

Understanding the needs of consumers with credit challenges

Snap Finance's second annual look at the impact of having low or subprime credit

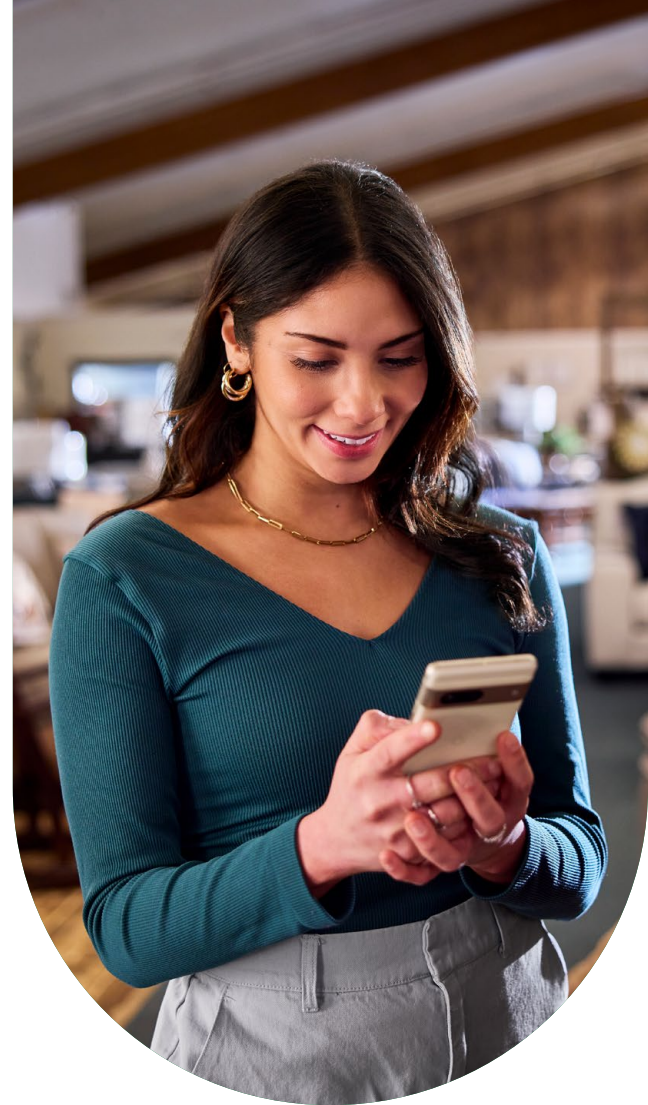


Exploring the real-life effects of credit challenges

A credit score is more than a number. As a measure of creditworthiness, it can open – or close – the door to many financial opportunities. And for those with less-than-perfect credit, a low score can be the difference between taking home a big-ticket item or walking away empty-handed.

Snap Finance wanted to know more about those facing credit challenges, specifically those with credit scores below 670. For the second consecutive year, we surveyed consumers with and without credit challenges to learn how they shop and pay for what they need.

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



Highlights

- 1 Understanding consumers with low or subprime credit
- 2 How credit challenges affect shopping preferences and behaviors
- 3 How having lower credit scores impacts personal finances
- 4 How credit challenges influence financing options and preferences
- 5 Maximizing the subprime and tertiary financing opportunity

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Understanding consumers with low or subprime credit

No one has a lower credit score for quite the same reasons, and sometimes those reasons are unavoidable.

Despite common misconceptions, people who are unable to secure traditional financing are often employed and can be just as responsible with their finances as other consumers. Maybe they haven't established credit yet, or their low score could be due to late or missed payments, high levels of debt, recent charge-offs, or other items on their credit report.

People with lower credit scores face roadblocks that make it more difficult to achieve their financial goals, including fewer financing options, less favorable terms, and higher interest rates. And while a good credit score doesn't guarantee approval for a loan, credit card, or other financing, it certainly helps.

