at your store location. For more detailed information, please visit https://snapfinance.com/legal/financing-options

[1] While no credit history is required, Snap obtains information from consumer reporting agencies in connection with submitted applications. Not all applicants are approved.

Sources

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