Second-Look Financing:

Purchasing Solutions for Consumers Not Well-Served by Prime Lenders

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Introduction

Shifting economic conditions have resulted in consumers facing higher prices for everyday goods. As a consequence, many find themselves with limited access to cash reserves for non-essential purchases. This forces them to make daily decisions about how they'll pay for both small- and large-ticket purchases.

Such has become the experience of merchants and service providers. Shifting economic conditions limit consumers' access to short-term financing—right when they must make more decisions about which expenses to incur.

Consumers have the same laundry list of needs but, on average, their income hasn't grown at the same pace as inflation.

These trends put the onus on providers of goods and services to encourage easy, simple and safe processes for customer financing, especially where prime lenders have reduced their willingness to lend. The near-prime consumer needs more options than ever before, and they can drive incremental same-store sales at a time when most merchants and retailers are seeing a slowdown in door swings.

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> The definition of 'well-qualified' credit applicants has changed in the current economy, and some traditionally prime consumers are being reclassified as near-prime today. Those folks have started searching for new alternatives, and that's really where secondary finance comes in. It brings those new and alternate solutions to a group of people who probably never even thought about it before.
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> **Rolando De Gracia**
> Head of Enterprise Partnerships
> Concora Credit

Despite the macroeconomic factors that are beyond their control, merchants and retailers need to manage this pressure on sales. One way to do this is to work with service providers who can enable them to provide point of sale financing options to consumers of varying credit profiles.

Some of these trends will continue to play out for years to come. These include:

- The continued rise of inflation and higher interest rates, which may remain heightened through next year (even if rates eventually slowly decline).
- Gen Z's entrance into the workforce and growing net worth, which requires providers to cater to their unique needs—especially as the value of purchases rises while their credit profiles remain thin.
- Changing consumer behaviors that focus on specific wants after needs are addressed— due to inflation, interest rates and the COVID economy—which has decreased the number of purchases they make.

It's in the near-prime customer where these dynamics continue to play out in real time. As consumers look for ways to adapt to these realities, they will be drawn to merchants and service providers that can make the experience of buying easier and more efficient, based on their individual financing needs.

Continue reading to see how these trends will affect providers in the coming months and years.

Moving with the Macroeconomic Trend

All lenders face a two-fold scenario: They must determine the type of customer they can lend to and evaluate the cost based on where interest rates for lenders sit at that moment. With interest rates rising from effectively 0% in March 2022 to 5.5% by the end of 2023, the cost for lenders to offer loans has increased.

How does this affect consumers? First, let's consider how it affects lenders. With costs rising, prime lenders become more restrictive in how much they lend, fearing more defaults. At the same time, they often reduce the pool of eligible applicants. Consumers who are cut off tend to have lower credit scores. Meanwhile, inflation reduces their ability to afford the goods they seek. Combined, these factors make it more difficult for consumers to purchase the things they need.

This is where second-look financing provides a significant service. If anything, merchant and service providers will see the credit scores of their near-prime or slightly above-prime consumers tick downward, on average. Why? One reason could be variable rates. As rates rose, customers with variable-rate loans saw their balances and monthly payments increase almost overnight. With fewer resources from prime lenders, consumer credit scores can take a hit as they balance their needs and buying power against higher costs.

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In such a constrained spending environment, merchants and service providers that can offer new resources and strategies to afford their products see a valuable benefit: new buying power for their customers.

“As interest rates began to rise, it was important for us to maintain consistency in our offering, both for our customers and for our team members,” says Nicholas White, Senior Vice President and Global Head of Payments at Signet Jewelers.

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> When other retailers were scaling back or changing the offering, we initiated a series of strategic discussions across our partners to ensure that we could maintain a diverse partner product offer set. And that uncovered the full spectrum of lending and continued to deliver value and affordability to our customers.
>
> **Nicholas White**
>
> Senior Vice President and Global Head of Payments
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> Signet Jewelers

Driving sales in a heightened interest rate environment requires many different resources. But the ability to offer second-look financing to customers will give them an option that they may not find elsewhere. Customers seek out these options and the merchants that give them the resources to secure their purchases efficiently and effectively will benefit.

Managing a Gen-Z Influx

The rise of buy now, pay later (BNPL) came along when interest rates were low. But there was another driver in the use of these interest-free loans: Gen Z and Millennials often leaned on BNPL for low-cost purchases, not the higher-cost items for which it was originally intended.

As BNPL expanded, it became restricted to smaller items. Gen Z's purchasing power, however, improved: In a 2023 survey for Charles Schwab, 46% of Gen Z reported feeling wealthy. It was the second-highest percentage among age groups, with only Millennials coming in higher, at 57%. Gen Z spends on experiences, well-being and items they find valuable. A 2022 Intuit study revealed that 40% would rather feel fulfilled now than save for the future.