It can take years to build credit or for a credit score to recover from negative items on a credit report. In the meantime, consumers with credit challenges still need new tires, furniture, mattresses, appliances, and other essential items, and may need less-traditional financing options to get what they need.



Understanding the need

More than 47 million Americans are considered subprime borrowers – up 1.2 million in the last year.¹ That's an increasingly significant number of customers who may not be able to get what they need or want.

Although it can vary from lender to lender, a subprime borrower is generally considered someone with a FICO® score below 670.² A FICO score between 580 and 669 is considered fair, and one between 300 and 579 is considered poor.³

29% of consumers have a FICO score below 670⁴



Key demographics of consumers with credit challenges



30% are millennials



54% are renters



39% work full-time



66% have an income below \$50K



76% do not have a college degree



36% are married or in a domestic partnership

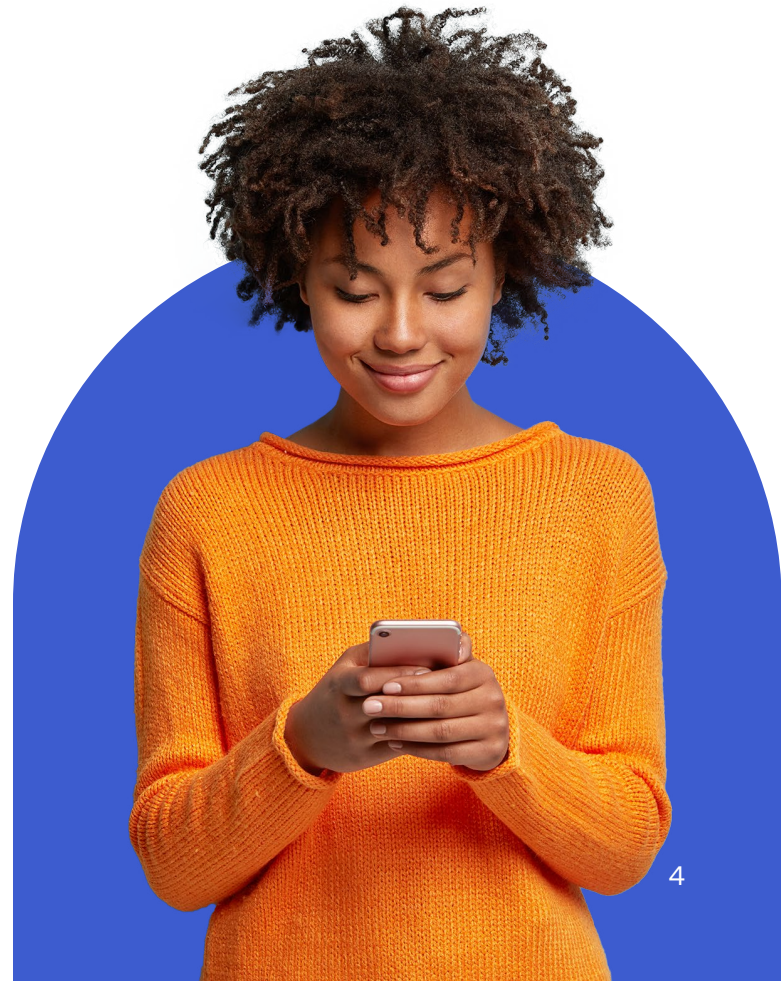
Source: Snap Finance 2024⁵

What it means to have a limited credit history

A credit score is created from a consumer's credit history – how they've handled money and debt in the past. But what if someone is new to credit and doesn't have any history?

A reported 28 million people in the U.S. are credit invisible, with no mainstream credit file with the three main credit reporting agencies (Experian, Equifax, and TransUnion), and 21 million are unscorable, with too little information in their credit file to generate a conventional credit score.⁶

19% of American adults (49 million consumers) don't have conventional credit scores⁶



What makes up a credit score?

