How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits, a PYMNTS and Sezzle collaboration, is based on a survey of 2,678 consumers conducted from Feb. 22 to March 1. Our findings assess consumers' access to credit, use of credit products and experience in applying for or being rejected for credit products as well as the financial impacts of life events.

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How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits 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.

Table of Contents

Introduction

Credit is ubiquitous in the United States, yet data shows approximately 80 million consumers are on the outside looking in, even though cars, houses and college educations can be impossible for many to obtain otherwise.

Despite the importance of the flexibility credit can offer, PYMNTS' research finds that consumers tend to have two very different experiences with this key financial resource.

Although 69% of consumers are "credit secure" and can reliably access new lines of credit, others lack this ability and must turn to riskier products or eschew credit entirely. We deem these consumers to be "credit insecure," and they make up nearly one-third of the U.S. consumer base. As the word "insecure" suggests, their finances are far less stable, and these individuals are much more likely to have no college degree and live paycheck to paycheck while struggling to pay their bills.

Credit insecure consumers are not a monolith, either, as research reveals that they break down further into two personas: "credit marginalized" consumers, the 25% of all consumers who companies have rejected at least once when applying for credit products in the past 12 months, and "credit avoidant" consumers, who do not use credit products and have no interest in applying.

Our key findings reveal that consumers exist along a credit continuum: Credit secure consumers could potentially become credit marginalized due to adverse financial impacts from life events, and credit marginalized consumers are at risk of becoming credit avoidant due to rejection from safer credit products and a rising aversion to taking on more debt. In this way, unexpected life events can quickly take a credit secure consumer and lead them to opt out of credit entirely.

These are a few of the key findings in How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits, a PYMNTS and Sezzle collaboration. The findings are based on a survey of 2,678 consumers conducted from Feb. 22 to March 1 and assess consumers' access to credit, use of credit products, experience in applying for or being rejected for credit products, the financial impact of life events and the alternatives available to them based on their credit access.

This is what we learned.

Nearly one-third of U.S. consumers have faced some form of credit insecurity in the past year.

In the U.S., 31% of the population has faced some form of credit insecurity in the past 12 months. Among the consumers identified in our survey as credit insecure, an estimated 63.5 million are credit marginalized, and nearly 17 million are credit avoidant and have entirely given up on credit.

Credit marginalized consumers have been rejected for a credit product at least once in the past year, likely driven by a change in finances or a drop in their credit score. This group consists largely of men, at 61%, possibly because men are still the primary domestic breadwinners and more likely to apply for credit. Just 8.2% are baby boomers and seniors, possibly due to their experience in handling fixed or lower incomes — and their lower participation in applying for and using credit products.

Credit avoidant consumers tend to be less educated and have lower incomes: 94% have no college education, and 64% have annual incomes less than $50,000. For this group, credit avoidance could stem from less financial literacy or an aversion to taking on student loans to fund a college education.

PYMNTS' data finds that 86% of credit marginalized consumers live paycheck-to-paycheck — a financial situation that makes them particularly vulnerable to life events that can disrupt their finances.

31%

Share of U.S. consumers who have faced some form of credit insecurity in the past 12 months

TABLE 1:

Who are the credit insecure?

Share of consumers who fall into select credit personas, by demographic

	Credit secure	Credit marginalized	Credit avoidant	Sample
Sample	69.0%	24.5%	6.4%	
	178.6M	63.5M	16.6M	
Generation				
Generation Z	8.2%	21.2%	17.6%	12.0%
Millennials	22.2%	46.3%	21.2%	28.0%
Bridge millennials	14.6%	34.7%	12.8%	19.4%
Generation X	26.4%	24.3%	25.3%	25.8%
Baby boomers and seniors	43.3%	8.2%	35.9%	34.2%
Income				
Less than $50K	30.3%	32.9%	63.5%	33.0%
$50K-$100K	32.5%	29.0%	20.0%	30.9%
More than $100K	37.2%	38.1%	16.4%	36.1%
Credit score				
Less than 650 or no credit score	20.0%	51.4%	37.3%	28.9%
651 to 750	28.3%	24.4%	11.1%	26.2%
751 to 850	42.0%	15.1%	15.5%	33.7%

cont.

