Unlock the benefits of tertiary financing

Insights into how and why small businesses offer tertiary or subprime financing

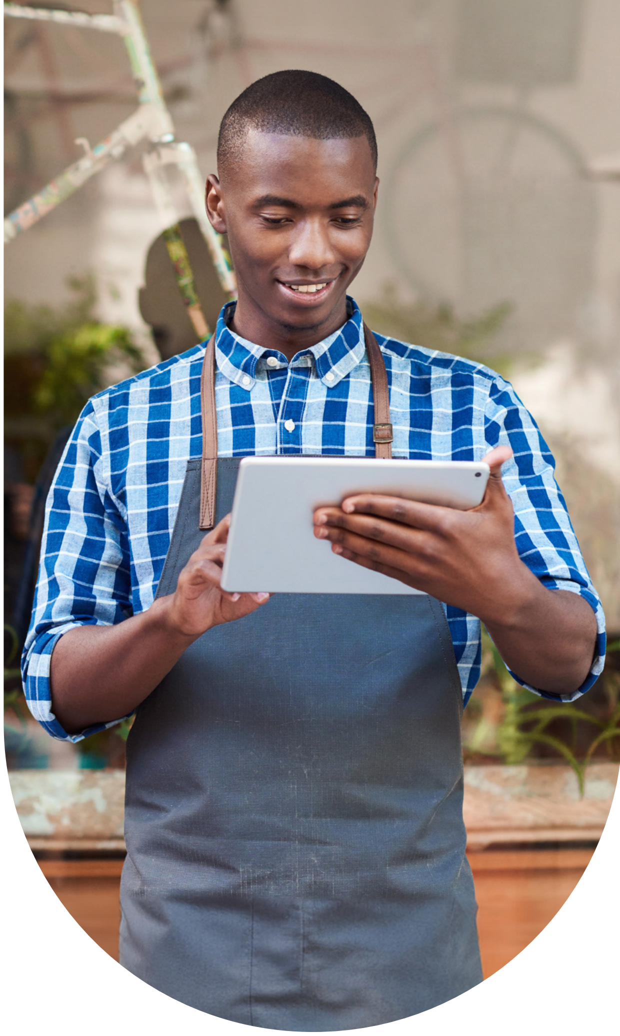
snap finance

Close the gap with tertiary financing

When your customers need help paying upfront for a big-ticket purchase, they often turn to financing. But what happens if they don’t qualify for traditional financing?

Tertiary or subprime financing, including installment loans and lease-to-own financing, can help close that gap and generate significant benefits for your business. With tertiary financing, more shoppers can get what they need instead of walking away empty-handed. And that can mean more sales and revenue for you.

Snap Finance wanted to strengthen our understanding of how and why small businesses use tertiary financing, and how it benefits them. We surveyed decision makers representing small and medium-sized businesses to learn more about the impact of tertiary financing – and to help businesses like yours better understand and reach the subprime market.



Highlights

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4. **How to choose the right financing partner for your business**

1

Understanding the tertiary financing market

Shoppers often turn to financing to purchase big-ticket, essential items, such as tires, appliances, or furniture.

But recent research from Snap Finance found that among consumers with credit scores below 670, 76% have been turned down for financing.[1]

Small businesses need to make the most of every potential sale. And when the customer can't pay upfront or their financing falls through, the sale is often lost.

If shoppers are denied prime or secondary financing, tertiary financing can help customers get what they need and help your business close the sale.

What is tertiary financing?

Primary financing covers traditional loans, credit cards, and other financing options that rely mainly on customers' credit scores to determine whether they're approved or not. Interest rates are usually lower for those with good to excellent credit, who are referred to as prime borrowers.[2]

Shoppers who don't qualify for financing from a primary lender may be approved by a secondary or tertiary lender under different terms. Alternative third-party financing providers often consider more than credit scores from major credit bureaus when making approval decisions, which may increase customer approval rates. Subprime or tertiary financing may be many customers' only means of obtaining credit.

Tertiary financing options

For many businesses, their tertiary financing offering is lease-to-own financing. With lease-to-own financing, a third-party provider, such as Snap Finance, purchases the merchandise and leases it to your customer. The provider typically pays you once the merchandise is delivered and then the customer makes manageable payments over time to the third-party provider until they've completed the terms of their lease. At that point, the customer obtains full ownership.

