



Issue Brief: Consumer Understanding of Buy Now, Pay Later in California

October 2023

Rachel Gittleman, Consumer Federation of America (Formerly)
Lucia Mattox, Center for Responsible Lending (Formerly)
Peter Smith, Center for Responsible Lending

Table of Contents

Executive Summary	6
Background and Discussion of Consumer Harms.....	7
Methodology.....	10
Survey Findings.....	12
Policy Recommendations.....	18
Conclusion.....	20
Appendices.....	21



The **Consumer Federation of America (CFA)** is a nonprofit association of more than 200 national, state, and local groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education. For over 50 years, CFA has been at the forefront of consumer protection with a broad portfolio of issues including financial services, banking, product safety, telecommunications, investor protection, energy, housing, insurance, privacy and saving. CFA's nonprofit members range from large organizations such as Consumer Reports and AARP, to small state and local advocacy groups and include unions, coops, and public power companies.



Center for Responsible Lending

The **Center for Responsible Lending (CRL)** is a non-partisan, nonprofit research and policy advocacy organization working to promote financial fairness and economic opportunity for all, end predatory lending, and close the racial wealth gap. CRL's expertise gives it trusted insight to evaluate the impact of financial products and policies on the wealth and economic stability of Asian, Black, Latino, rural, military, low-wage, low-wealth, and early-career workers and communities. CRL is an affiliate of Self-Help, one of the nation's largest nonprofit community development financial institutions. Our work leverages the strength of partnerships with national and local consumer and civil rights organizations.

About the Authors

Rachel Gittleman formerly served as the Financial Services Outreach Manager for the Consumer Federation of America. In this role, Rachel led CFA's advocacy and outreach on banking and consumer credit issues. Rachel represented CFA on behalf of consumers before the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency, the Federal Reserve, as well as other federal and state financial regulators. Prior to joining CFA, she worked as the Political Outreach Manager for the American Association for Justice, where she engaged with their membership on a variety of access to justice and consumer protection legislative issues and oversaw the organization's voter protection efforts. *Rachel completed her work on this report in July 2023.*

Lucia Mattox formerly served as the Director of Western States Outreach and Senior Policy Associate, working on fair debt collection, criminal legal system debt, and small dollar lending issues. In her previous role with the Campaign for Black Male Achievement (CBMA), she supported the CEO in expanding and deepening the organization's impact to ensure black men and boys across the country thrive. Lucia received her bachelor's degree in Urban Studies with a specialization in Sociology from Barnard College. *Lucia completed her work on this report in September 2023.*

Peter Smith is a Senior Researcher who leads CRL's research on overdraft practices, and works on mortgages, student loans and bank payday loan issues. Pete has been with CRL since 2005, authoring numerous reports and briefs, and creating a body of often-cited research literature. He was born and raised in Maryland, and attended the University of Maryland's Honors Program, where he graduated with a BS in Mathematics. Currently based in CRL's Oakland (CA) office, Pete also has a Master's of City Planning from the University of California at Berkeley.

Acknowledgements

The authors would like to thank the state advocates who helped administer this survey: CACE (Linda Smith); CalPIRG (Nina Dang and Sander Kushen); Central Valley Immigrant Integration Collaborative (CVIIC; Lorena Hernandez, Jesus Martinez, Oswaldo Paoletti, Clarissa Vivian Petrucci); Center for LGBTQ Economic Advancement & Research (CLEAR; Spencer Watson); East Bay Community Law Center (EBCLC; Desiree Nguyen Orth); Housing and Economic Rights Advocates (HERA; Maeve Elise Brown); NextGen Policy (Ken Spence); Senior Advocacy Network- Senior Law Project (Joyce Gandelman); Greater Sacramento Urban League (Laura Murrell); Inclusive Action (Andrea Avila, Lyric Kelkar; Rudolph Espinoza); Public Counsel (Elizabeth Gonzalez).

The authors would also like to thank CRL colleagues Charla Rios, Andrew Kushner, Ellen Harnick, Carol Parish, and Sara Weiss; and CFA Colleagues Doug Heller, Molishka Heriveaux, Jazzmyn Peterson, Rachel Weintraub, and Susan Weinstock for their support and review of this paper.

Support for this project was provided by the Rose Foundation. The authors appreciate the generosity of the Rose Foundation and their interest in ensuring consumers are protected in this burgeoning marketplace.

Executive Summary

Buy Now, Pay Later (BNPL) or pay-in-four products allow consumers to purchase goods in four equal, often interest-free installments over a set time period (often 6 weeks). BNPL is often available directly at checkout on an e-commerce website (like Amazon or Apple) or through a third-party smartphone or web application. Examples of third-party BNPL providers include Affirm, AfterPay, Klarna, Splitit, Sezzle, Paypal, Perpay, and Quadpay/Zip. While many BNPL providers also make installment loans that carry interest, this research paper addresses only products that meet the Consumer Financial Protection Bureau’s (CFPB) definition of BNPL: “a four-installment, no-interest consumer loan, typically with a down payment of 25 percent and the remaining three installments due in two-week intervals.”

The market for BNPL products has grown dramatically in recent years despite an incomplete regulatory landscape. Although no-interest BNPL is not currently regulated at the federal level, California has taken the lead at the state level by requiring the major BNPL providers to obtain state lending licenses and abide by state lending laws, fining four providers in 2020¹ and an additional provider in 2022 for making unregulated loans to consumers.² Despite California’s move to require BNPL providers to comply with its existing lending laws, it remains unclear how much consumers know about their rights when using BNPL, as well as how they view and use these products.

Consumer Federation of America (CFA) and the Center for Responsible Lending (CRL) created a consumer survey to better understand who uses BNPL, why they use it, and how much they understand about the credit product. The survey explored consumer knowledge and usage in California. CFA and CRL solicited community organizations in California in search of BNPL users to serve as respondents, from among the organizations’ clients, members, or contacts. As such, this sample was not constructed to be representative of all California consumers, and may not be representative of all California BNPL users. Nevertheless, the patterns of use and experiences expressed by the respondents add useful information to the growing body of research into the product.

Key Findings

Among Survey Respondents who used BNPL:

- 37% incurred an overdraft fee in the last 6 months.

¹ California Department of Business Oversight, “Point-of-Sale Lender Sezzle Agrees to Cease Illegal Loans, Pay Refunds in Settlement with the California Department of Business Oversight” (Jan. 16, 2020), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2020/01/DBO-News-Release-Sezzle-settlement-1-16-20.pdf> [Hereinafter CA DBO, POS Lender Sezzle to Cease Illegal Loans (Jan. 2020)]; California Department of Business Oversight, “Point-of-Sale Lender Afterpay Agrees to Cease Illegal Loans, Pay Refunds in Settlement with the California Department of Business Oversight” (Mar. 16, 2020), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2020/03/News-Release-Afterpay-settlement-3-16-2020.pdf> [Hereinafter CA DBO, POS Lender Afterpay to Cease Illegal Loans (Mar. 2020)]; California Department of Business Oversight, “Point-of-Sale Lender QuadPay Agrees to Cease Illegal Loans, Pay Refunds in Settlement with the California Department of Business Oversight” (Apr. 22, 2020), <https://dfpi.ca.gov/wp-content/uploads/sites/337/2020/04/News-Release-QuadPay-settlement.pdf> [Hereinafter CA DBO, POS Lender Quadpay to Cease Illegal Loans (Apr. 2020)].

