The Credit Accessibility Series: The Credit Insecure Need More Education, a PYMNTS and Sezzle collaboration, is based on a survey of 2,848 consumers conducted from June 8 to June 21. Our findings reveal how low credit scores impact consumers' lives, explore the impact a potential improvement in their credit status could have on their finances and reveal their level of knowledge on how to improve and rebuild their credit scores.

The

Credit Accessibility Series

The Credit Insecure Need More Education

AUGUST 2023

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The Credit Accessibility Series: The Credit Insecure Need More Education was produced in collaboration with Sezzle, and PYMNTS is grateful for the company's support and insight. **PYMNTS** retains full editorial control over the following findings, methodology and data analysis.

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Introduction

In a credit-based economy such as the United States, credit scores determine more than whether consumers qualify for a mortgage or auto loan. Often, access to credit can also decide whether or not consumers can afford everyday essentials. Credit access is critical, yet PYMNTS' data reveals that few consumers with low credit scores know how to improve their credit status.

PYMNTS found that 27% of consumers have credit scores of 650 or less, which has denied them access to credit products, and 53% are not at all satisfied with their low credit status. Among these consumers and others considered **credit marginalized**, 80% experience financial hardship, and this group is twice as likely as the average consumer to have trouble paying their monthly bills. For 50% of these consumers, issues include paying basic bills and affording essential items.

Our survey found that deep subprime consumers, those with credit scores of 579 or less, could benefit tremendously from improving their credit scores: Improving to the near prime range of 620 to 659 could help them finance an additional $44,000 in purchases. Additionally, these consumers could achieve up to a 24% reduction in interest rates by improving their credit scores to super prime. This score improvement would help by increasing the amount of discretionary spend available to them and reducing their annual interest payments.

There is also a high likelihood, we found, that consumers with low credit scores are prone to turning to credit products that are costly and could incur high interest charges. Just 23% of consumers with low credit scores report using buy now, pay later (BNPL). Further, just 18% of these consumers used BNPL specifically to improve their credit scores.

Ultimately, there is a correlation between credit scores and credit knowledge, which may mean that financial product vendors should find novel ways to reach these consumers.

These are a few of the key findings in The Credit Accessibility Series: The Credit Insecure Need More Education, a PYMNTS and Sezzle collaboration. The findings are based on a survey of 2,848 consumers conducted from June 8 to June 21 and reveal how low credit scores impact consumers, the impact a potential improvement in their credit status could have on their finances and their level of knowledge on how to improve and rebuild their scores.

This is what we learned.

Consumers with low credit scores say they are twice as likely as the average consumer to have trouble paying their monthly bills, and 80% say it has caused them financial hardship.

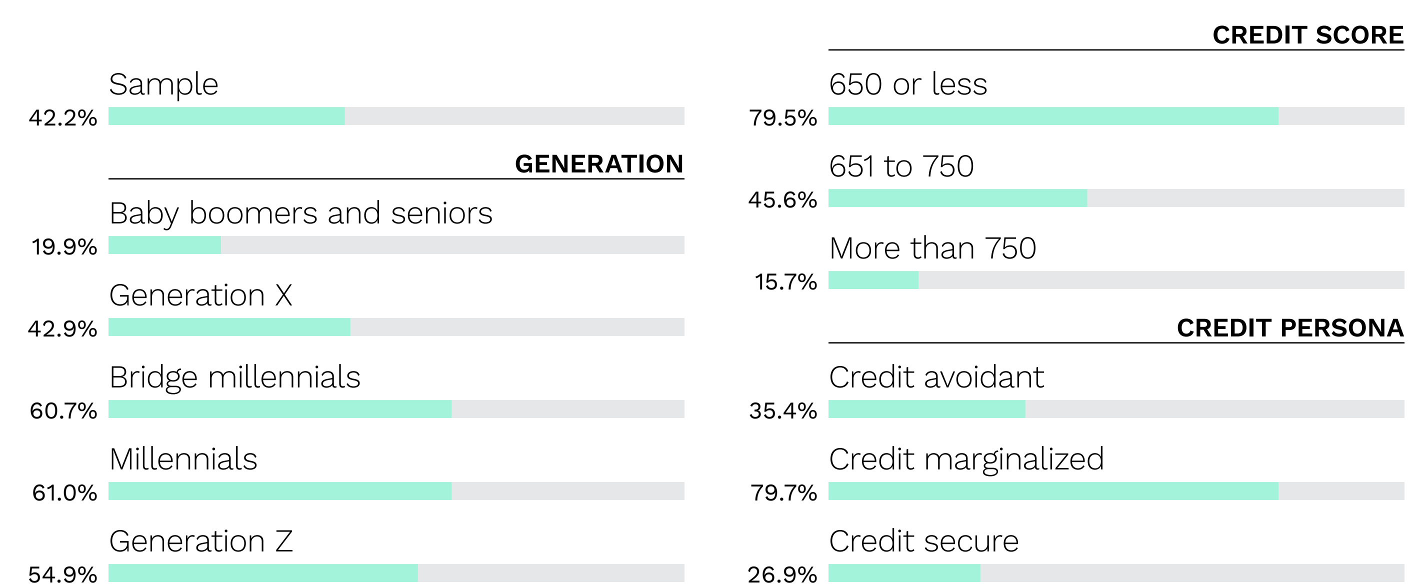
The inability of consumers with low credit scores to afford daily essentials is a significant and somewhat common challenge. Our survey found that 27% of consumers have credit scores of 650 or less, which our study considers to be a low score, and 14% of consumers have deep subprime credit scores of 579 or lower. Consumers with low credit scores are roughly twice as likely as the average consumer to experience issues that impact their finances and daily lives.