Installment loans are another alternative financing option that allows customers to make payments over time for certain products and services through a third-party provider. Some providers, including Snap Finance, offer financing options for people with less-than-perfect credit.

How big is the need?

More than 47 million Americans are considered subprime borrowers – up 1.2 million in the last year.[3]

That's an increasingly significant number of customers who are shopping in your store but may not be able to get what they need or want.

What lenders consider subprime varies, but a FICO® score below 670 can be a roadblock to securing traditional financing.[2] And according to Experian, more than a third of consumers fall in this category.[4]

35% of consumers have a FICO score below 670[2]

Getting what they need

It can take years to build credit or 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. Facing that situation, many consumers turn to tertiary financing, including installment loans and lease-to-own financing.

Among consumers with credit challenges, 45% have used installment loans and 22% have used lease-to-own financing to pay for major purchases.[1]

Offering pay-over-time options for customers who may not qualify for traditional financing helps more shoppers get what they need and can increase your average order value, boost your sales, and give your business a competitive advantage. And by partnering with a third-party financing partner, small businesses can offer tertiary financing options without the hassles of credit defaults or delinquencies.

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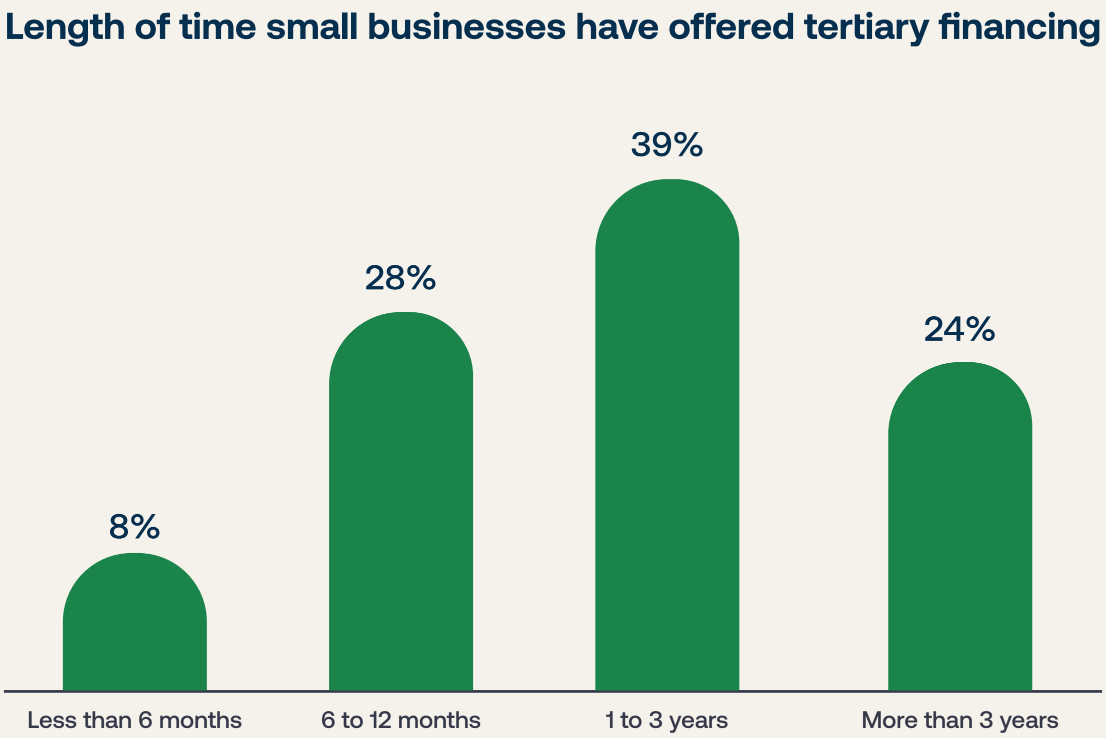
How small businesses use tertiary financing

As the need grows, so do financing options. Snap Finance found that less than 1 in 3 (31%) of small businesses offer some form of tertiary or alternative financing to their customers. And 37% of those businesses only began offering tertiary financing in the past 12 months.



A growing demand

Nearly half (47%) of small businesses that offer tertiary financing said their customers rely more on financing due to the current economy. In addition, many report their customers are comparison shopping more often to get the best deal, delaying purchases, and buying lower-priced items.

Among small businesses that offer tertiary financing, 75% said more customers are asking for or in need of tertiary financing than in the past.