² CA.gov, “Buy Now, Pay Later Company Agrees to Cease Illegal Loans, Pay Refunds in Settlement” (August 9, 2022), <https://dfpi.ca.gov/2022/08/09/buy-now-pay-later-company-agrees-to-cease-illegal-loans-pay-refunds-in-settlement/> [Hereinafter CA DFPI, BNPL Company to Cease Illegal Loans (Aug. 2022)]

- Over 16% had been charged a late or rescheduling fee, or other related fee, by the BNPL provider or their bank, within the last 6 months.
- Those with lower incomes were more likely than those with higher incomes to report using BNPL credit because the purchase would not otherwise fit in their budget.
- Nearly three-quarters (73%) viewed BNPL as most similar to either a credit card or another form of installment loan, both of which are subject to the Truth in Lending Act (TILA) and other state and federal credit laws.
- Consumer understanding about how BNPL functions and is regulated was very low.

Evidence provided by this survey and corroborated by other existing research suggests that consumers expect certain consumer protections that many BNPL providers do not provide. One component of the harms resulting from a lack of regulation of a new financial product is the mismatch between a consumer's *perception* of the protections that exist and the *reality* of non- or under-regulation. Thus, the underdeveloped regulatory landscape for BNPL credit may introduce consumer harms.

Background and Discussion of Consumer Harms

Buy Now, Pay Later (BNPL) refers to consumer credit, marketed as requiring no interest payments, typically paid in four equal installments due over the course of six weeks. The predecessors to BNPL were layaway plans, which are credit plans offered to consumers at checkout that involved a down payment followed by future payments plus nominal fees. Layaway plans became commonplace in many department and retail stores during the Great Depression when many consumers were unable to afford household expenses or high debt interest rates. Although layaway has become less popular with the proliferation of credit cards, some retailers did not phase out their layaway plans until BNPL emerged.³

BNPL differs in one key respect from layaway plans, however: most layaway plans did not commit consumers to make payments and therefore, the consumer could still walk away from the purchase without debt. This is not so with BNPL, which typically obligates the consumer to make all payments for the product, just as with a credit card. Thus, as BNPL credit continues to evolve, these products now appear more and more similar to traditional credit cards. Like credit cards,⁴ BNPL is often available directly at checkout on an e-commerce website or through a third-party smartphone application. Examples of third-party BNPL providers include Affirm, AfterPay, Klarna, Splitit, Sezzle, Paypal, Perpay, and Quadpay/Zip.

BNPL options became widely available in the United States in the mid-2010s and consumer use has increased dramatically in recent years. Nationally, the market grew by more than 70% in

³ Dan Berthiaume, *Chain Store Age (CSA)*, "Walmart Reportedly Replaces Layaway with buy now, pay later option" (Sept. 27, 2021), <https://chainstoreage.com/walmart-reportedly-replaces-layaway-buy-now-pay-later-option?msclkid=f97a9b05aa3211ecb504b5400895c634>.

⁴ Center for Responsible Lending (CRL), Consumer Federation of America (CFA), & National Consumer Law Center (NCLC), Comment to CFPB re Notice and Request for Comment Regarding the CFPB's Inquiry into Buy-Now-Pay-Later (BNPL) Providers 87 FR 3511 Docket No.: CFPB-2022-0002 (March 25, 2022), <https://consumerfed.org/wp-content/uploads/2022/03/Joint-BNPL-comments-3.25.22.pdf> [Hereinafter CRL, CFA, NCLC, BNPL Comments (2022)].

2021⁵ and is expected to grow by nearly 25% by 2030.⁶ The Consumer Financial Protection Bureau (CFPB) surveyed five key BNPL providers (Affirm, Afterpay, Klarna, PayPal, and Zip) in 2021 and found that those providers originated 180 million loans in 2021, which amounted to more than \$24 billion in credit, a nearly tenfold increase from 2019.⁷

The marketing of BNPL credit is enticing, with promises of instant approval and no impact on a consumer's credit. Consumers may also seek out BNPL credit because it allows them to pay off the debt in a small, pre-determined number of installments as opposed to one lump sum. One survey found that 55% of those consumers who had used BNPL credit opted to do so because they would rather pay in installments than in one lump sum.⁸ Additionally, some consumers might opt for BNPL simply for the apparent ease and convenience. Of those consumers who have used BNPL credit, 20% said that it was because they thought it would be easier than credit cards.⁹

Although consumers may benefit from BNPL, it is not without risks and can be confusing and inconvenient in disputes, due to regulatory gaps at both the state and federal levels. Depending on structure, various aspects of the BNPL business model and product can pose serious risks to consumers, including: lack of underwriting; opaque dispute and chargeback process; negative effect on credit report and score; potential unexpected debt collection; payment difficulty caused by a lack of consolidated statement and payment; and insufficient financial data privacy.¹⁰

Underwriting for these products varies based on provider, and most products do not meaningfully assess a borrower's ability to repay. For most BNPL credit, consumers need only verify their identity, provide a payment form (typically a debit or credit card), and have a "soft" credit check pulled,¹¹ and yet some providers don't even complete this basic underwriting.¹² Failing to meaningfully underwrite credit can lead consumers into unmanageable debt loads. Although some BNPL providers have begun to report loans to the credit reporting bureaus, it still remains optional, and varies by provider and by credit reporting bureau.¹³ Therefore, there is currently no way for companies to assess whether consumers have multiple BNPL loans with various providers. In their recent report, the CFPB indicated that a major area of concern in the growing BNPL market is overextension of credit for consumers.¹⁴

⁵ Ron Shelvin, *Forbes*, "Buy Now, Pay Later: The 'New' Payments Trend Generating \$100 Billion In Sales" (Sept. 7, 2021), <https://www.forbes.com/sites/ronshelvin/2021/09/07/buy-now-pay-later-the-new-payments-trend-generating-100-billion-in-sales/> [hereinafter Shelvin, The "New" Payments Trend (Sept. 2021)].

⁶ Laura Wood, Yahoo!Finance, "United States Buy Now Pay Later (BNPL) Market Report 2023: Market to Grow by a CAGR of 24.3% to 2030 - Growing Use of Analytics Tools to Provide a More Personalized and Streamlined Process" (June 1, 2023), <https://finance.yahoo.com/news/united-states-buy-now-pay-101500296.html>.

⁷ Consumer Financial Protection Bureau (CFPB), Buy Now Pay Later: Market trends and consumer impacts (Sept. 2022), <https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts/> [hereinafter CFPB, BNPL: Market trends (Sept. 2022)].