Half of consumers with low credit scores experienced difficulty affording essentials and paying their bills. For consumers with mid-level scores ranging from 651 to 750, the share with these difficulties drops to 23%. Just 8.8% of those with scores of more than 750 had similar experiences.

FIGURE 1:

The effect of low credit scores

Share of consumers experiencing issues due to low credit scores, by demographic



Source: PYMNTS
The Credit Accessibility Series: The Credit Insecure Need More Education, August 2023
N = 2,848: Whole sample, fielded June 8, 2023 – June 21, 2023

Deep subprime consumers spend a large portion of their disposable income on higher interest rate loans — a problem they can significantly alleviate by improving their credit scores.

Helping consumers improve their credit scores has the potential to raise their living standards, improve financial risk management and promote economic expansion.

According to our analysis, if deep subprime consumers — those with scores of 579 or less — raised their credit scores, they could lower their interest payments by as much as 24%. On average, deep subprime consumers have $75,000 in outstanding debt at an interest rate of 9.2%, which means these consumers pay $6,900 in interest annually, representing approximately 13% of their disposable income. We found that raising their scores to a near prime level could decrease their interest payments to 11.8% of their disposable income while also increasing their borrowing capacity by 68% of their income. This change would allow them to finance an additional $44,000 worth of purchases.

By reaching a super prime score of 720 or higher, they could reduce their interest payments to $5,300 per year — representing approximately 10% of their disposable income — and their borrowing capacity would triple. This change means they could finance an additional $130,000.

TABLE 1:

The economic impact of improved credit scores

Borrowing cost and average interest rate scenario analysis for deep subprime consumers

	SAVINGS	ANNUAL COST	INTEREST RATE
CURRENT SITUATION			
• Deep subprime	N/A	$6,922	9.2%
HYPOTHETICAL SCENARIOS			
• Near prime	$828	$6,097	8.1%
• Super prime	$1,664	$5,259	7.0%

Source: **Combination of Sezzle and external sources**
The Credit Accessibility Series: The Credit Insecure Need More Education, August 2023
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9.2%

The average interest rate deep subprime consumers paid on their outstanding debt

Consumers with low credit scores want to improve their scores and often turn to credit builder apps and BNPL financing to do so.

The inability to afford essentials that stems from being denied access to credit products drives consumers with low credit scores to act. They want to do something about it, illustrated by our finding that 29% of consumers with credit scores of 650 or less have used a credit builder app in the past year, and 17% did so primarily for credit-building purposes.

Those with low credit scores are three times more likely than their counterparts with high scores to use a credit management app to improve their scores. Credit builder apps provided by credit monitoring agencies give consumers a heightened ability to monitor and improve their credit scores.

Consumers with low credit scores are also significantly more likely than their counterparts with high credit scores to turn to BNPL loans to raise their credit scores. Turning to these loans suggests a level of savviness, as BNPL products often have low to no interest if consumers make the payments on time.

Ultimately, when it comes to raising credit scores, it seems that desire is not the issue for consumers.

17%

Share of consumers with low credit scores who have used a credit builder app to improve their credit status

TABLE 2:

How low credit scores drive consumers

Share of consumers taking select actions to raise their credit scores in the last 12 months

		Credit score		
	SAMPLE	MORE THAN 750	651 TO 750	650 OR LESS
• I made on-time payments on my monthly bills	42.7%	45.0%	54.6%	39.7%
• I used my credit card	36.1%	43.6%	47.0%	26.7%
• I kept old lines of credit open	21.6%	20.9%	32.0%	22.2%
• I kept my revolving balances on accounts low	20.8%	25.7%	28.5%	15.8%
• I applied only for credit that I needed	18.8%	17.5%	22.5%	21.9%
• I used a BNPL loan	10.8%	6.3%	13.6%	18.0%
• I used a credit builder or credit management app	10.5%	5.4%	15.0%	16.6%
• I reported my rent to the credit bureaus	6.9%	4.9%	10.0%	9.7%
• Other	0.8%	0.7%	0.6%	0.9%
• I do not do any of these activities	31.6%	36.1%	14.2%	24.2%