In addition to economic conditions, small businesses attribute the growing demand for tertiary financing to:

- **77%** More customers are having difficulty getting approved for other financing
- **46%** More customers have a better understanding of tertiary financing options
- **43%** My business is promoting tertiary financing more now

Closing the sale

Money is an uncomfortable topic for most people, and it's a particularly challenging conversation for people who wonder if they'll be turned down for financing. If your customers are reluctant to begin a conversation about alternative financing, they may never know options exist.

Talking about financing can be uncomfortable for your sales team, too. The good news is that among small businesses that offer tertiary financing, just 5% choose to discuss financing options only if the customer asks about it. Nearly two-thirds (63%) of those businesses said their reluctance was to avoid embarrassing or offending customers if they don't need financing.

Don't let consumers' hesitancy – or yours – create lost sales opportunities. Find moments in the sales process to discuss multiple payment options.

Among small businesses that offer tertiary financing, here's where the discussion on financing options begins:

- **43%** After getting to know the customer during the sales process
- **35%** When the customer has made a purchasing decision
- **10%** During the checkout process
- **7%** When they greet their customers

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The benefits of tertiary financing for your business

For small businesses like yours, offering tertiary financing can translate to new market opportunities, increased sales, and a competitive edge in the marketplace. It can also help your business attract customers who may be looking for alternative payment options for big-ticket purchases.

Aside from catering to a broader customer base, tertiary financing can improve cash flow without the hassle of collecting payments from customers while reducing exposure due to credit default or delinquency.

Increased sales

Because offering more ways to pay often increases purchasing power, tertiary financing can deliver significant sales results for small businesses. Removing the financing hurdles that prevent consumers, including those with limited budgets or low credit scores, from completing their purchases often leads to increased transaction volumes.

Among small businesses 87% said offering tertiary financing increased sales

Tertiary financing can increase traffic and help fewer shoppers leave your store or website empty-handed. Among consumers with lower credit scores, 44% said they would go to a different store if financing options weren't available.[1]

Greater spend

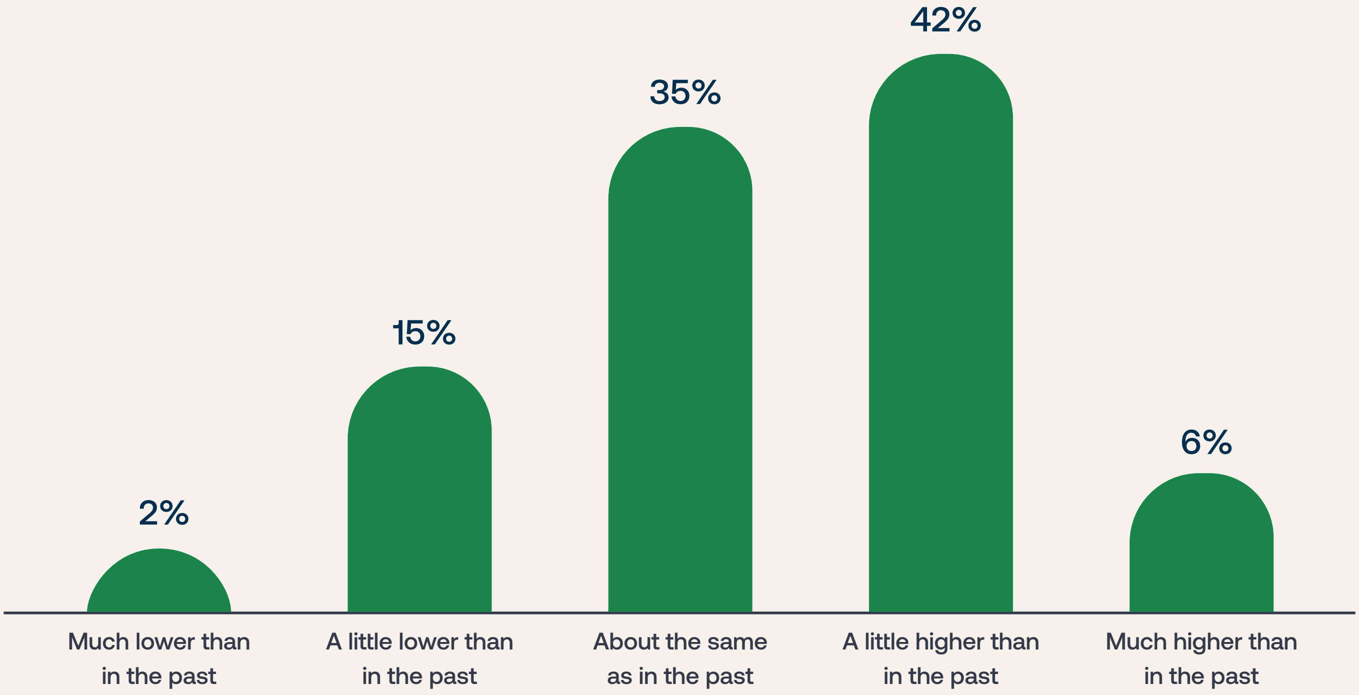
Not only can more customers get what they need with financing, they can also make larger purchases and buy better quality or higher-priced items. Big-ticket items, such as electronics, furniture, appliances, and tires, may be out of reach without access to pay-over-time options, including tertiary financing.