⁸ Consumer Reports. American Experiences Survey: A Nationally Representative Multi-Mode Survey (Jan. 2022), https://article.images.consumerreports.org/prod/content/dam/surveys/Consumer_Reports_AES_January_2022 [hereinafter Consumer Reports, American Experiences Survey (Jan. 2022)].

⁹ *Id.*

¹⁰ CRL, CFA, NCLC, BNPL Comments (2022).

¹¹ Consumer Financial Protection Bureau (CFPB), "What is a Buy Now, Pay Later (BNPL) loan?" (December 2, 2021), <https://www.consumerfinance.gov/ask-cfpb/what-is-a-buy-now-pay-later-bnpl-loan-en-2119/>.

¹² Maxwell Strachan, *Vice*, "'I Know I Have an Issue': Does 'Buy Now, Pay Later' Convince People to Overspend?" (August 25, 2022), <https://www.vice.com/en/article/pkgkbg/i-know-i-have-an-issue-does-buy-now-pay-later-convince-people-to-overspend>.

¹³ CRL, CFA, NCLC, BNPL Comments (2022).

¹⁴ CFPB, BNPL: Market trends (Sept. 2022).

Consumers can face a variety of fees and other charges when using BNPL products. While the BNPL loans covered by this survey carry no fees or charges if repaid on time and on schedule, consumers who do not repay in this manner may face late fees for missed payments and payment rescheduling fees for changing the date of a payment. For five of the top BNPL providers, the CFPB found that the revenue from all fees (including late and other fees) had increased from 11.7% in 2020 to 13.4% in 2021. Although fees vary depending on the provider, some can reach as high as \$25, and many providers do not limit how many fees can be charged.¹⁵ A 2021 survey of U.S. consumers who had used BNPL found that 38% had missed payments—and that percentage was higher for younger consumers, with more than half of Generation Z or Millennials--those born between the early 1980s and mid-to-late 1990--saying they had missed a payment.¹⁶ For those who fell behind on payments, 72% reported a decline in their credit score.

In addition to the financial burden of fees from BNPL providers, BNPL fees can also trigger punitive overdraft and nonsufficient funds fees on the bank side. Most providers require consumers to link the BNPL credit to a credit or debit card at checkout and authorize payments to be automatically deducted. The CFPB found that 89% of credit repayments to the five surveyed companies were made on a debit card.¹⁷ Automatic withdrawals can trigger overdraft and nonsufficient fund fees in a consumer's bank account. This means that for consumers facing a cash shortfall, they will either be charged a late or rescheduling fee from the BNPL provider or an overdraft or "non-sufficient funds" (NSF) fee from their debt card holder. Bank fees can be damaging to consumers as overdraft and NSF fees are highly associated with bank account closure, which can lead to financial exclusion.

BNPL products also pose other consumer harms related to repayment. Many providers enroll users in autopay, which reduces the provider's incentive to underwrite and may violate the consumer's right to revoke this authorization as protected by the ban on compulsory repayment by the Electronic Fund Transfer Act (EFTA).¹⁸ This preauthorization also makes it difficult for consumers to exercise dispute rights for returned, cancelled, or non-delivered items.

Moreover, although most consumers use a debit card for repayment, the CFPB found that 10.1% of BNPL installment payments were made via credit card at five of the top BNPL providers. Another recent survey found that 22% of respondents used a credit card to pay off a BNPL account.¹⁹ Some BNPL providers may require repayment by credit card, which is even more alarming.²⁰ Using a credit card to pay off other forms of debt is a practice that credit card issuers often do not permit with traditional debt, like mortgages and student loans. For those with revolving credit, the BNPL charge will trigger interest from the day it is posted.

¹⁵ Leticia Miranda, *NBC News*, "The Hidden Costs of 'Buy Now, Pay Later' Loans" (Nov. 4, 2021), <https://www.nbcnews.com/business/consumer/hidden-costs-buy-now-pay-later-loans-rca4367>.

¹⁶ Anna Irrera, *Reuters*, "As 'Buy Now, Pay Later' Surges, a Third of U.S. Users Fall Behind on Payments" (Sept. 9, 2021), <https://www.reuters.com/technology/buy-now-pay-later-surges-third-us-users-fall-behind-payments-2021-09-09/>.

¹⁷ CFPB, BNPL: Market trends (Sept. 2022).

¹⁸ See CRL, CFA, NCLC, BNPL Comments (2022), pg. 41.

¹⁹ Claire Ballentine, *Bloomberg News for American Banker*, "How buy now/pay later services are boosting American credit card debt" (March 18, 2022), https://www.bloomberg.com/news/articles/2022-03-17/why-paying-your-buy-now-pay-later-balance-with-a-credit-card-could-cost-more?in_source=embedded-checkout-banner.

²⁰ See for example, Splitit charges all payment to a credit card rather than a bank account, see terms and conditions, (last accessed August 25, 2023), <https://www.splitit.com/legals/splitit-shopper-terms-conditions/united-states/>.

Finally, consumers with multiple BNPL lines of credit also may find them difficult to track since due dates vary based on the date of purchase and based on provider. A single monthly payment is easier to track and manage than multiple payments throughout the month. A 2020 study found that 43% of BNPL users had fallen behind on payments, and of those consumers, two-thirds said that the reason for falling behind was because they had lost track of payments.²¹

A major issue behind these consumer harms is that BNPL remains largely unregulated at the federal and state levels, without the same requirements for disclosure, consumer statements, evaluation of ability to repay, and explanation of penalty fees, as well as dispute and chargeback rights that apply to other forms of credit like credit cards. Under the federal Truth in Lending Act (TILA), credit card providers are required to provide these protections to users of credit cards. A few BNPL providers voluntarily follow TILA, but most do not.

California has emerged as a leader in combatting this lack of regulation at the state level. The state has required BNPL providers to obtain applicable licenses and abide by existing credit regulations, fining four BNPL providers in 2020²² and an additional provider in 2022 for making unregulated loans to consumers.²³ Although California requires providers to comply with its lending laws, California's regulatory regime requires only that BNPL providers abide by the California Financing Law (CFL). Although the CFL provides important oversight of lenders and sets critical fee and interest limits, the statute does not address consumer issues related specifically to BNPL.

Methodology

The Center for Responsible Lending and Consumer Federation of America designed and conducted an online and print survey ("BNPL Survey") of clients of partner organizations, in order to understand their use of BNPL financing and to gauge users' understanding of the product. Potential partner organizations were drawn generally from organizations with memberships, community relationships, or that provide direct service in California, and were solicited on the basis of having the interest and capacity to get 25-50 Buy Now, Pay Later surveys completed by members/clients over a three-month period. A copy of the survey instrument and a breakdown of respondent demographics are provided in the appendices. One partner organization offered their respondents the opportunity to complete the survey in Spanish.

This study aimed to gain a better understanding of how consumers use these credit products in place of or in addition to other financial products, how consumers perceive risks associated with new products subject to underdeveloped or inadequate regulatory oversight, and how these products may or may not affect consumer financial security.

