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May 2023

# FinTechs’ Role in Improving Access to Lending Services

FinTech Tracker® Series


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- Alternative Financial Services Offer Some Relief **P. 10**
- FinTechs Can Improve Consumers’ Credit Capabilities **P. 14**
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Read the previous edition


MARCH 2023

**FinTech Tracker® Series**

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Need to Know

# Access to Traditional Credit Remains a Problem

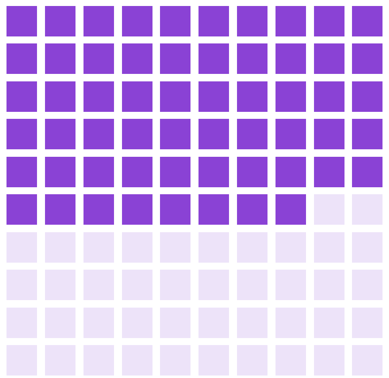
With concerns over the banking system dominating the news after the collapse of Silicon Valley Bank and others, it can be easy to lose sight of another consequential problem: financial access. Although the challenge of financial inclusion is most acute in developing countries, it remains an issue in America, too — primarily in the form of access to credit.

A recent national survey from the Federal Reserve Bank of New York showed that amid fears of continued price inflation, consumers' perceptions of access to credit are worsening. Consumers perceive diminishing prospects for their ability to obtain credit, with those saying it is much or somewhat harder to access than it was a year ago rising to 58% — the highest rate reported in studies going back to 2013. Similarly, their expectation that credit will be even harder to obtain next year grew from 49% to 53% since February of this year.



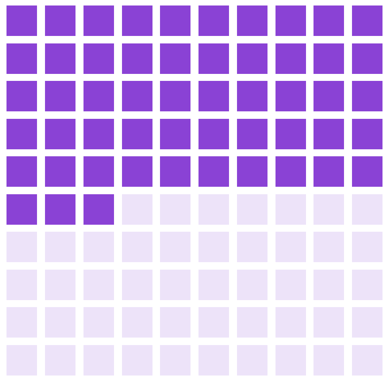


**Consumers in the United States see their prospects of obtaining credit deteriorating, according to a national survey from the New York Fed.**



**58%**

**Share of U.S. consumers who say credit is harder to obtain now than it was a year ago**



**53%**

**Share of U.S. consumers who expect credit will be harder to obtain a year from now**

## Need to Know

# Poor or nonexistent credit scores are a problem for many consumers, especially the young.

While consumers of all ages struggle to obtain everyday lending products such as credit cards and personal bank loans, the problem is particularly pronounced among young consumers. According to a LendingTree study, 48% of Generation Z and 57% of millennials report credit score-related difficulties in obtaining financial products.

There are a variety of reasons for this. Not only are a significant portion of younger generations struggling financially — with almost half of Gen Z and millennials living paycheck to paycheck, according to Deloitte — young consumers tend to have lower credit scores and are accumulating debt faster than their older counterparts. A dearth of financial education is also a factor: 44% of Gen Zers do not know their credit scores, and nearly one-quarter do not know how to check them.

## Accessing bank credit products can be a challenge for many individuals.

**35%**

**Share of Americans with subprime credit scores, defined as those between 580 to 669, in 2021**

**40%**

**Share of millennials with subprime credit scores in 2021**

**57%**

**Share of millennial Americans who say their credit scores prevented them from receiving a financial product in the past year**

## Need to Know

# Reliance on legacy nonbank credit types costs consumers in more ways than one.

The problem of a lack of access to fair lending is that it forces consumers to rely on legacy nonbank credit types, which come with two major drawbacks. First, these methods charge fees and interest rates far in excess of traditional lending options. Second, successful payments do not count toward credit score calculations. This means that even responsible usage of these products does not improve access to cheaper lending options.

Payday loans, for example — one of the most common lending methods to which underserved consumers turn — can have interest rates as high as 652%, according to data from the Pew Charitable Trust. Even states that had payday loan protections still had interest rates upward of 100%. For context, the average APR for credit cards is 23.84% in 2023.