Credit scores are based on the information in a consumer's credit report. FICO is the most widely used score, but there are other scoring companies. Here are the five factors that make up a consumer's FICO score.⁷

Payment history. How promptly someone pays their bills has the most effect on a credit score. Even a single missed payment can have a negative impact.

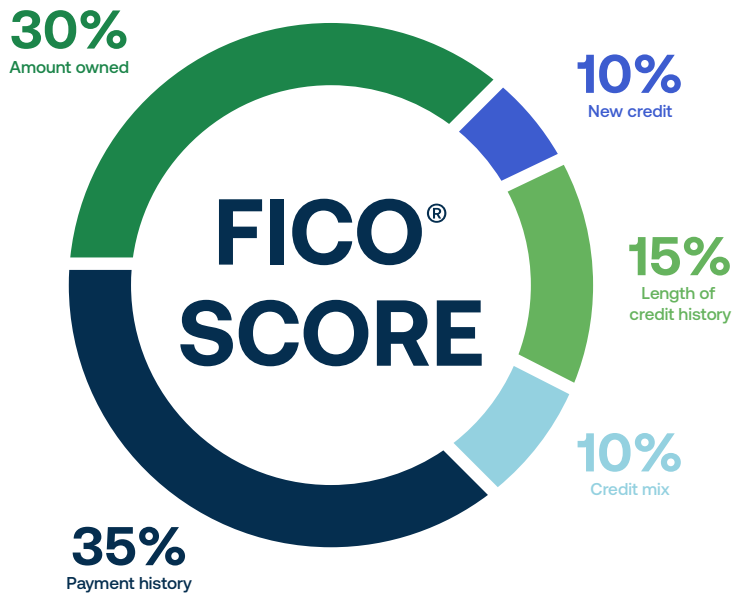
Amounts owed. The credit utilization rate refers to how much available credit is being used. A lower rate signals to lenders that a consumer isn't overspending.

Length of credit history. The longer someone has been using credit responsibly, the more it boosts their score. It can take some time to build a credit history for those who are new to using credit.

Credit mix. A healthy mix of different types of credit, such as credit cards and auto loans, can positively affect a credit score.

New credit. Frequently applying for new credit can temporarily lower a credit score. Most consumers likely won't see much of a dip from one application, but several in a short time could cause more harm.

What's in a FICO score?



Source: myFICO⁷

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How credit challenges affect shopping preferences and behaviors

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

Before they buy

Researching products and shopping for deals before buying are important to all credit types. However, our research found that those with credit scores below 670 were less likely to engage in those activities.

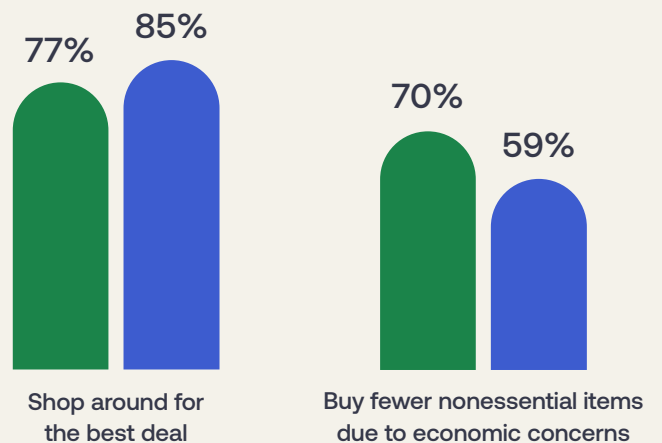
Among those with lower credit scores, 57% said they spend significant time researching products before buying, compared to 74% of those with better scores. In the same way, those with lower scores are somewhat less likely to shop around for the best deal.

Those differences may be due to the immediate need for many essential big-ticket purchases, such as tires, appliances, mattresses, and auto repairs. That leaves little time to comparison shop or find the best deal.