Source: **PYMNTS**
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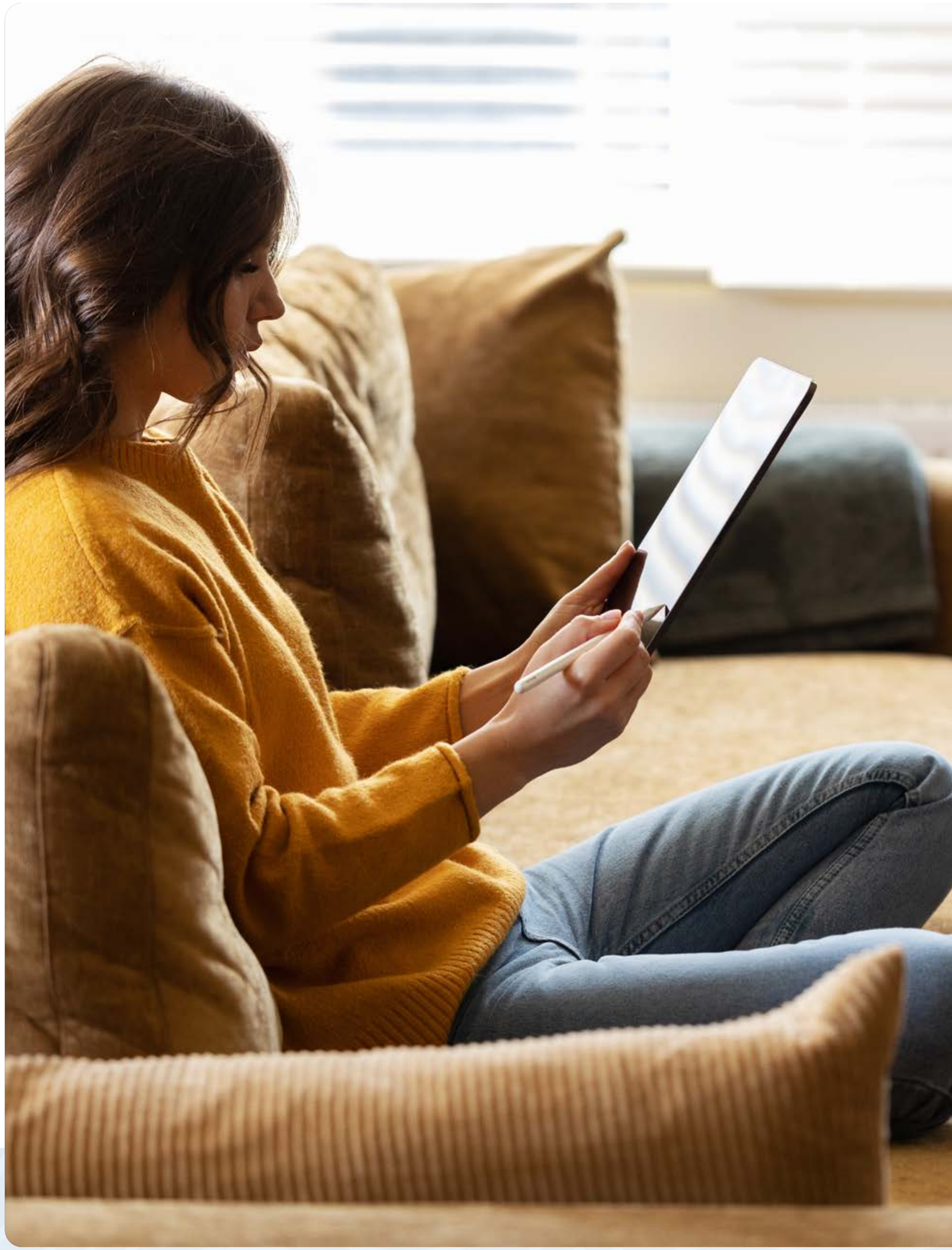


The desire to raise credit scores scales. The higher the dissatisfaction with their credit score, the more likely a consumer is to take steps to improve it.

Most consumers with credit scores of 650 or less are not at all satisfied with their scores. This 53% rate drops to 7.5% for consumers with prime credit scores from 650 to 750 and to just 2.2% for those with super prime credit scores that are higher than 750.

While there is a willingness to take steps to improve their credit status, consumers with low credit scores do not necessarily want to do this by utilizing user-friendly options. Just 4 in 10 consumers with low credit scores were very or extremely interested in doing so, which may suggest a link between consumer credit scores and their knowledge of how credit works. This link is also evident from the dissonance between our findings that 29% of consumers with low credit have used credit builder apps, but just 17% have done so with the express purpose of improving their credit scores, suggesting that nearly half of that 29% do not fully understand credit intricacies.