	Credit secure	Credit marginalized	Credit avoidant	Sample
Financial lifestyle				
Live paycheck to paycheck with issues paying bills	22.2%	46.5%	35.9%	29.1%
Live paycheck to paycheck without issues paying bills	41.6%	39.8%	30.5%	40.4%
Do not live paycheck to paycheck	36.2%	13.6%	33.6%	30.5%
Gender				
Male	43.8%	61.0%	50.4%	48.5%
Female	56.2%	39.0%	49.6%	51.5%
Education				
No college	66.5%	64.2%	93.8%	67.7%
College	33.5%	35.8%	6.2%	32.3%

Source: PYMNTS
How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits, April 2023
N = 2,678: Whole sample, fielded Feb. 22, 2023 – March 1, 2023
Note: There is overlap between some age groups, and credit score breakdowns, excluding the 10% of the sample who did not know their credit score.

Major life events can detrimentally impact personal finances, especially those of credit insecure consumers.

For 79% of credit insecure consumers who have been rejected by credit providers, major life events such as a change in employment, illness or the death of a loved one have negatively impacted their finances in the past year. This correlation is not a coincidence.

Share of consumers who experienced a life event that negatively impacted their finances in the past year:

57% Credit secure

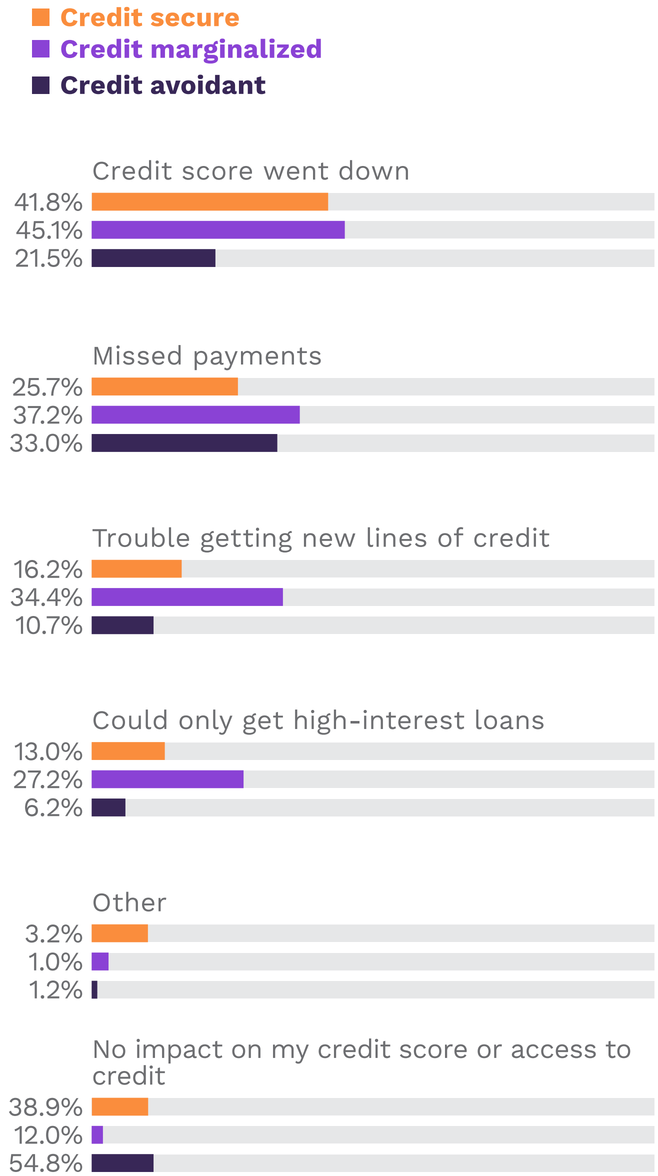
79% Credit marginalized

48% Credit avoidant

FIGURE 1:

Life events have credit consequences

Share of consumers stating how financially harmful life events impacted their credit, by credit persona



Source: PYMNTS
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N = 2,678: Whole sample, fielded Feb. 22, 2023 – March 1, 2023

Although many of those events are random or uncontrollable, they can kickstart a vicious cycle. Our findings suggest that these events lead to missed bill payments, often resulting in lower credit scores and heightening the need to resort to high-interest and high-penalty loans to meet financial needs. Our data finds that 34% of credit marginalized consumers report struggling to get new lines of credit following a financially harmful life event, and 27% said they could only get riskier loans in those situations. The nature of these products risks plunging credit insecure consumers further into mounting debt, harming their credit scores and possibly making them more averse to credit products.

Credit marginalized consumers are more than twice as likely to resort to high-interest loans as their credit secure counterparts when coping with these life events; they are also approximately twice as likely to face difficulty qualifying for new credit products.

Negative financial impacts from life events can prolong financial hardships for the credit marginalized and push them into a hard-to-escape spiral of increasing indebtedness, lower credit scores and predatory loan products.

Lack of access to safer credit products risks exposing credit marginalized consumers to predatory loan products.