²¹ Penelope Wang, Consumer Reports, "The Hidden Risks of Buy-Now, Pay-Later Plans" (Feb. 14, 2021), <https://www.consumerreports.org/shopping-retail/hidden-risks-of-buy-now-pay-later-plans-a7495893275/> [hereinafter Wang, Consumer Reports, Hidden Risks (Feb. 2021)].

²² CA DBO, POS Lender Sezzle to Cease Illegal Loans (Jan. 2020); CA DBO, POS Lender Afterpay to Cease Illegal Loans (Mar. 2020); CA DBO, POS Lender Quadpay to Cease Illegal Loans (Apr. 2020).

²³ CA DFPI, BNPL Company to Cease Illegal Loans (Aug. 2022).

CFA partnered with California-based organizations to recruit respondents, shown in Table 1.

Table 1: Survey Respondents by Partner Organization*

Organization	Respondents	BNPL User Respondents
California Alliance for Consumer Education (CACE)	29	25
Center for LGBTQ Economic Advancement & Research (CLEAR)	3	2
East Bay Community Law Center (EBCLC)	84	39
Housing and Economic Rights Advocates (HERA)	109	44
NextGen Policy	128	53
Senior Advocacy Network Senior Law Project	7	3
Greater Sacramento Urban League	37	20
Inclusive Action	6	6
Public Counsel	12	4
California Public Interest Research Group (CalPIRG)	488	91
Central Valley Immigrant Integration Collaborative (CVIIC)	124	76
<i>Coalition for Humane Immigrant Rights (CHIRLA)</i>	<i>1</i>	<i>1</i>
Total	1,027	363

**Haven Neighborhood Services, Delhi Center, and the League of United Latin American Citizens (LULAC CA) were solicited, but did not field surveys. The only response submitted by the Coalition for Humane Immigrant Rights (CHIRLA) was labeled a test submission, and will not be counted for the analysis.*

Of the 1,027 respondents who started the survey, 363 (35%) indicated that they had used BNPL at least once, and were prompted to continue the survey. Respondents who indicated that they had never used BNPL were thanked for participating and their surveys concluded.

Those 363 respondents who had used BNPL were then asked a number of questions about their experiences with BNPL and how they perceived the product. BNPL users were also asked a series of true/false questions about BNPL credit and possible consumer risk. Finally, respondents were asked a set of questions about their demographic information and financial wellness.

It should be noted that this survey and subsequent report utilize the CFPB definition of BNPL and cover only credit that fits that definition: “a four-installment, no-interest consumer loan, typically with a down payment of 25 percent and the remaining three installments due in two-

week intervals.”²⁴ Although many BNPL providers are beginning to offer point-of-sale installment loans, the survey did not address those loans or other post-purchase forms of credit and installment loans.

It should also be noted that while the survey was distributed largely through nonprofit groups that work with economically marginalized individuals, the survey’s results about BNPL users’ disproportionate lack of financial wellness is broadly consistent with existing research on this topic. Thus, while it is impossible to verify whether this small survey sample is nationally representative of BNPL users, it can point to opportunities for further inquiry.

Survey Findings

Financial Well-Being of Surveyed BNPL Users

Evidence suggests that BNPL users tend to have lower financial well-being than the population as a whole. In this survey, 42% of BNPL users reported being very unprepared or somewhat unprepared for a major unexpected expense. Over a third (37%) of BNPL users had overdrawn their bank account in the last six months according to this survey, while the CFPB found that just 21.8% of consumers overall had used overdraft services.²⁵ This finding corroborates results from both the CFPB and a Morning Consult poll about the increased incidence of multiple or repeated overdrafts and BNPL.^{26 27} It is unclear whether this overlap is because BNPL causes overdraft fees or because BNPL users are more likely to already be struggling with their finances. Regardless, it suggests BNPL credit is being provided to some individuals who are navigating financial challenges.

Table 2: Incidence of Overdrafts by Surveyed BNPL Users in Past Six Months

Overdrafts in the Past Six Months (Self-Reported)	Percentage of Surveyed BNPL Users (N=363)
0 times	63
1-2 times	25
3-5 times	7
6+ times	5

Source: BNPL Survey

The CFPB also found that BNPL borrowers were more likely to have other forms of debt, have lower savings, have a revolving balance on their credit cards, have credit delinquencies, and use high-cost financial services, like payday and/or pawn loans, and overdraft.²⁸ Another survey from Consumer Reports found that BNPL users reported poorer financial health than non-users;

²⁴ CFPB, BNPL: Market trends (Sept. 2022).

²⁵ Scott Fulford, Samyak Jain, Greta Li, Elizabeth Saunders, and Eric Wilson, CFPB Office of Research Publication, *Making Ends Meet in 2022* (December 2022), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_making-ends-meet-in-2022_report_2022-12.pdf.

²⁶ CFPB, Consumer Use of BNPL (March 2023).

²⁷ Claire Williams, Morning Consult, “‘Buy Now, Pay Later’ Users Significantly More Likely to Overdraft Than Nonusers” (Mar. 2, 2022), <https://morningconsult.com/2022/03/02/buy-now-pay-later-bnpl-overdraft-data/>.

²⁸ CFPB, Consumer Use of BNPL (March 2023).

BNPL users were twice as likely as non-users to report feeling that they had more debt than they could handle and that they didn't have enough money to pay their bills on time.²⁹

Table 3: Financial Preparedness of Surveyed BNPL Users for a Major Unexpected Expense

How prepared do you think you are for a major unexpected expense?	Percentage of Surveyed BNPL Users (N=363)
Very Unprepared	20
Somewhat unprepared	21
Neither prepared nor unprepared	12
Somewhat Prepared	36
Very Prepared	11

Source: BNPL Survey

Although most surveyed consumers used BNPL three or fewer times within the last six months, those who used it more frequently were also more likely to have lower incomes. Nearly two-thirds (65%) of respondents had used BNPL three or fewer times within the last six months. However, nearly two-thirds (64%) of respondents who had used BNPL four or more times had an annual income of less than \$50,000. BNPL can itself be a *cause* of financial hardship by leading to BNPL fees. Of consumers surveyed who had used BNPL, more than 16% had been charged a fee within the last 6 months.

Two common cited fees were late fees and payment rescheduling fees. More than 41% of those who had been charged a fee were charged a late fee. The second most common fee was a payment rescheduling fee. More than 30% of those who had been charged a fee report being charged a payment rescheduling fee.

What Do Consumers Use BNPL For?

Initially, BNPL was largely used by consumers to finance apparel and beauty purchases, accounting for 80.1% of total originations in 2019.³⁰ However, in 2021, apparel and beauty accounted for only 58.6% of originations.³¹ In fact, the CFPB found that BNPL usage for “everyday” or “necessity” purchases increased 434% from 2020 to 2021.³² Increasingly, BNPL providers are expanding into new markets, including auto repairs, medical care,³³ groceries,³⁴ and student loans,³⁵ which illustrates the growing pervasiveness of BNPL as credit across a

²⁹ Consumer Reports, American Experiences Survey (Jan. 2022), pg. 12.

³⁰ *Id.*

³¹ CFPB, BNPL: Market trends (Sept. 2022).