**Legacy nonbank credit types, such as payday loans, are a widespread scourge.**

**652%**

**Potential interest rate on payday loans**

**~14,300**

**Number of payday lender storefronts in the U.S.**



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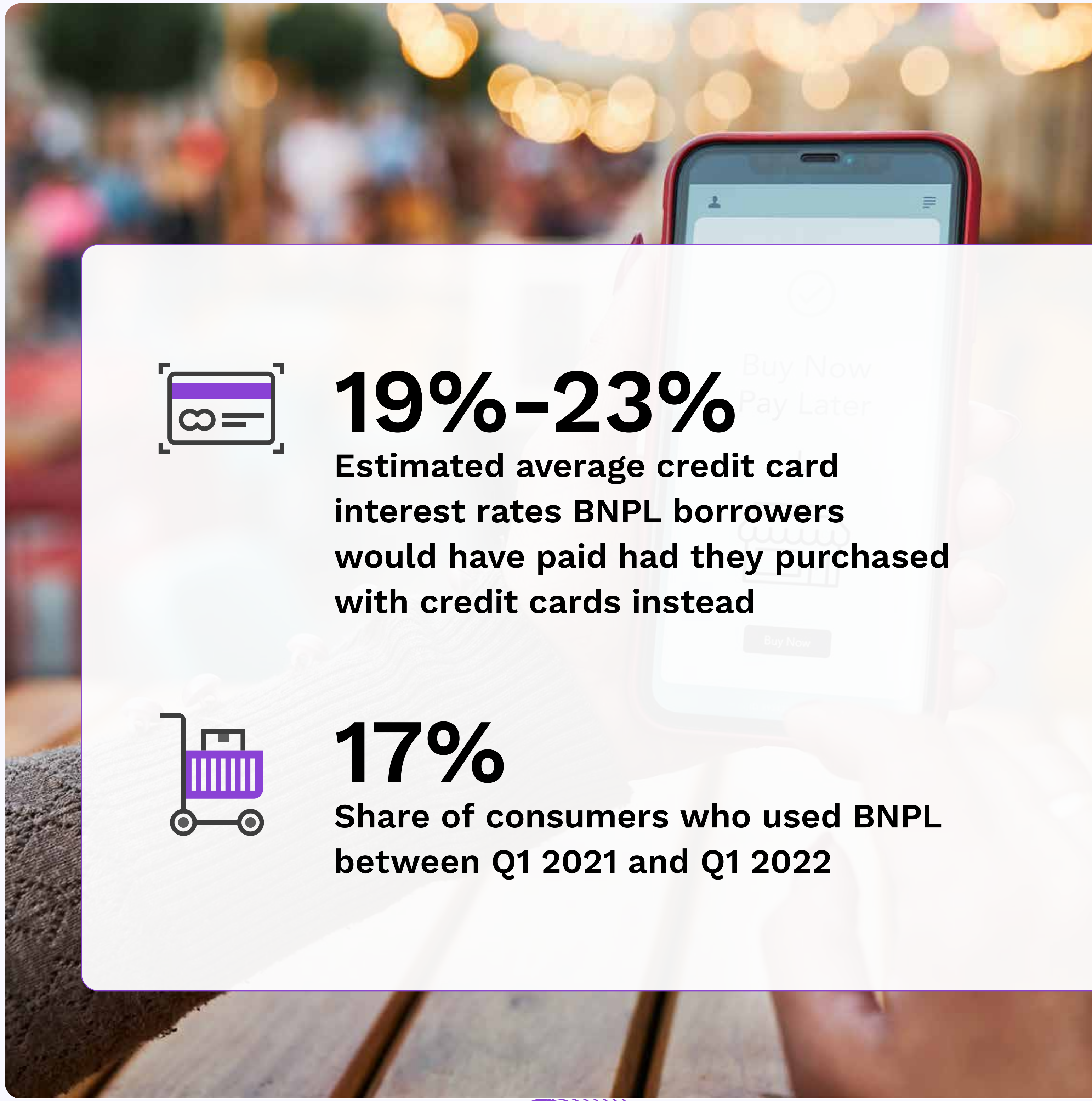
## News and Trends

# Alternative Financial Services Offer Some Relief

A recent study from the Consumer Financial Protection Bureau (CFPB) indicates that financially distressed consumers are finding savings in buy now, pay later (BNPL) services. If BNPL borrowers make their payments on time, they pay zero interest. In contrast, the CFPB estimated that a majority of BNPL borrowers would have encountered credit card interest rates between 19% and 23% annually if they had elected to use credit cards to make their purchases. The reason is that BNPL users were, on average, more likely to be highly indebted and to have lower credit scores compared to non-BNPL users, making credit cards the more expensive option.