Credit products with high interest rates and steep late payments, such as payday loans or high-interest credit builder loans, can worsen the financial challenges credit insecure consumers face. That hypothetical worry is a real struggle for many consumers, as 47% of all consumers who have used payday or pawnshop loans are late on their payments. Credit marginalized consumers are five times more likely to have past due amounts than their credit secure counterparts.

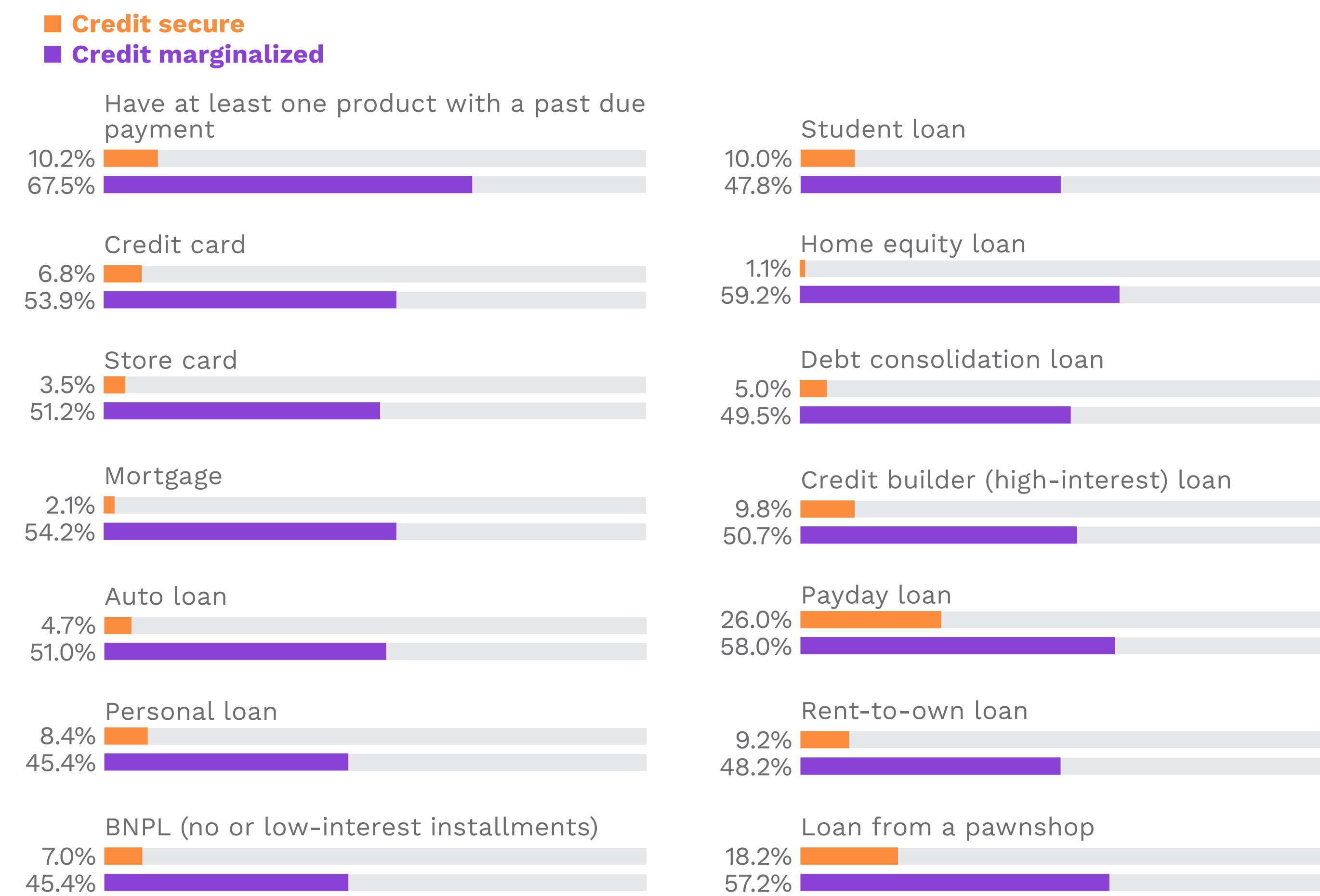
From a product perspective, high-interest credit builder loans appear to serve more as credit destroyers. Although credit marginalized consumers are twice as likely to have overdue payments on payday loans as their credit secure counterparts, they are five times as likely to have overdue high-interest credit builder loans.

Because credit scores represent a borrower's capacity to repay, these missed or late payments cost them more money and result in banks or other financial institutions further denying or restricting these consumers from accessing safer credit products. In time, a sizeable share gives up on credit as a concept.