³² CFPB, BNPL: Market trends (Sept. 2022).

³³ Stuart Condie, Wall Street Journal, “‘Buy Now, Pay Later’ Looks to Healthcare for Shot in the Arm” (July 22, 2022), <https://www.wsj.com/articles/buy-now-pay-later-looks-to-healthcare-for-shot-in-the-arm-11658491200>.

³⁴ Priya Krishna, The New York Times, “Would You Take Out a Loan to Buy This Week’s Groceries?” (August 29, 2022), <https://www.nytimes.com/2022/08/29/dining/buy-now-pay-later-loans-groceries.html>.

³⁵ Student Borrower Protection Center (SBPC), “Point of fail: How a Flood of ‘Buy Now, Pay Later’ Student Debt is Putting Millions at Risk (March 2022), https://protectborrowers.org/wpcontent/uploads/2022/03/SBPC_BNPL.pdf.

variety of products. According to the CFPB, the average purchase amount is \$135 among the top five BNPL providers.³⁶

Although most survey respondents had used BNPL for clothing, personal, or other consumer goods, 16% used BNPL for necessities such as groceries, gas, utilities, and household supplies. And, according to the BNPL survey results, nearly two-thirds (66%) of typical purchases are for less than \$250, with the vast majority of typical purchases (86%) being less than \$500.

Table 4: Typical Purchase Cost for Surveyed BNPL Users

Purchase Cost	Percentage of Surveyed BNPL Users (N=363)
\$0-250	66
\$251-500	20
\$501-1,000	8
\$1,001+	6

Source: BNPL Survey

Table 5: Largest Purchase Cost for Surveyed BNPL Users

Purchase Cost	Percentage of Surveyed BNPL Users (N=363)
\$0-500	74
\$501-1,000	12
\$1,001+	14

Source: BNPL Survey

Survey respondents also spoke to the enticing nature of BNPL. One respondent noted, “*Beware, it can become addictive as you can spend more than you will have in the future.*” This survey found that 53% of respondents used BNPL because the purchase would not otherwise fit in their budget. Another survey respondent described BNPL as “*easier than trying to save up,*” highlighting the instantaneous nature of purchases via the availability of BNPL.

Specifically, it is the surveyed BNPL users with lower incomes (below \$50,000) that were more likely than their higher-income counterparts to use BNPL credit because the purchase would not otherwise fit in their budget (59% vs 43%). When asked to share how they would describe BNPL to friends or family, many respondents noted an element of overextension as part of their definition:

- “*...expensive purchases that don’t fit into your budget at the time but can be problematic if utilized too much/if one doesn’t budget for the new weekly/monthly payment.*”
- “*...to purchase something you may need like a bed or phone when you really need and cannot afford at the moment.*”
- “*An opportunity to purchase [what] you need and can’t fully afford at the particular time.*”

³⁶ CFPB, BNPL: Market trends (Sept. 2022).

What do Surveyed Consumers Understand about BNPL?

Although BNPL started as a replacement for layaway plans, it continues to evolve to be similar to traditional credit. For many BNPL credit products, consumers are provided with a pre-assigned credit amount that may replenish if and when the borrower completes payments for outstanding purchases.³⁷ Because of the appearance and logistics of this product, many consumers view BNPL as being similar to a credit card or loan with all of the accompanying protections and oversight.

This BNPL survey found that nearly three-quarters (73%) of respondents who had used BNPL viewed it as most similar to either a credit card or another form of installment loan, both of which are subject to the Truth in Lending Act (TILA) and other state and federal credit laws. Among BNPL users, over a third (36%) viewed BNPL as most similar to another form of installment loan and over a third (36%) viewed it as most similar to credit card.

Table 6: BNPL Comparison to Other Credit Products for Surveyed BNPL Users

Credit Type	Percentage of Surveyed BNPL Users (N=363)
Other form of installment loan	36
Credit card	36
Debit card	13
Payday, auto title, or pawn loan	5
Person-to-person payments (like Venmo, Zelle, Paypal, etc.)	7
Other	3

Source: BNPL Survey

While it can be difficult to accurately measure and codify consumer understanding, we asked respondents a list of five true/false questions, in an attempt to measure consumer understanding of how BNPL products operate and what protections are extended to users. The statements to be evaluated were:

1. *I cannot be charged fees when using Buy Now, Pay Later or Pay in Four.* [Correct answer: FALSE, many associated fees are possible]
2. *Buy Now, Pay Later or Pay in Four providers check your credit similar to a credit card or loan.* [Correct answer: FALSE, it is only a “soft pull”]
3. *I can dispute a Buy Now, Pay Later or Pay in Four charge if there is a billing error or if I’ve attempted to return the purchased item.* [Correct answer: FALSE, there are no requirements for this]

³⁷CRL, CFA, NCLC, BNPL Comments (2022).

4. *Using Buy Now, Pay Later or Pay in Four products can improve my credit score.*
[Correct answer: FALSE, providers are not required to report any positive payment history to credit bureaus]
5. *If I do not pay for the Buy Now, Pay Later or Pay in Four product in full, it can be referred to debt collectors.* [Correct answer: TRUE]

Users were given one point for a correct answer, negative one point for an incorrect answer, and zero points for responding that they did not know. The average aggregate knowledge level per respondent is 0.29 out of 5, meaning that on average, consumers had a very weak overall understanding of how BNPL credit actually functions and what protections apply.

Table 7: Surveyed BNPL Users’ Knowledge Score How Products Work and What Consumer Protections Exist

Knowledge Score	Percentage of Surveyed BNPL Users (N=363)
-5	1
-4	1
-3	5
-2	4
-1	19
0	25
1	23
2	14
3	6
4	1
5	1

Source: BNPL Survey

Differences in how financial products are perceived by consumers and how they actually function and are regulated may lead to consumer harms. Consumers may be primed to see interest rates and fees disclosed for credit products based on their experience with credit cards and installment loans. Yet, although most BNPL providers charge late or other fees, they are not currently required to uniformly or clearly disclose information about fees. Some fees are listed in the terms and conditions, while others are listed in an installment agreement or in “frequently asked questions” sections on provider websites. Certain products contain disclosures about the possibility of a fee without an indication of the amount of that fee or the number of times that fee may be charged. Consumers may erroneously believe that they *cannot* be charged these fees because the fees were not disclosed to them.