Our findings indicate those lower credit scores may be shopping with less information than other shoppers. Offering this customer segment more assistance, guidance, and product education can help shoppers find what they need and help retailers close the sale.

The effect of credit scores on shopping habits and preferences

■ Credit score below 670 ■ Credit score 670+

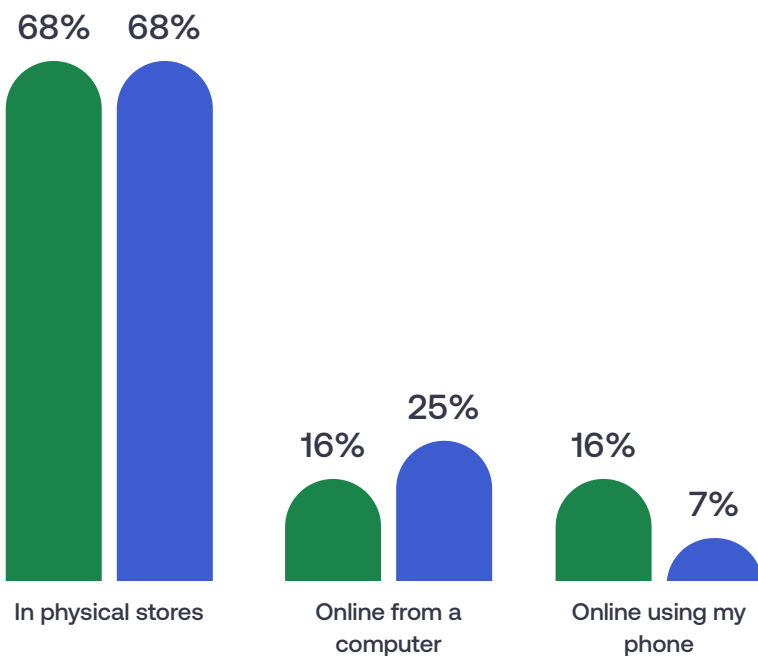
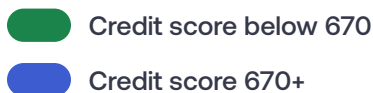


Getting what they need

Inflation and economic concerns have led many consumers to rein in discretionary spending. Snap found that 70% of those with credit scores below 670 said they're cutting back on nonessential purchases, compared to 59% of those with higher credit scores. However, for purchases of more essential categories, such as appliances, electronics, tires, or mattresses, consumers of all financial backgrounds are shopping at similar rates.