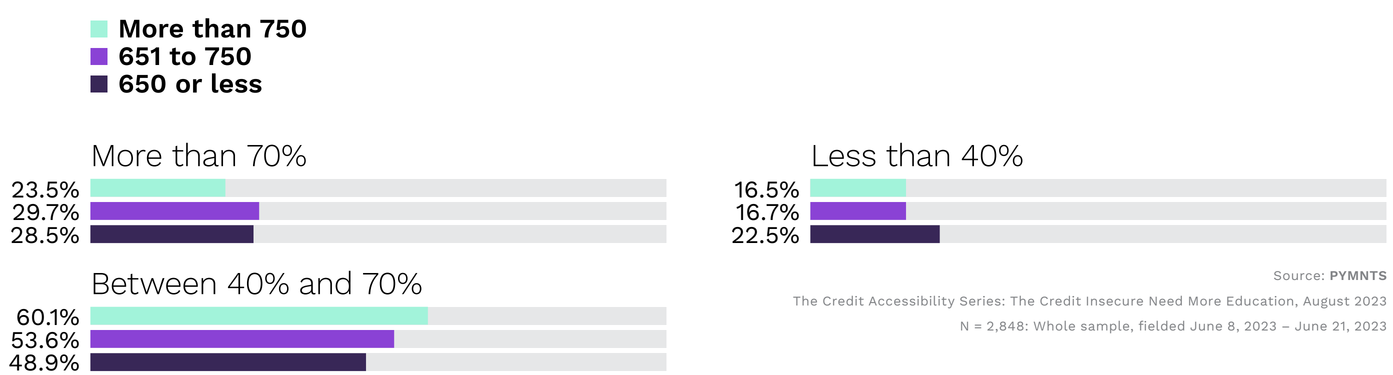
We asked consumers questions about credit to evaluate their knowledge base and deemed those able to answer up to 40% of the questions correctly as having low knowledge. We found that 84% of consumers with high credit cleared that bar, yet just 77% of those with low scores could answer the same number of questions. This difference shows an interesting fact regarding curiosity about credit: 42% of high knowledge consumers are highly interested in user-friendly materials to learn how to improve their credit scores, but those with low knowledge are half as likely to have this interest. Consumers with low credit scores likely face broader barriers to increasing their credit score beyond knowledge, which may impact their motivation to seek user-friendly materials for credit-building purposes.

The challenge BNPL and credit builder product providers face is to find ways in which consumers with low credit scores can learn about their products' ability to improve credit scores, sparking knowledge and curiosity to dovetail with the willingness they exhibit. Among the various ideas industry leaders suggested is providing tips and tricks via social media, for example.

FIGURE 2:

Consumers' understanding of credit

Share of consumers who correctly answered select shares of questions on the credit questionnaire



Source: PYMNTS
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49%

Share of low credit consumers who answered 40% to 70% of credit questionnaire questions correctly

Conclusion

Low credit score consumers have limited access to low-interest credit and face issues with paying for essential expenses. As a result, 53% of those with low credit scores are not at all satisfied with their credit status and are twice as likely as the average consumer to face adverse financial issues. For consumers with deep subprime credit scores, the financial impact can be substantial, as an improvement to a near prime credit level could help boost their borrowing capacity by 68%. Consumers with low credit scores have turned to products such as credit builder apps and BNPL loans to improve their scores. Yet, while 29% have used credit builder apps, just 17% have used them with the intention of improving their scores, suggesting a lack of knowledge on their part. We found that less than half of consumers with low credit scores are inclined to use user-friendly options to improve their credit knowledge. This knowledge gap challenges the financial services industry, which would like more consumers to qualify for their products and may require innovative ways to educate the credit insecure.

Methodology

The Credit Accessibility Series: The Credit Insecure Need More Education, a PYMNTS and Sezzle collaboration, is based on a survey of 2,848 consumers conducted from June 8 to June 21. We reveal how low credit scores impact the lives of the different credit personas, their knowledge of how to improve their credit scores and how potential improvement in their credit could benefit their finances.

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ABOUT

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

Sezzle is a payments company on a mission to financially empower the next generation. Sezzle's payment platform increases purchasing power for millions of consumers by offering interest-free installment plans at online stores and in-store locations. When consumers apply, approval is instant, and their credit scores are not impacted unless the consumer elects to opt in to Sezzle's credit-building feature, Sezzle Up. This increase in purchasing power for consumers leads to increased sales and basket sizes for the more than 41,000 active merchants that offer Sezzle.

As the only B Corp in FinTech, Sezzle proves that all industries — even payments — can do their part to provide solutions and make a positive impact today and into the future.

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