Another example of how differences in perception and function of BNPL may lead to consumer harms is with chargeback rights. Under federal law, consumers using a credit card have certain rights to challenge billing errors or charges for defective merchandise, and credit card issuers are required to investigate these disputed charges. When the consumer’s dispute is upheld, issuers

are required to refund the erroneous charge.³⁸ When entering into a BNPL transaction, consumers may believe they have the same chargeback rights protected under law as with credit cards.³⁹ However, BNPL users do not have dispute and chargeback rights, and the return process can be complicated for the consumer because both a merchant and the BNPL provider are involved. A report by U.S. PIRG found that many consumers were required to keep paying the BNPL provider while the merchant and lender resolved the return process.⁴⁰ Even for cancelled or non-delivered items, consumers can be charged, or even charged more than once.⁴¹ Other consumers may never receive their refund.⁴²

Consumers may view BNPL as a credit-building product since it is viewed as similar to other credit products like credit cards and installment loans. While BNPL has been touted as a credit-building product, there may be hidden potential risks to a consumer's credit score. The credit reporting system relies on the assumption of monthly payments. It is unclear how BNPL credit, which generally consists of a down payment followed by three bi-weekly, equal payments over a 6-week period, will be reported. Early data are not encouraging. FICO scores, an industry standard for measuring a consumer's creditworthiness, are slightly lower for credit reports that incorporated BNPL data.⁴³ FICO warns that this is because of the increase in the number of accounts and indebtedness on consumer credit reports with BNPL.

Current plans by national Credit Reporting Agencies (CRAs) to include BNPL accounts could cause additional problems. But inconsistencies in how data is recorded/reported by the major credit bureaus could mean that the effect of BNPL on a consumer's credit score may depend on decisions by creditors or commercial data collectors, rather than the consumer. The CFPB already has expressed concerns about these dissimilar approaches.⁴⁴ In sum, if consumer perception does not match how the product is regulated, consumers may be at greater risk of excessive and unexpected fees, a lower credit score, and issues when attempting to return items. Further, without meaningful protections and underwriting, consumers may take on debt they cannot afford and may not fully understand the consequences of failing to repay.

³⁸ Federal Trade Commission, Legal Library, Fair Credit Billing Act, <https://www.ftc.gov/legal-library/browse/statutes/fair-credit-billing-act>

³⁹ AnnaMaria Andriotis, Wall Street Journal, "Shopping With Buy Now, Pay Later Is Easy. Getting a Refund Is Harder" (June 24, 2022) https://www.wsj.com/articles/shopping-with-buy-now-pay-later-is-easy-getting-a-refund-is-harder-11656051506?st=vo6tfillgxii0rq&reflink=article_email_share.

⁴⁰ Ed Mierzwinski and Mike Litt, U.S. PIRG Education Fund, *The hidden costs of "Buy Now, Pay Later" Complaints to CFPB show need for action* (March 2022), https://pirg.org/wp-content/uploads/2022/03/BNPL-REPORT-USPIRG_0.pdf [hereinafter Mierzwinski and Litt, U.S. PIRG, BNPL (Mar. 2022)].

⁴¹ *Id.*

⁴² AnnaMaria Andriotis, Wall Street Journal, "Shopping With Buy Now, Pay Later Is Easy. Getting a Refund Is Harder" (June 24, 2022) https://www.wsj.com/articles/shopping-with-buy-now-pay-later-is-easy-getting-a-refund-is-harder-11656051506?st=vo6tfillgxii0rq&reflink=article_email_share.

⁴³ Suna Hafizogullari, FICO, "How Might Buy Now, Pay Later Loans Impact FICO® Scores?" (June 20, 2022), <https://www.fico.com/blogs/how-might-buy-now-pay-later-loans-impact-fico-scores>.

⁴⁴ Martin Kleinbard and Laura Udis, Consumer Financial Protection Buruea (CFPB), "Buy Now, Pay Later and Credit Reporting" (June 15, 2022), <https://www.consumerfinance.gov/about-us/blog/by-now-pay-later-and-credit-reporting/>.

Policy Recommendations

Federal Policy Recommendations

In December 2021, the Consumer Financial Protection Bureau (CFPB) issued market monitoring orders to five of the largest companies offering BNPL.⁴⁵ Following these market orders, the CFPB issued a request for comment about BNPL in March 2022.⁴⁶

In addition, the US House and Senate have started to take action regarding governance and oversight of BNPL providers.⁴⁷

Although these steps towards oversight and regulation of the BNPL market are welcome, they are insufficient. Both Australia⁴⁸ and the United Kingdom,⁴⁹ where BNPL first appeared, have begun to regulate BNPL providers as credit firms.

The following policy recommendations should be adopted at the federal level to ensure consumers are protected:

- **The CFPB should clarify that BNPL falls under the definition of consumer credit and ensure that consumers have the same basic protections they do when using other forms of credit.**⁵⁰ BNPL providers offer consumers an open-end credit product that is designed for repeat use and has a replenishing credit line. Indeed, the product has all the core functions to be designated a credit card under both the general TILA definition and the CARD Act definition. Therefore, BNPL products should be subject to the same fee disclosures, ability-to-repay requirements, reasonable and proportional penalty fees, chargeback protections, dispute rights, standard statement requirements, and appropriate and helpful credit reporting practices that apply to credit cards.
- **Federal regulators should provide necessary oversight of BNPL providers through enforcement actions and/or supervision**, ensuring that they are not engaging in unlawful discrimination or unfair, deceptive or abusive acts or practices.
- **Regulators should examine BNPL compliance with the Military Lending Act (MLA).** Although many of these credit products largely do not carry periodic interest, most have late fees, missed or rescheduled payment fees, and other finance charges that should not be permitted to exceed the allowable interest and fees for active-duty military under the MLA. Further, many of these products include mandatory arbitration agreements, which covered military members should be exempt from as established by

⁴⁵ Consumer Financial Protection Bureau (CFPB), “Consumer Financial Protection Bureau Opens Inquiry into “Buy Now, Pay Later” Credit” (December 16, 2021), https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-opens-inquiry-into-buy-now-pay-later-credit/?_gl=1*197krbo*_ga*MjI4Mjg2NTIwLjE2MzY0MTA1NzY.*_ga_DBYJL30CHS*MTY2MjA2NjA2My44Nj4xLjE2NjIwNjYxMDIuMC4wLjA.

⁴⁶ CFPB, Notice and Request for Comment BNPL (Jan. 2022).

⁴⁷ U.S. Senate Committee on Banking, Housing, and Urban Affairs, “U.S. Senators Urge CFPB to Take Action to Ensure Transparency & Oversight of Buy Now Pay Later Products & Providers” (December 15, 2021), https://www.banking.senate.gov/newsroom/majority/us-senators-urge-cfpb-to-take-action-to-ensure-transparency-and-oversight-of-buy-now-pay-later-products_providers.

⁴⁸ Adam Haigh and Georgina McKay, Yahoo!Finance, “Australia to Regulate Buy Now, Pay Later as Credit Firms” (May 21, 2023), <https://finance.yahoo.com/news/australia-regulate-buy-now-pay-223022588.html>.

⁴⁹ Huw Jones, Reuters, “Britain sets out legislation to regulate buy-now-pay-later credit” (February 14, 2023), <https://www.reuters.com/business/finance/britain-sets-out-legislation-regulate-buy-now-pay-later-credit-2023-02-13/>.

⁵⁰ CRL, CFA, NCLC, BNPL Comments (2022), at pg. 36.

the MLA. In addition, given that consumers of color use BNPL at higher rates than white consumers, it is incredibly important that federal regulators enforce anti-discrimination laws to ensure that there are not disparate impacts on certain consumers.