**19%-23%**

**Estimated average credit card interest rates BNPL borrowers would have paid had they purchased with credit cards instead**

**17%**

**Share of consumers who used BNPL between Q1 2021 and Q1 2022**

## News and Trends

# Significant share of banks tighten lending standards, Fed survey finds

In a recent Federal Reserve survey on bank lending practices, a considerable share of financial institutions (FIs) reported having tightened lending standards for credit card loans. Many FIs, the Fed found, reported increasing minimum credit score requirements, as well as reducing credit limits and restricting the number of loans granted to consumers below credit scoring thresholds.

The survey also found that banks had similarly tightened access to auto loans and consumer loans. For auto loans, a moderate portion of banks reported having raised both the minimum credit score threshold and the minimum repayment requirements. As a result, consumers, especially financially challenged ones, will likely find it more difficult to access traditional lending solutions.

# Study finds mobile loans improved the quality of life for unbanked borrowers

Tala, a global digital lending platform, reported in its "Lender's 2022 Impact Report" that its mobile lending program in the Philippines significantly improved the lives of borrowers. The company interviewed 250 Filipino borrowers, finding that 81% experienced an improved quality of life through the loans.

More than half of respondents said the loans had improved their access to finance, with 31% better able to afford household expenses and 17% better able to handle emergencies. Almost 70% of borrowers said they did not have access to similar services elsewhere, and 84% could not find a better alternative to Tala's program.

**PYMNTS Intelligence**

# FinTechs Have an Opportunity to Improve Consumers' Credit Capabilities

With millions of Americans still struggling to access traditional credit options, achieving full financial inclusion will be neither quick nor easy. With an estimated 307 million smartphone users in the U.S., however, the emergence of mobile technologies has created opportunities to expand credit access to underserved households.

FinTechs already are leveraging mobile technology to make credit more widely and easily available, helping those who would otherwise be forced to resort to payday loans and other expensive lending types. FinTechs are also empowering consumers to improve their credit profiles and thus broaden the types of services for which they can qualify.

"Credit insecurity does not just mean a poor credit score — it gives definition to the millions of young shoppers out there who are wary of credit but understand its necessity in their financial journey. We aim to understand what's important to these shoppers and to bring them financial empowerment through Sezzle's credit-building payment solution, Sezzle Up."

**CHARLIE YOUAKIM**
CEO

sezzle

Source: Sezzle. PYMNTS and Sezzle Collaborate to Find How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits. 2023. https://www.globenewswire.com/news-release/2023/04/27/2656460/0/en/PYMNTS-and-Sezzle-Collaborate-to-Find-How-Credit-Insecurity-is-Changing-U-S-Consumers-Borrowing-Habits.html. Accessed May 2023.

**PYMNTS Intelligence**

# FinTechs are helping subprime consumers improve credit scores

As FinTechs work to promote financial inclusion, there has been a major focus on addressing the role of bad credit scores. PYMNTS found that consumers who live paycheck to paycheck and are struggling to pay their monthly bills have a below-average credit score of 613, making them subprime borrowers and thus largely unable to access normal credit products.

The impact of poor credit scores on credit access is especially conspicuous among younger consumers. As recently as Q2 2022, for example, millennials' average credit score was nearly 30 points below the national average, limiting their ability to qualify for traditional credit options. Indeed, while 25% of Americans were denied a credit card in the past year, that share rose to 36% among millennials.

## 613

**Average credit score of consumers living paycheck to paycheck and struggling to pay bills**

## 11%

**Share of consumers living paycheck to paycheck and struggling to pay bills who have a credit score higher than the FICO average**