FIGURE 2:

Marginalized and falling behind

Share of consumers with past due payments for select products, by credit persona



Source: PYMNTS
How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits, April 2023
N = 2,678: Whole sample, fielded Feb. 22, 2023 – March 1, 2023

Fear of rejection keeps credit insecure consumers from applying for new credit products.

Credit marginalized consumers are less likely to apply for new credit products, even if they face financial hardship. In addition to concerns about making monthly payments, the main reasons these consumers shy away from applying for new credit were low credit scores, cited by 26%, and a fear of rejection, at 21%.

What about credit avoidant consumers? A strong desire to not carry any debt was the reason 43% of this group — those who have completely opted out from the credit process — said they did not apply for new credit products, more than double the 20% of credit marginalized consumers who said they did not want more debt.

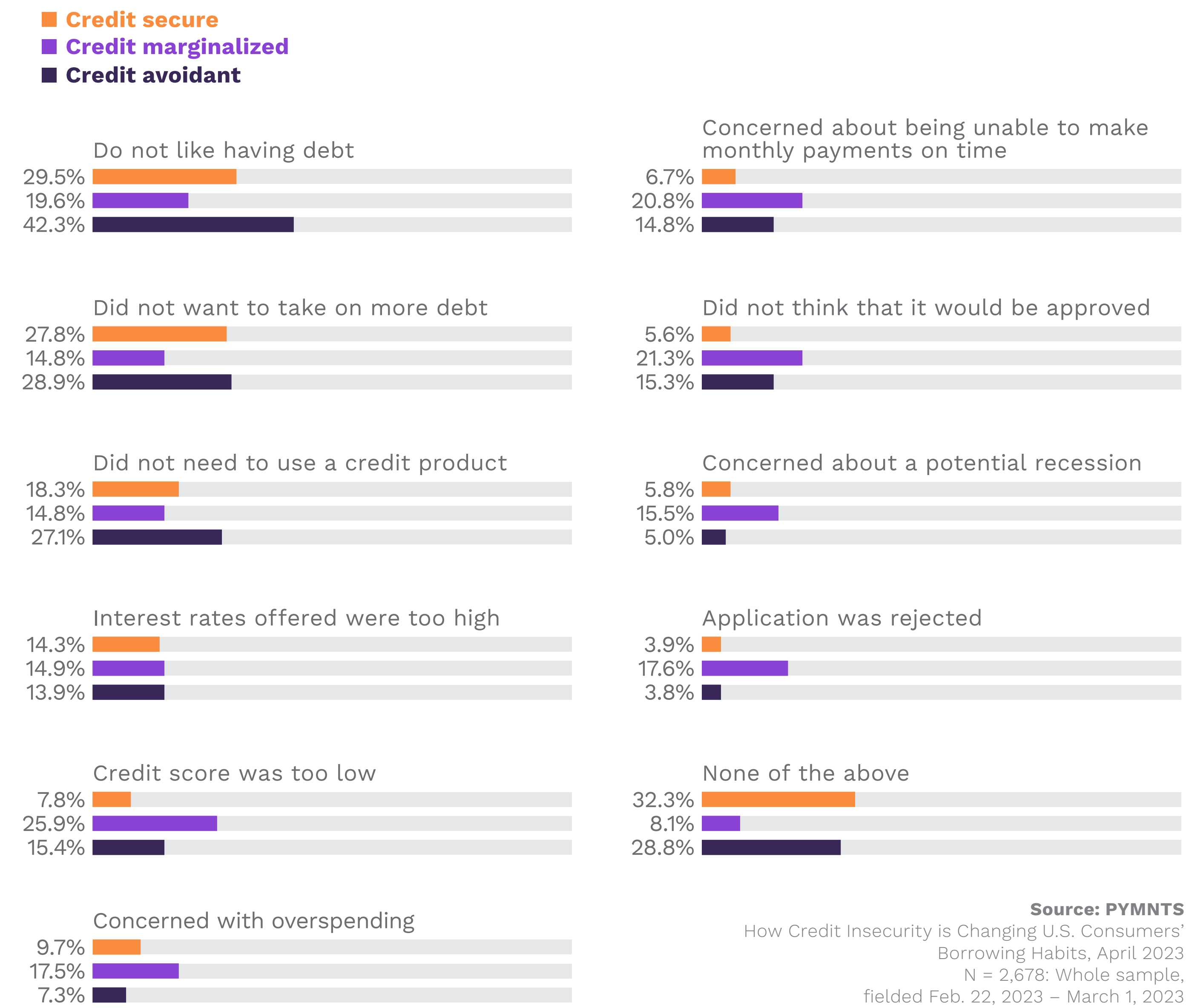
The above findings suggest that as credit marginalized consumers fail to find ways to improve their credit scores, there is a risk they could become credit avoidant, potentially shrinking the addressable market for vendors of new credit products.