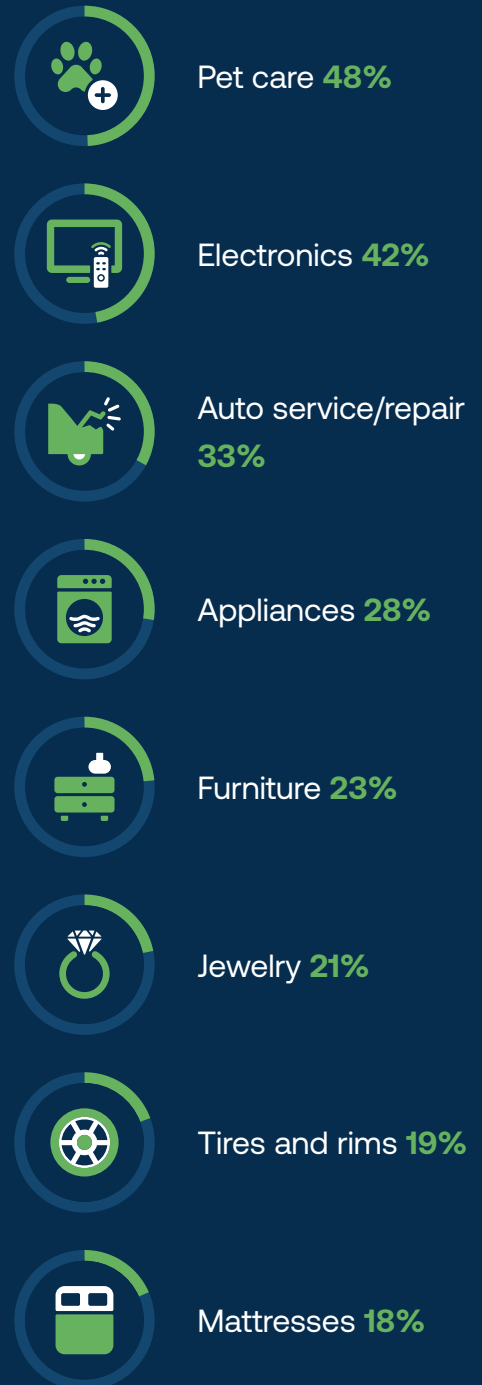
How consumers purchase big-ticket items

(\$500+ purchases)



What consumers with credit challenges are buying

(Product category purchases in the past six months)



Does having a lower credit score affect where consumers shop?

When choosing where to buy a big-ticket item, low prices and convenience matter equally to consumers of all credit types. Snap found that customer reviews, knowledgeable store employees, and recommendations from friends and family matter slightly less to those with credit scores below 670, compared to those with better credit.



Important factors when choosing a retailer for a big-ticket item

(Among those with credit scores below 670)

- 1 Low prices
- 2 Convenience
- 3 Customer reviews
- 4 Knowledgeable employees
- 5 Financing for all credit types
- 6 Recommendations from family/friends

Although how and where people shop may change, most consumers continue to value affordability, convenience, reputation, and expertise in their retail experience.

And to reach more customers, especially those with low credit scores, the importance of offering inclusive financing options for all credit types can't be overlooked.

Among those with lower credit scores, 61% said available financing for all credit types was an important factor when choosing where to shop for a big-ticket item.



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How having lower credit scores impacts personal finances

Making ends meet isn't easy, especially for those with credit challenges. Not being able to cover an unexpected expense or pay the bills is overwhelming and often leads to increased stress and anxiety. Here's what Snap Finance learned about those who have lower credit scores.



84% don't feel good about their financial situation



75% would have difficulty paying for a major unexpected expense



72% live paycheck to paycheck

Being employed is not always enough to get by, especially as costs rise. Living paycheck to paycheck means that most of an individual's income goes to paying monthly expenses and bills. Snap found close to three in four consumers live paycheck to paycheck – up 2% year over year.

Savings differences

When life happens – the tires are shot or the washer breaks – many people use savings to pay for those unexpected expenses. But for those struggling with their finances, dipping into savings isn't usually an option.

Among those with savings accounts:



61% of those with lower credit scores have **less than \$500** in savings



50% of those with higher scores have **more than \$10,000** in savings



Money management

Technology has made money management easier with apps that track spending and saving habits, build budgets, monitor credit scores, and much more.

61% of those with lower credit scores prefer to use mobile apps to manage their finances, compared to 39% of those with higher scores



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How credit challenges influence financing options and preferences

When savings aren't available and costs are higher than budgets allow, financing helps customers shop for what they need and then make payments over time. Retailers that offer more financing options can acquire new customers, open new revenue streams, and increase average order values.

35% of credit-challenged consumers rely on financing to make ends meet – up 4% year over year.

While consumers of all credit types use debit cards and payment apps at high rates, those with lower credit scores are less likely to use – or have access to – general-purpose or store credit cards. Consumers with credit challenges often need more inclusive financing options.



Among consumers with credit challenges, 42% have used installment loan financing in the past five years and 24% have used lease-to-own financing – a 2% jump in the last year.

Interest in using lease-to-own financing is also up – 31% of those with lower credit scores said they were interested in using lease-to-own for future major purchases, an increase of 4% year over year.

Why the increased use and interest in lease-to-own financing?

It could be due to growing awareness and availability of the option. In addition, our research shows younger generations – millennials and Gen Z – are more likely to have used lease-to-own than their older counterparts.