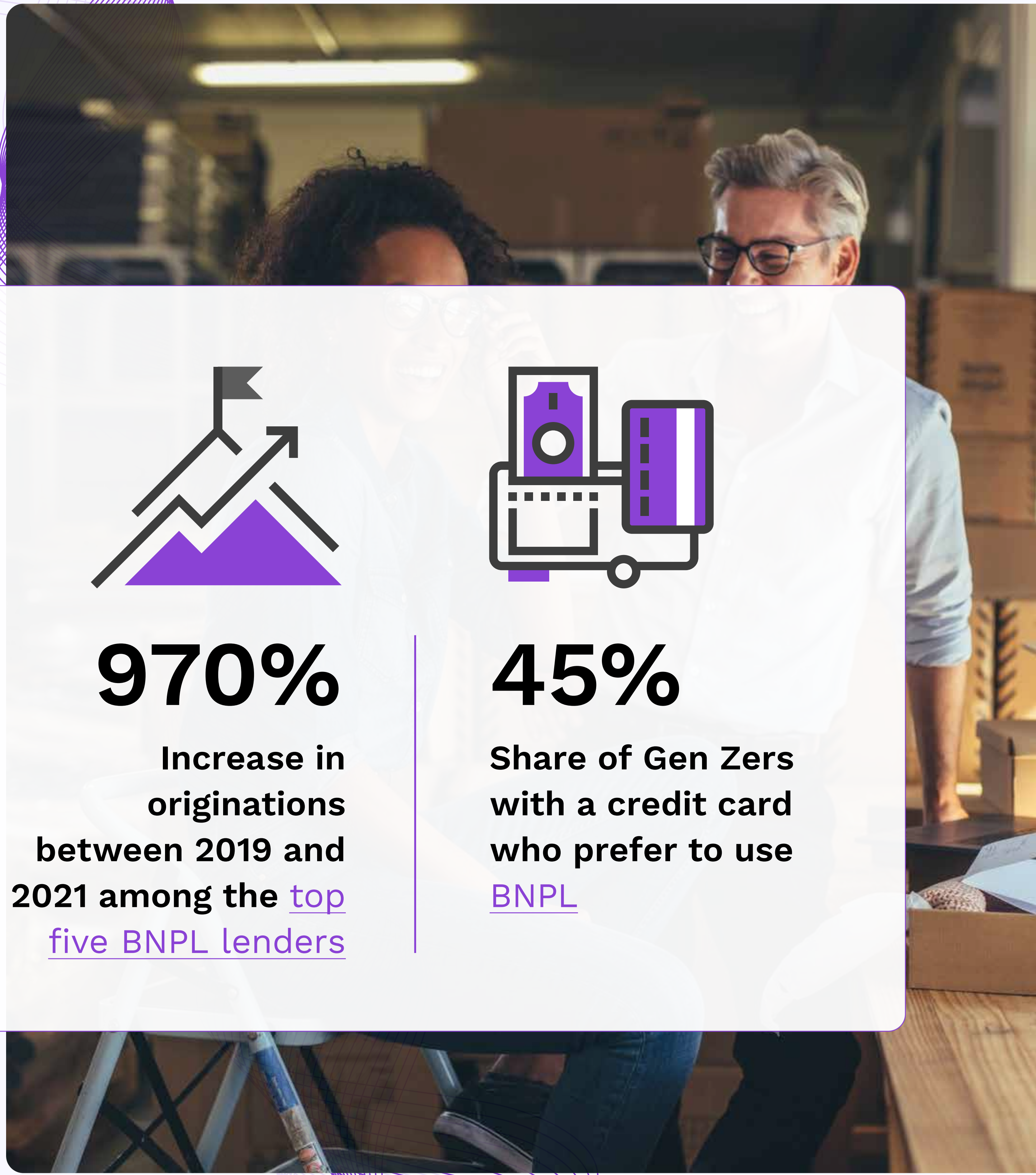
The products that underserved populations can access, such as prepaid cards and payday loans, do not typically count toward credit-score calculations, so it can be a challenge for these consumers to improve their credit profiles. To solve this problem, many FinTechs are offering ways for consumers to boost their credit scores, mainly by considering payments that had not traditionally been counted toward credit profiles. The Jay-Z-backed FinTech Altro, for example, is helping people build credit scores when they make recurring payments to services such as Netflix and Spotify. Other FinTechs are working to provide customers with financial education resources and tools to keep tabs on their scores.

**PYMNTS Intelligence**

# BNPL can help underserved consumers access affordable credit

FinTechs are also providing more affordable and convenient lending options, with BNPL services as a prime example. Unlike payday loans and other nontraditional lending types, BNPL services typically have low interest rates, and unlike traditional bank credit products, they are available to consumers with weak credit profiles.

As a result, BNPL has become immensely popular. By the summer of 2022, the share of adults reporting use of a BNPL service at least once in the last month had not dropped below 14% in the previous year. This lending type is especially popular among younger consumers, to the extent that 45% of Gen Zers with a credit card prefer to use BNPL.