"What we know is that Gen Z tends to value experiences, and we want to be there with them every step of the way as they celebrate those special occasions," White says. "We think it's important to build a strong relationship with this segment, and so we want to meet them wherever they are on their financial products journey and as they embark on life milestones and moments."

This leaves merchants and service providers at a crossroads with the Gen Z age group. As they plan to buy items and experiences that go beyond BNPL, they need access to financing. They haven't had the time to build up a credit history, which affects their credit scores. In fact, [Experian estimated](#) the average Gen Z credit score at 679, while an average of all consumers came in at 714.

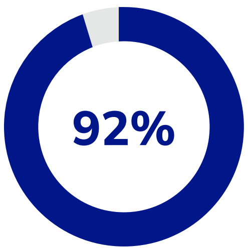
Gen Z consumers want to spend, but they may not have the resources to pay for large purchases at the moment they desire them. They're also more likely to have a thin credit file, which means credit scores too low to entice prime lenders. How can merchants service these customers? They need a second-look financing program that understands the needs of this growing generation, partnered with a group that can effectively determine when such a shopper has the profile to earn credit.

"They're choosing not necessarily always to use credit," De Gracia says. "But when they do choose credit, they want flexible credit, mobile credit, and they want to be able to have a say in the terms. The Gen Z community is starting to see some patterns that they've not seen in their world before and are trying to figure out how to make it all work."

The impact on the bottom line can not only have value today but open sales to an entirely new demographic—one that will see its purchasing power expand. Becoming a recognized name for this group can drive value today and into the future.

Adapting to Changing Behaviors

There is no question how U.S. consumers feel about inflation. According to a [survey by CNBC and Morning Consult](),



92% of consumers have pulled back on spending due to rising inflation.
- CNBC and Morning Consult survey, 2023

In practice, how they reduce spending depends on a mix of their needs, wants and desires. Instead of stepping back entirely, they're making specific decisions about what they buy and why. At the same time, they're looking for solutions to help them solve their personal financial puzzle, as they try to manage higher costs.

With these trends, credit scores can dip. But it's important to use a secondary lender that has proprietary data and analysis, to properly evaluate customers, beyond the basic score provided by FICO or another operator.

During the height of COVID, when people were staying home, savings rates increased to levels higher than economists had seen in years. But as COVID restrictions eased and people ventured out more, consumers increased spending while still valuing their cash savings. This has made tools to finance large purchases valuable because they can lean on the loan to pay for the item without sacrificing cash flow and emergency funds. The consumer has become cautious in some ways—but they still want to spend on items they care about.

At a time when consumers are more conscientious about spending, it's more important than ever to offer a full spectrum of financing solutions, which includes a second-look financing partner.

When customers look for tactics to answer all their financial questions—while still affording the item they need or want—the merchants and service providers that can help will capture sales that the competition cannot. This can mean an ongoing relationship with customers, as their spending power and needs shift and grow.

"Concora Credit has been instrumental in helping Signet achieve our goals in a constantly changing background environment over the last few years, where customers are navigating the impacts of all sorts of different types of financial pressures," says White. "Our partnership with Concora Credit provides our customers with affordable options to celebrate important lifetime milestones through budget-friendly solutions and affordable monthly payments."

Conclusion

Whether rates ease in 2024 or continue to rise, what we know is that the heightened inflationary period of the last two years has shifted your customers' ability to afford the things they both want and need. This has resulted in a push toward financing just as prime lenders have restricted their own requirements to lend. This presents a prime opportunity for providers that offer flexible alternatives to help clients solve their financial puzzles.

Helping your customers requires having the right partner who can analyze credit scores in a changing economy and can incorporate the solution seamlessly into your financing program.

With that in place, you can become a valuable resource for customers as they manage their complex needs.

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> Shoppers want access. Secondary finance is giving your shoppers more access to credit, which means more access to purchases and flexibility. With secondary financing, you have more options to offer, and shoppers all want more options.
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About Concora Credit Inc.

A single purpose guides Concora Credit: to help non-prime consumers Do More with Credit. Through its credit servicing activities for issuing banks, the company has helped millions of consumers access credit through Private Label and General Purpose Credit Card programs designed for consumers with less-than-perfect credit. Concora Credit is the company of choice for merchants looking to offer greater access to credit for their customers because our flexibility delivers better outcomes at the point of sale and beyond. We see a bright future for consumers through our simple proposition that is best expressed in two words: **Do More.**

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