- **The CFPB should ensure that BNPL providers are compliant with EFTA’s ban on compulsory repayment by electronic transfer.**
- **The CFPB should ensure that BNPL providers do not violate federal debt collection laws.** For example, it is common for BNPL terms and conditions to include a provision that gives consent to being contacted by email by debt collectors, which could be a violation of the Fair Debt Collection Practices Act (FDCPA).
- **Regulators should make sure that lenders are not engaging in unfair, abusive or deceptive practices by charging unfair fees or shifting into an abusive fee model.** Regulators should closely examine evasive pricing models including tips, inflated fees, participation fees, and payment rescheduling fees, to ensure that these are not evasive attempts to disguise finance charges.
- **The CFPB should collect and publish data from BNPL providers to help consumers and federal regulators better understand the risks and benefits associated with these credit products.**
- **Federal and state regulators should work together, across agencies and levels of government, to ensure consumers are protected and predatory actors are held accountable.**

State Policy Recommendations

California has been a leader in bringing enforcement actions against BNPL providers and consequently requiring them to apply for the applicable license and abide by the California Financing Law. In 2022, California’s State Attorney General joined a number of other state attorneys general in expressing concern about BNPL products to the CFPB.⁵¹ Regulatory gaps remain at the state level, however, so we recommend the following policy changes for states:

- **State regulators should provide necessary oversight and supervision of BNPL providers, ensuring that they are not engaging in unlawful discrimination or unfair, deceptive or abusive acts or practices.**
- **State regulators should require lenders to abide by licensing and usury laws.** Regulators should closely examine evasive pricing models including tips, inflated fees, participation fees, and payment rescheduling fees, to ensure that these are not evasive attempts to disguise finance charges. State regulators should make sure that lenders are not charging unfair fees or shifting into an abusive fee model.
- **State regulators should collect data on these products to better understand the risks associated with them.**
- **State and federal regulators should work together, across agencies and levels of government, in order to ensure consumers are protected and predatory actors are held accountable.**

⁵¹ State AG BNPL Comments (2022).

BNPL Provider Policy Recommendations

Although state and federal regulators should provide sufficient oversight, supervision, and regulation to ensure that BNPL credit is safe, affordable, and transparent, BNPL providers should implement the following policy recommendations to better serve/protect consumers:

- Innovative financing products should be viewed and presented to consumers as credit.
- Providers should only offer products after determining a consumer's ability to repay. Ability to repay should consider both income and financial obligations, as failure to do so can lead a borrower into a cycle of debt.
- Price transparency and unified terms and conditions are critical. The cost of credit should only be presented to consumers as an Annual Percentage Rate (APR) so they can compare products and make informed, knowledgeable decisions based on their financial situation.
- Loans should be structured in an affordable way with proportional penalty fees, so that a consumer can repay without needing to immediately re-borrow or borrow elsewhere.
- Consumer data should only be used in a responsible manner, and consumers should understand and consent to its use.
- Consumers should have the same chargeback rights as with credit cards, so there is recourse should they run into a problem with their purchase.

Conclusion

Evidence provided by this survey aligns with previous research from a variety of sources discussed in this report. Together with previous reports, this California survey suggests that the under-regulation of BNPL credit may lead to consumer harms. Consumers do not understand how the product functions and is regulated, suggesting they may expect certain consumer protections which do not currently exist among many BNPL providers. Finally, while this survey may not be statistically generalizable to California or national populations, it provides further evidence of the potential for disproportionately negative effects on low-wealth and working populations. BNPL credit products may exacerbate financial exclusion among these groups, and cause further financial harm to Californians who are already struggling.

Appendices

Appendix A: BNPL Survey Instrument

Buy Now, Pay Later Survey

Thank you for participating in this survey about Buy Now, Pay Later or Pay-in-Four products. These products allow you to pay for a purchased good or service with four interest-free payments typically paid back over 6 weeks. They are often available on a website or smartphone application. (Examples of this kind of service include Affirm, AfterPay, Klarna, Zip, Sezzle, PayPal, or directly from a retailer like Walmart or Amazon.) Please return the completed survey to a representative from the organization that distributed it.

1a. Have you ever used **Buy Now, Pay Later** or **Pay in Four** products? These products allow you to pay for a purchased good or service with four (4) interest-free payments typically paid back over six (6) weeks. They are often available on a website or smartphone application. (Examples of this kind of service include Affirm, AfterPay, Klarna, Zip, Sezzle, PayPal, or directly from a retailer like Walmart or Amazon.)

Yes
 No

1b. If no, have you ever heard of **Buy Now, Pay Later** or **Pay in Four**?

Yes
 No

If you answered no for 1b, please stop here. Thank you for completing the survey!
If you answered yes for 1b, please continue to next page.

2. How many times have you used **Buy Now, Pay Later** or **Pay in Four** products in the last six months? Estimates are fine.

0-1 times
 2-3 times
 4-6 times
 7+ times

3. What is the maximum number of **Buy Now, Pay Later** purchases with outstanding payments that you have had at one time? Estimates are fine.

0-1 payments
 2-3 payments
 4-6 payments
 7+ payments

4. What is your typical total cost of a given purchase using **Buy Now, Pay Later** or **Pay in Four**?

- \$0-100
- \$101-250
- \$251-500
- \$501-1000
- \$1001+

5. What is your largest total cost of a given purchase using **Buy Now, Pay Later** or **Pay in Four**?

- \$0-100
- \$101-250
- \$251-500
- \$501-1000
- \$1001+

6. Have you used any other financial products to pay for purchases in the last 6 months? Check all that apply.

- Debit card
- Credit card
- Person-to-person payments (like Venmo, Zelle, PayPal, etc.)
- Other form of installment loan
- Payday, auto title, or pawn loan
- Other, specify _____

7. Why did you choose to use **Buy Now, Pay Later** or **Pay in Four**? Check all that apply.

- I could not use my other credit sources.
- The purchase would not fit into my budget otherwise.
- I was denied other credit and this product was offered without a credit check.
- It was offered at checkout and it seemed like the easiest payment option.
- I preferred not to use my credit card.
- I saw or heard an advertisement and was interested in trying out **Buy Now, Pay Later**.
- Other, specify _____

8. What did you purchase with **Buy Now, Pay Later** or **Pay in Four**? Check all that apply.

- Necessities such as groceries, gas, utilities, and household supplies
- Clothing and personal goods (beauty supplies, shoes, etc.)
- Other consumer goods (furniture, technology, etc.)
- Travel (airfare, experience, etc.)
- Other, specify _____

9. How satisfied are you with the **Buy Now, Pay Later** or **Pay in Four** products and services?

- Very Satisfied
- Satisfied
- Neither dissatisfied nor satisfied
- Dissatisfied
- Very Dissatisfied

The following questions are intended to measure consumer understanding about **Buy Now, Pay Later** or **Pay in Four** products. **Please indicate whether you believe the following statements are True or False.**

10. I cannot be charged fees when using **Buy Now, Pay Later** or **Pay in Four**.

- True
- False
- I don't know

11. **Buy Now, Pay Later** or **Pay in Four** providers check your credit similar to a credit card or loan.