**970%**

**Increase in originations between 2019 and 2021 among the top five BNPL lenders**

**45%**

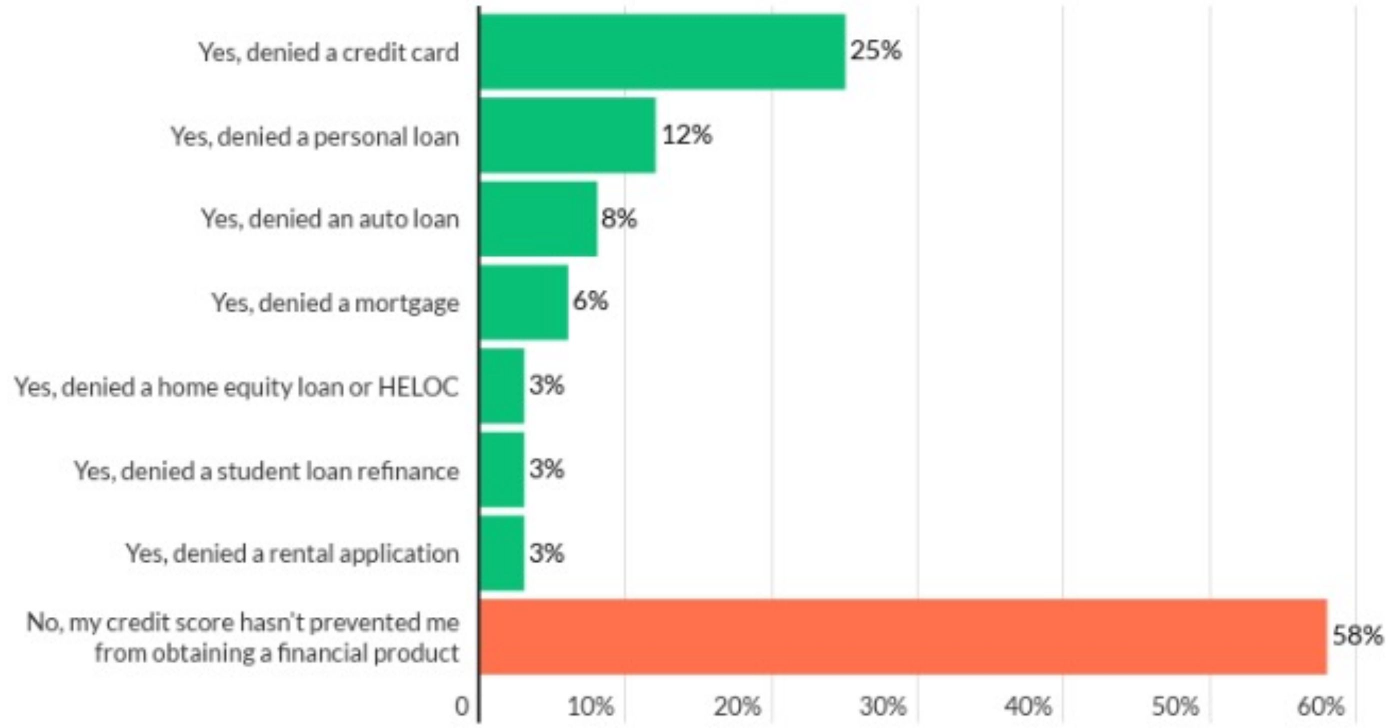
**Share of Gen Zers with a credit card who prefer to use BNPL**

## Chart of the Month

# Credit Scores Bar Many Consumers From Lending Services

A LendingTree survey found that 42% of Americans were denied a financial service because of their credit scores in the past year. Credit cards were the most common, with 25% of consumers reporting denial of their credit card applications, followed by personal loans, at 12%, and auto loans, at 8%.

### In the past year, has your credit score prevented you from obtaining a financial product for which you applied?




Source: Davis, M. 42% of Americans Were Denied a Financial Product — Like a Credit Card or Personal Loan — in the Past Year Because of Their Credit Score. LendingTree. 2022. https://www.lendingtree.com/personal/credit-scores-financial-products-survey/. Accessed April 2023.
N = 1,008 consumers: Complete responses, fielded June 2022

Insider POV

# An Industry Insider on How Secured Cards Can Boost Credit Profiles

**ROY NG**
Co-founder and CEO

BOND

> “It’s very hard to be financially secure. How do we enable consumers to start in a strong way with such a product so that they actually can build out the right foundation to improve their credit profile?”