PYMNTS' data suggests that educating credit marginalized consumers on the measures they can take to improve their credit scores could reduce this risk. This education can involve products they already utilize, such as buy now, pay later (BNPL) loans.

FIGURE 3:

Attitudinal barriers to credit

Share of consumers citing select reasons they did not use a credit product or loan in the last 12 months, by credit persona



Source: PYMNTS
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N = 2,678: Whole sample, fielded Feb. 22, 2023 – March 1, 2023

Few consumers have a good understanding of how to improve their credit scores, especially as the scores relate to credit products such as BNPL.

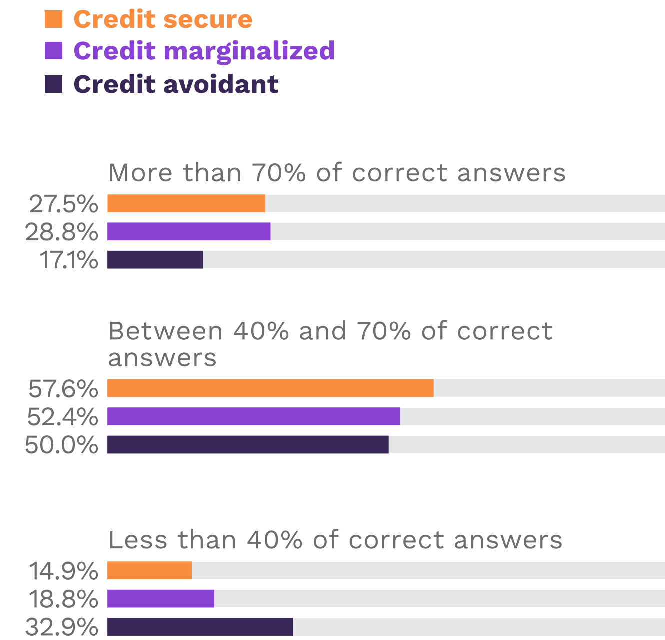
As part of our survey, we gave consumers examples of nine different credit-related actions and asked respondents to identify whether those actions improved credit scores. Based on the small number of respondents that got all, or even most of, the credit score-related questions correct, it would appear that very few consumers know how to improve their credit scores and qualify for credit products.

We consider consumers who submitted accurate answers to 70% or more of our credit score-related questions as knowledgeable. Credit marginalized consumers appear to be slightly more knowledgeable, at 29%, than credit secure consumers, at 28%. Even so, more than two-thirds of each group has a shaky understanding of the credit score system. Credit avoidant consumers are even less likely to fully comprehend the system, at 17%.

FIGURE 4:

Consumers' lackluster credit knowledge

Share of consumers who correctly answered credit score-related questions, by persona



Source: PYMNTS
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Our research has already described credit insecure consumers' troubling habit of turning to payday loans and other risky products to build credit scores or access credit. Interestingly, just 27% of consumers know that using a BNPL loan — most with no or very low interest — could help improve their credit scores. In most consumers' minds, improving their credit scores involves paying bills on time, using a credit card or managing their credit balances. While credit scoring models do not use BNPL transactions just yet, bureaus are beginning to include BNPL in personal credit records, and it could be a matter of time before the scoring models catch up. A better understanding of how credit works could thus enable credit insecure consumers to access safer tools to cope with financial strain and even reverse some of the negative credit spiraling that is so common.

Conclusion

Nearly one-third of U.S. consumers are classified as credit insecure, with many having to cope with negative financial impacts from major life events. Our research has found common habits among a credit continuum: Credit secure consumers face a destabilizing event and become credit marginalized; these individuals believe they have no other option but to resort to predatory loan credit products, and tend to fall behind. Eventually, these consumers become credit avoidant and stop applying for new credit altogether. Companies looking to provide new credit products face the challenge and opportunity of expanding consumers' knowledge of how products such as BNPL can help improve their creditworthiness, empowering these consumers to have a better shot at escaping the downward financial spiral faced by so many.

Methodology

How Credit Insecurity is Changing U.S. Consumers' Borrowing Habits, a PYMNTS and Sezzle collaboration, is based on a survey of 2,678 consumers conducted from Feb. 22 to March 1. Our findings assess consumers' access to credit, use of credit products, experience in applying for or being rejected for credit products, the financial impact of life events, and the alternatives available based on their credit personas.

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ABOUT

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