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Young consumers have gravitated toward alternative lending solutions

Article

What's happening?

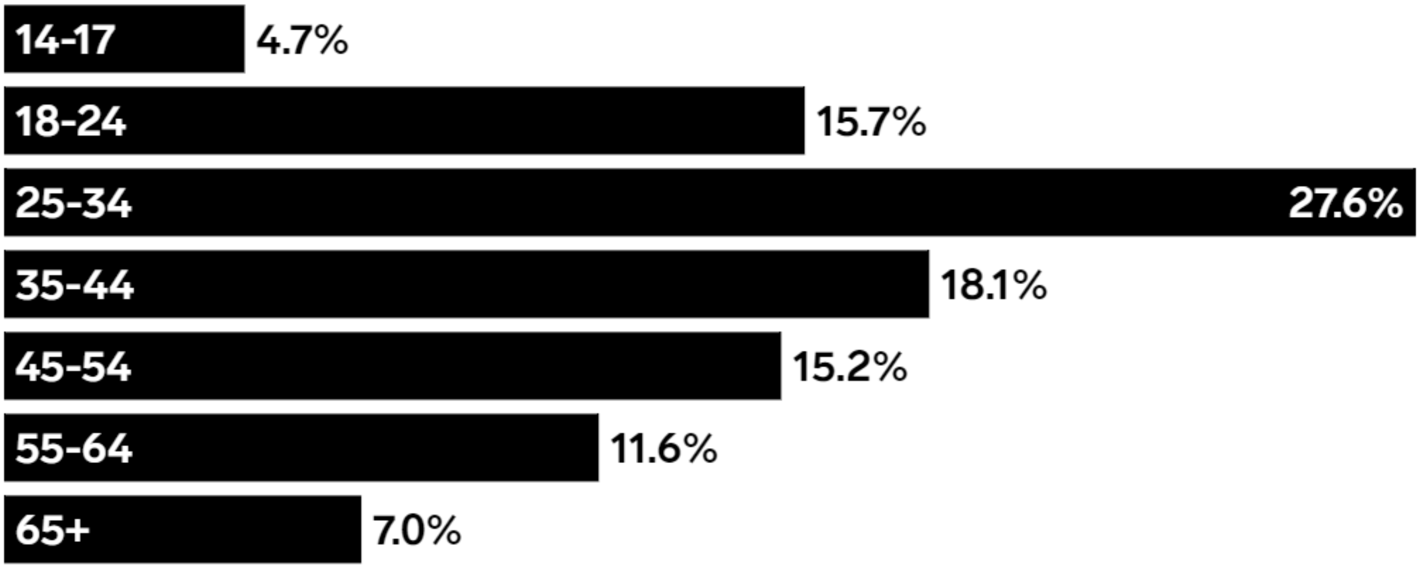
Younger consumers don't know what goes into traditional lending decisions. For example, 42% of Gen Zers don't understand what factors into their credit scores, per a December 2023 Credit Sesame survey.

They also fear incurring debt more than older generations. Twenty-nine percent of Gen Zers and 32% of millennials believe their financial situation could lead to homelessness—three times more than older respondents, per a February 2024 Opinium Research survey commissioned by Acorns.

Instead of traditional loans, they're taking what they think is the faster, easier route: BNPL. Consumers under the age of 35 comprise 48% of BNPL users, per our forecast. By contrast, they comprise just 35% of traditional credit card holders, per a 2023 report from LexisNexis Risk Solutions. Those who can't or don't want to go through the approval process can still make purchases with this alternative method.

Buy Now, Pay Later Service User Share, by Age

US, 2024, % of total



Note: ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once during the calendar year; includes purchases of goods and services

Source: EMARKETER Forecast, June 2023

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What should FIs do next?

Consider offering BNPL solutions. Almost half of credit unions say BNPL is not in their near-term plans, per January 2024 data from PYMNTS Intelligence. But as demand grows, it's worth evaluating the option. FIs can evaluate either developing BNPL capabilities internally or working with a third-party intermediary to offer them to customers.

Spell out lending application procedures in marketing campaigns aimed at young consumers. For those new to the lending process, a clearer understanding of what factors into lending decisions could encourage them to take the leap. FIs' marketing material can emphasize the ease of the process and remind consumers of any help that's available to encourage applications.

Align credit card features with young consumers' needs. For example, FIs that understand young consumers' aversion to debt may promote the ability to turn the balance on their credit card into fixed monthly payments through a loan. This allows customers to consolidate their debt into a single monthly payment at a lower interest rate than they were likely paying on various credit cards. This can also be a differentiator for FIs: Nonbank lenders tend to offer more specialized products like mortgages only.