**With millions of Americans struggling to access traditional lending options due to poor or nonexistent credit profiles, an industry insider explains how FinTechs can help with secured credit cards.**

**Not being able to use a general-purpose credit card is not just an inconvenience — it is an impediment.** Roy Ng, co-founder and CEO of Bond, learned this firsthand as a child when his family moved to the U.S. from Hong Kong.

In an interview with PYMNTS, Ng recounted how his mother, lacking a credit profile in the U.S., struggled to access a credit card that could be used at any store, instead having to make do with a Sears card, which could be used only at that retailer.

“A lot of people, not only immigrants, have a challenge because they’ve never built credit in the past,” he observed. “There’s a little bit of a [vicious circle, wherein if] you can’t build that credit profile in the beginning, you’re never going to have great credit.”

There are tools that can help consumers stuck in this catch-22, however. Secured credit cards, Ng explained, are one such solution — and one that his company is focused on making more widely available.

## Insider POV

**Secured credit cards can help consumers build a better financial foundation.** Ng explained that these cards provide consumers with access to the features associated with a regular credit card, but without the revolving balance. For instance, consumers can use these cards to improve their credit profiles because, unlike debit cards, on-time payments count toward users' credit history.

Another benefit is that secured credit cards have built-in spending limits, as users are limited by how much money they load onto the card in advance. This gives secured cards an advantage over other alternative lending types that have no such safeguards in place.

"Whatever payment you're making on the card, it's actually from the security deposit account that you already put into the card," Ng said. "It works more like a debit card, but the consumer will still be able to build credit history as they continue to spend on that card, and it doesn't enable the consumer to spend beyond what they have. That's why we believe this is a relevant financial product in this market today."

**FinTechs can benefit from secured credit cards, too.** Because this product, being a credit card, relies on credit rails, issuers earn a credit interchange fee.

"From a revenue standpoint for FinTechs and tech companies, that's pretty attractive," Ng said.

He added that the credit interchange fee can be nearly two times that of a debit card, which is the payment method that many underserved consumers are currently relying on.

While many FinTechs have set their sights on providing unsecured credit cards to credit-deficient consumers, Ng said their efforts have been largely stymied by approval ratings sometimes as low as 20%, resulting in a failure to scale — and highlighting how normal credit products are often unattainable for these demographics.

At present, secured cards remain a relative rarity, with Ng estimating that there are only 6 million or so secured cards in circulation, a quantity vastly dwarfed by the roughly 700 million unsecured cards in circulation.

The future, however, might be much different. Ng predicted that as the negative economic situation continues and distressed consumers become more in need of reliable credit options, more FinTechs will jump into the secured card space.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## Companies to Watch

# Companies Are Moving to Expand Borrowing Options

Equifax UK recently unveiled a partnership with Spear Technology, a BNPL and short-term credit provider, to identify and aid consumers struggling with financial difficulties. Spear Technology plans to use Equifax's solutions to onboard customers more responsibly.

Texas FinTech StellarFi has raised $15 million in Series A funding to aid its mission of helping users increase credit scores by paying bills. For a modest monthly fee, StellarFi consolidates users' bill paying obligations in one place — and reports on-time payments to credit bureaus.

After a six-month delay, Apple announced a soft launch of its Apple Wallet-based BNPL program, a service known as Apple Pay Later. The tech giant is inviting select users to use the BNPL option, which comes with no fees or interest.

## What's Next

# Building a Better Financial Future With Innovation and Education

The expansion of digital credit services will remain central to achieving full financial inclusion. There will also be a need for efforts to promote financial education and literacy to empower individuals to make informed decisions about their finances. The continued development and adoption of innovative technologies could also play a significant role in advancing financial inclusion efforts globally.

> "As a FinTech leader, it's our responsibility to drive positive change through constant innovation, while also educating the public on how to make informed decisions about their financial well-being. Innovative FinTech solutions have the potential to democratize financial services, making them accessible and affordable for everyone. This is how we build a more equitable financial future."

**CHARLIE YOUAKIM**
CEO

sezzle

# 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. For more information visit Sezzle.com.

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