Among small businesses 79% said customers spend more with tertiary financing

Findings based on proprietary research. Snap Finance, 2023.

Approval rate changes for tertiary financing

(Previous 12 months among small businesses that offer tertiary financing)



The impact of higher approval rates

Qualifying for tertiary financing typically doesn't require a credit check from the three major credit bureaus (Experian, TransUnion, and Equifax). Instead, the applicant has their credit report pulled from special providers and additional data, such as monthly income and having an active checking account, is also typically considered.

Because alternative financing providers, including Snap Finance, consider factors other than scores from major credit bureaus, more applicants may be approved. More approvals mean more opportunities to close sales and increase customer loyalty. Options that offer higher approval rates make tertiary financing a feasible and convenient way for more customers to get what they need.

Many are seeing those approval rates grow.

48% of small businesses that offer tertiary financing said their customers' approval rates are higher than they were 12 months ago

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How to choose the right financing partner for your business

With the right provider, tertiary financing can be a win for you and your customers. That's why selecting the right one is critical.

What do small businesses that offer tertiary financing look for in a financing partner? Here are the top three considerations, according to the survey's respondents.

1 Low or no fees for businesses

Small businesses are always looking for ways to reduce costs. That's why financing partners who offer low or no fees are incredibly attractive.

2 Prequalified leads and new traffic

Many financing providers offer prequalification for financing. Prequalification involves a basic review of a customer's creditworthiness to determine if they're likely to qualify for financing. Not only do customers have a better idea of how they'll pay before they shop, but prequalification also streamlines the sales process for your business.

Small businesses are also looking for financing partners that help them drive new traffic sources. For example, Snap Finance uses social media, digital ads, search engine marketing, in-store signage, and more to promote the availability of pay-over-time options and encourage new and repeat business.

3 Quick settlement of funds

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. How quickly a business receives their money is critical to cashflow and day-to-day operations. Snap Finance, for example, expedites funding to their merchant partners, typically within 48 hours of merchandise delivery.

Additional factors in choosing a financing provider

Beyond these top three considerations, small businesses said other factors were important in choosing a financing partner.

Marketing services. Marketing support, materials, and campaigns can help small businesses attract new customers and encourage repeat business.

Training and support. Effective onboarding, training, and ongoing support help small businesses accurately explain third-party financing options and help customers with the application process. In addition, many providers offer access to performance reports to help businesses measure the impact of financing on sales and customer satisfaction.

Offering tertiary financing using a waterfall or multi-lender platform

Small businesses are increasingly using waterfall or multi-lender platforms to offer tertiary financing options. Many third-party financing providers, including Snap Finance, offer easy integration to waterfall and multi-lender platform solutions.

With waterfall platforms, customers have access to multiple financing providers with one application. Applicants are first considered for prime credit options. If the primary or "first-look" provider declines due to their credit, the customer's application cascades to a secondary provider. If the secondary provider also declines, the application reaches tertiary providers.

