

BUY NOW, PAY LATER LOANS: A NEWER FINANCIAL SERVICE WITH SERIOUS RISKS

What is a Buy Now, Pay Later loan?

Buy Now, Pay Later (BNPL) loans are an increasingly popular form of credit that allows a consumer to fully purchase a product from a retailer and then pay back the loan over four installments, with the first installment typically being a down payment on the purchase. Most BNPL loans range from \$50 to \$1,000 and levy late fees if a borrower misses a payment. Once a niche financial offering that was heavily concentrated in apparel and beauty, BNPL providers have since branched out to other industries as diverse as travel, pet care, and even groceries, gas, and health care. As a result, consumers increasingly use BNPL loans for “essential” purchases.

BNPL loans are extended primarily by fintech lenders and regulations surrounding this newer product are limited. While these loans have many parallels to small-dollar loans, they are not nearly as well regulated at the federal or state level and can expose consumers to risky consequences. For example, a recent survey conducted by [Qualtrics](#) found that 34 percent of BNPL customers have fallen behind on one or more of their BNPL installment payments, resulting in potentially significant late fees.

Consumer Financial Protection Bureau examines BNPL

In September 2022 the Consumer Financial Protection Bureau (CFPB) published a report offering key insights on the BNPL product and industry. The report, *Buy Now, Pay Later: Market trends and consumer impacts*, examined five leading BNPL providers and found that the industry’s business skyrocketed during the pandemic – originating 180 million loans totaling over \$24 billion in 2021, a near tenfold increase from 2019. But borrowers receive uneven, inconsistent disclosures and protections when using this fast-growing service.¹

The marketing of BNPL loans can make them appear to be a zero-risk credit option, but the CFPB’s report identified several areas of risk of consumer harm, including:

- **Inconsistent consumer protections and disclosure practices:** BNPL credit products often do not offer protections that are standard elsewhere in the consumer financial services marketplace, including a lack of standardized cost-of-credit disclosures and minimal dispute resolution rights.
- **Debt accumulation, overextension, and sustained usage:** Most BNPL lenders have not always provided data to the major credit bureaus and there is limited underwriting for the loans or consideration of a borrower’s ability to repay. In fact, in 2021, the credit approval rate across the five leading BNPL providers was 73 percent. Borrowers may quickly have more than one BNPL loan out at a time, including from different providers. In addition, data suggest that customers are not simply shifting their purchases to use BNPL credit but rather are spending – and borrowing – more than they otherwise would.
- **Compulsory use of autopay:** Most BNPL lenders require that borrowers use autopay and make removing autopay challenging or impossible.
- **Late fees:** At least one BNPL lender’s policy allows for multiple late fees on the same missed payment. And because most customers are on autopay, a late fee likely also means their account has insufficient funds, potentially triggering other fees.
- **Multiple payment re-presentments:** Most BNPL lenders will attempt to reauthorize failed payments, in some instances up to eight times for a single installment, with consequences for borrowers.
- **Inconsistent regulation:** Some states consider BNPL to be consumer credit and require state licensing or registration, as well as compliance with state consumer credit laws, while other states do not require licensing or registration for BNPL products.

¹ Consumer Financial Protection Bureau. (2022) *Buy Now, Pay Later: Market trends and consumer impacts*. https://files.consumerfinance.gov/f/documents/cfpb_buy-now-pay-later-market-trends-consumer-impacts_report_2022-09.pdf

Other Research

- **The Ascent** conducted a survey in March 2021 which found that 50 percent of consumers have used a BNPL service, down from 56 percent from 2020.² Sixty-seven percent of users think BNPL could replace their credit cards, though only about a third want that to happen. Thirty-three percent of users have made a late payment or incurred a late fee, and forty-seven percent of BNPL users say they are at least somewhat likely to make a late payment within the next year.
- **C+R Research** published a survey which found that BNPL users most often use the service for non-essential items, with more than half (59 percent) reporting they've purchased an "unnecessary" item they couldn't afford, and 56 percent have regretted making a purchase through BNPL because the item was too expensive and fallen behind on making a payment, respectively.³
- **Harvard University** researchers examined the characteristics of BNPL users and their usage patterns to provide new insights into consumer responses to unsecured credit access.⁴ They determined lower-income consumers spend more in total when using BNPL. When a consumer first opts to use BNPL, their total spending rises by about \$130 and remains high for the next six months, the researchers said. BNPL use "causes a permanent increase in total spending of around \$60 per week," mainly in retail spending, they wrote.⁵

² Backman, Maurie and Caporal, Jack. (2022) *Study: Buy Now, Pay Later Services Grow in Popularity*. <https://www.fool.com/the-ascent/research/buy-now-pay-later-statistics/>

³ C+R Research. (2022) *Buy Now, Pay Later Statistics and User Habits*. https://www.ccresearch.com/blog/buy_now_pay_later_statistics

⁴ Di Maggio, M., Katz, J. & Williams, E. (2022) *Buy Now, Pay Later Credit: User Characteristics and Effects on Spending Patterns*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4198320

⁵ Ibid