Financing solutions used by consumers of all credit types

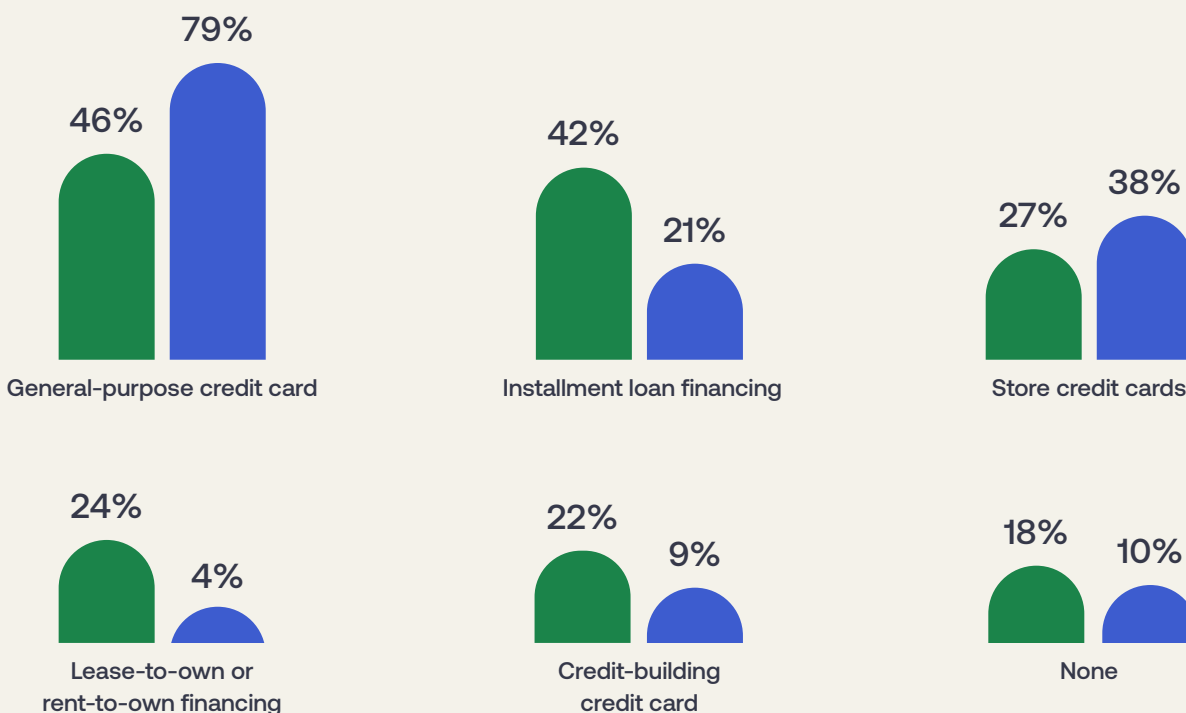
(\$500+ purchases in the past five years)



Credit score below 670



Credit score 670+



Making a financing decision

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 customers are reluctant to begin a conversation about alternative financing, they may never know options exist.

That hesitancy can create lost sales opportunities, as shoppers often rely on a knowledgeable sales force to walk them through their financing options. Businesses should ensure sales teams are well-versed in available financing options and can easily guide customers through the application process for each.

To compare offers, shoppers often apply with multiple financing providers. Snap found that 27% of those with lower credit scores apply with multiple companies to compare offers, compared to 19% of those with higher scores.



Among those with lower credit scores, 20% trust store associates to recommend the best financing for their situation.

Top 10 factors in choosing a financing company

(Among those with credit scores below 670)

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

For those with lower credit scores, offering the lowest money down at the time of purchase moved from their fourth most important factor in choosing a financing company to the second year over year – a sign households are increasingly cash-strapped.

The difference financing makes

Not only can financing be the difference between customers getting what they need and walking away empty-handed, it also increases purchasing power.