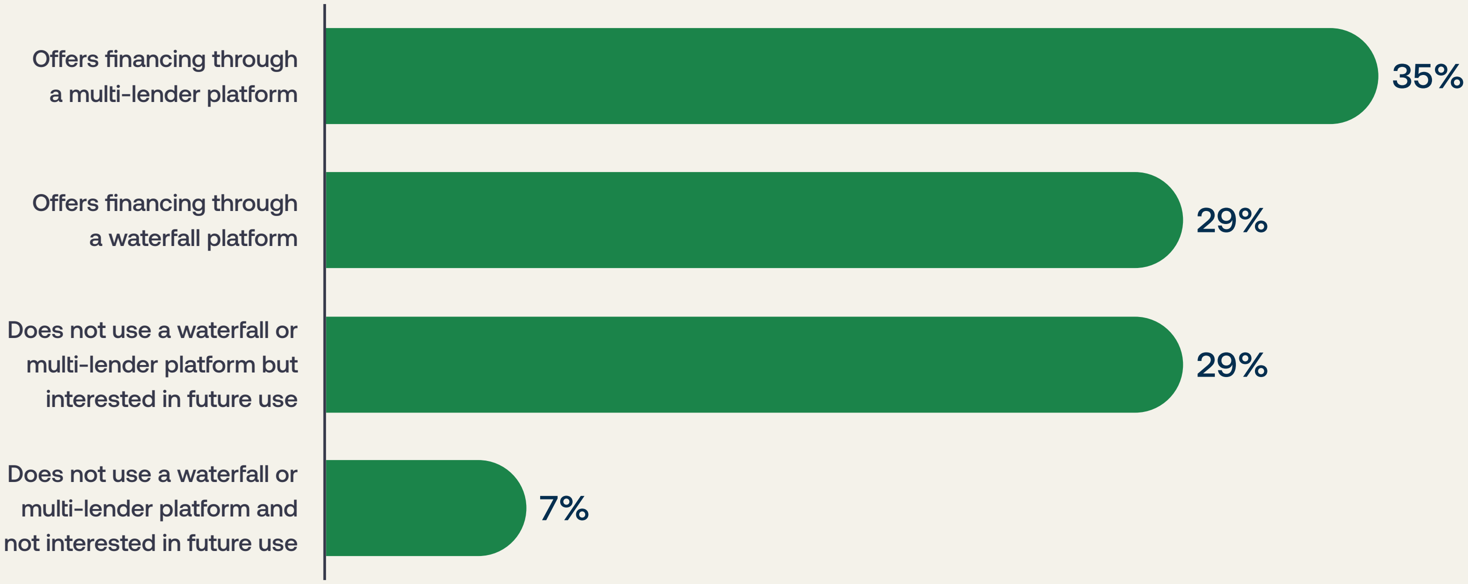
Multi-lender platforms also allow customers to complete a single application to be considered for multiple financing options. However, unlike waterfall solutions, multi-lender platforms present customers with all options they qualify for across all credit tiers. Depending on their credit, customers may be presented with multiple primary, secondary, and/or tertiary options to choose from.

For small businesses, waterfall financing and multi-lender platforms can streamline operations while providing a more efficient and user-friendly experience for the customer.

54% of small businesses that offer tertiary financing use a waterfall or multi-lender platform solution

Use of waterfall and multi-lender platform solutions

(Among small businesses that offer tertiary financing)



Meet the diverse needs of your customers with tertiary financing

Offering tertiary financing can help more of your customers get what they need while also benefiting your business. Providing more payment options, including options for customers with low credit scores, is crucial for meeting the diverse needs of your customers and helping your business stay competitive.

By embracing tertiary financing, especially for people with credit issues, your business can extend a lifeline to those who might otherwise be excluded from accessing your products and services. The result can be important benefits for your business, helping you foster long-term relationships, build trust, and position your brand as one that supports its customers' financial well-being.

Offering tertiary financing goes beyond just another payment option – it can be a strategic move toward increased sales. From enhancing your average order value to expanding your customer base, the benefits of offering tertiary financing can truly transform how you engage with your market.

About this survey

Snap Finance's proprietary research on the use and benefits of tertiary financing for small businesses was conducted in May 2024 with 319 U.S. small business decision makers for financing and payment options, representing companies with less than 1,000 employees and typically five or fewer locations.

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.

For more information, visit Snap Finance.

Snap-branded product offering includes 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 snapfinance.com/legal/financing-options.

Sources

[1] Proprietary research, "Tapping in to an Untapped Market." Conducted through Accelerant Research's Agora panel with 1,024 consumers. Snap Finance, July 2023.

[2] Louis DeNicola, "What Does Subprime Mean?" Experian, July 9, 2022.

[3] Hardy, Andy. "Credit Score Trouble: 1.2 Million More Americans Just Became Subprime Borrowers." Money, April 4, 2024.

[4] "670 Credit Score: Is it Good or Bad?" Experian.