With financing, shoppers can get more expensive or better-quality items – or simply buy more – and retailers can increase their sales and average order volume.

Among lease-to-own users with lower credit scores:

- **56%** would have left the store if financing wasn't available for a recent purchase.
- **71%** spent more on a recent purchase because lease-to-own financing was available. Among those who spent more, **58%** increased their purchase by **20%** or more.

Among installment loan users with lower credit scores:

- **48%** would have left the store if financing wasn't available for a recent purchase.
- **64%** spent more on a recent purchase because installment loans were available. Among those who spent more, **48%** increased their purchase by **20%** or more.

When asked what products they would consider using installment loan or lease-to-own financing for in the future, furniture, home appliances, electronics, mattresses, and auto services topped the list. Many consumers also expressed interest in less traditional categories, such as home repair and servicing, medical bills and equipment, and pet care.

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Maximizing the tertiary and subprime financing opportunity

Cost is often the first consideration when shoppers are looking for big-ticket items, such as tires, appliances, car repairs, or furniture. Will the cost of what they need or want fit their budget? If they need to pay over time, what are their options?

Accessing credit is often difficult. According to Bankrate, half of Americans (50%) who have applied for a loan or financial product since interest rates began climbing in March 2022 have been denied.⁸

And for those with credit challenges, the denial rates are even higher.

Bridging the gap with tertiary financing

Shoppers who don't qualify for financing from a primary lender may be approved by a secondary lender under different terms. If they don't qualify for traditional financing, they may qualify for subprime or tertiary financing, including installment loans and lease-to-own financing solutions.

And for merchants, those tertiary financing options can save the sale and translate to new market opportunities, increased revenue, and a competitive edge in the marketplace.



78% of those with credit scores below 670 have been turned down for financing⁵



Takeaways for retailers

Offering inclusive financing options, such as installment loans and lease-to-own financing, can be a lifeline to those who might not otherwise be able to get what they need and want. And it offers important benefits for businesses.

Increased sales. Financing often turns browsers into buyers. When retailers offer multiple ways to pay over time, including options for people with less-than-perfect credit, they often can close more sales at increased amounts.

Broader reach. Offering financing for all credit types can help attract customers who need more accessible options. Removing financial barriers helps ensure fewer shoppers are turned away because of their credit history.

Repeat business. If customers are satisfied with their financing experience, they'll likely be more inclined to shop with the same retailer again, creating an opportunity for repeat sales and increased loyalty.

Competitive advantage. Offering financing options for those with credit challenges can be a differentiator for many retailers. Promoting the availability of those options on signage and social media can help drive traffic.

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.

A fresh approach to creditworthiness

The rise of fintech has introduced innovative subprime or tertiary financing solutions, including Snap-branded installment loan and lease-to-own financing solutions. Snap has automated the financing process, making it more efficient and less time-consuming for retailers to promote financing options at the point of sale, whether in-store or online.

Snap helps retailers boost incremental sales, increase customer retention, and grow revenue, while helping consumers with credit challenges get what they need.

About the survey

Snap Finance's proprietary research on credit-challenged consumers was conducted in October 2024 through Accelerant Research's Agora panel with 1,300 U.S. consumers who are household financial decision makers. Respondents' answers were categorized by their self-identified credit scores above or below 670.

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 snapfinance.com.

Snap-branded product offering includes retail installment contracts 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

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⁵ Proprietary research conducted through Accelerant Research's Agora panel with 1,300 U.S. consumers. Snap Finance, October 2024.

⁶ "[Financial Inclusion and Access to Credit](#)." OliverWyman, January 12, 2022.

⁷ "[What's in my FICO Scores?](#)" myFICO.

⁸ Foster, Sarah, and Davis, Lance. "[Denied and Distressed: Half of applicants have been turned down for a loan or financial product since the Fed began raising rates](#)." Bankrate, March 4, 2024.