- True
- False
- I don't know

12. I can dispute a **Buy Now, Pay Later** or **Pay in Four** charge if there is a billing error or if I've attempted to return the purchased item.

- True
- False
- I don't know

13. Using **Buy Now, Pay Later** or **Pay in Four** products can improve my credit score.

- True
- False
- I don't know

14. If I do not pay for the **Buy Now, Pay Later** or **Pay in Four** product in full, it can be referred to debt collectors.

- True
- False
- Not sure

Please answer the following questions about your experience with **Buy Now, Pay Later** or **Pay in Four** apps:

15a. Have you ever tried to return an item purchased with **Buy Now, Pay Later** or **Pay in Four**?

- Yes
- No

15b. If yes, was the return process a good or bad experience?

- Great experience. The return process was very easy.
- Good experience. I was able to complete my return and get a refund or replacement.
- Neither good nor bad.
- Bad experience. The process was somewhat frustrating and time consuming.
- Terrible experience. Nothing about the return process seemed fair or easy.
- Other, specify _____

16a. Have you been charged a fee when using a **Buy Now, Pay Later** or **Pay in Four** product in the last 6 months?

- Yes
- No

16b. If yes, how many times have you been charged a fee in the last 6 months? Estimates are fine.

- 1-2 times
- 3-4 times
- 5-6 times
- 7+ times

16c. If you've been charged a fee, what type of fee were you charged? Check all that apply.

- Late fee
- Payment rescheduling fee
- Returned payment fee
- Account reactivation fee
- Bank fee (overdraft or non-sufficient fund fee)
- Other, specify _____

17. In your view, what type of financial product is **Buy Now, Pay Later** or **Pay in Four** most similar to?

- Debit card
- Credit card
- Person-to-person payments (like Venmo, Zelle, PayPal, etc.)
- Other form of installment loan
- Payday, auto title, or pawn loan
- Other, specify _____

18. How likely are you to recommend **Buy Now, Pay Later** or **Pay in Four** to a friend or family member?

- Extremely likely
- Likely
- Neither likely nor unlikely
- Unlikely
- Extremely unlikely

19. In your own words, how would you briefly describe **Buy Now, Pay Later** or **Pay in Four** to a friend or family member?

Please answer the following questions about your financial situation:

20. How many times have you overdrawn your bank account in the past six months? Estimates are fine.

- 0 times
- 1-2 times
- 3-5 times
- 6+ times

21. How prepared do you think you are for a major unexpected expense?

- Very Prepared
- Somewhat Prepared
- Neither prepared nor unprepared
- Somewhat unprepared
- Very Unprepared

22. How often do you have money left over at the end of the month?

- Always
- Often
- Sometimes
- Rarely
- Never

23. How often do you fall behind on your finances?

- Always
- Often
- Sometimes
- Rarely
- Never

Please answer the following demographic questions.

24. Your City/State: _____

25. What is your annual household income?

- \$0 to \$25,000
- \$25,001 and \$50,000
- \$50,001 and \$75,000
- \$75,001 and \$125,000
- \$125,000+

26. Is your income typically the same from week to week (or from one pay period to the next)?

Yes

No

27. Please identify your gender. Check all that apply. Cisgender means that your current gender identity matches your sex assigned at birth.

Cisgender male

Cisgender female

Transgender male to female

Transgender female to male

Nonbinary

Other, specify _____

Prefer not to answer

28. Which of the following best represents how you think of yourself?

Straight, that is, not gay or lesbian

Gay or lesbian

Bisexual

Other

Prefer not to answer

29. How old are you?

18-25

26-35

36-55

55+

Prefer not to answer

30. What is your race?

Black or African American

Native American, American Indian, or Alaska Native

Asian, Asian American, Asian Indian, Pacific Islander

White

Other

Prefer not to answer

31. Are you of Hispanic, Latino, or Spanish origin?

No

Yes

Prefer not to answer

32. What organization referred you to this survey?

Appendix B: Demographics of Surveyed BNPL Users

Compared with California and national demographics, this survey’s respondents who use BNPL in California are disproportionately lower income, female, and non-white. This accords with previous research from a Federal Reserve Bank of Philadelphia survey that found BNPL users nationwide are more likely to earn less than \$75,000 per year and to be consumers of color.⁵² It also corroborates CFPB research, which found that BNPL users are more likely to be women, Black, Hispanic, and have an income between \$20,001 and \$50,000 annually.⁵³ It appears little known data exist regarding LGBTQ populations and the use of BNPL for greater comparison.

Among survey respondents, BNPL is most commonly used by consumers with lower annual household incomes. More than three-quarters (79%) of consumers who had used BNPL had annual household incomes of less than \$75,000, below the California median household income of nearly \$85,000.⁵⁴ Nearly two-thirds (63%) of respondents had incomes of less than \$50,000, substantially less than the national median income of \$69,021.

Table A1: Annual Household Income of Surveyed BNPL Users Compared to CA and US Levels

Household Income	Percent Survey Respondents (BNPL Users) (N=363)	Percent CA Population (Overall) (2021)	Percent US Population (Overall) (2021)
\$0 to \$25,000	32	14.8	17.4
\$25,001 to \$50,000	31	15.2	19.1
\$50,001 to \$75,000	16	14.7	16.8
\$75,001 to \$100,000	13	12.2	12.8
\$100,001 to \$125,000		17.6	16.3
\$125,001 to \$150,000	8		
\$150,001+		25.5	17.7

Source: BNPL Survey and US Census Bureau

Consumers in the sample who used BNPL are also disproportionately non-white, with 70% of survey respondents being persons of color. Conversely, while 30% of BNPL users in our sample are white, over 70% of California consumers overall and over 75% of overall consumers nationally are.⁵⁵ Only 17% of BNPL users in our sample are white and non-Hispanic or Latino, compared to 34.7% of consumers overall in California and nearly 59% of consumers overall nationwide.

⁵² Akana, Federal Reserve Bank of Philadelphia, BNPL Survey Evidence (June 2022).

⁵³ Cortnie Shupe, Greta Li, and Scott Fulford, CFPB, Consumer Use of Buy Now, Pay Later Insights from the CFPB Making Ends Meet Survey (March 2023), https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_consumer-use-of-buy-now-pay-later_2023-03.pdf [hereinafter CFPB, Consumer Use of BNPL (March 2023)].

⁵⁴ U.S. Census Bureau Quick Facts: California (2022), <https://www.census.gov/quickfacts/fact/table/CA/BZA210221>

⁵⁵ U.S. Census Bureau, “Quick Facts: United States” (last checked June 14, 2023) <https://www.census.gov/quickfacts/fact/table/US/INC110221#INC110221>.

Over 17% of survey respondents who had used BNPL identified as Black or African American. Hispanic, Latino, or Spanish origin consumers were also disproportionately represented, comprising 46% of those surveyed who had used BNPL (compared to just 19.1% of the national population overall). Consumers of color historically have experienced disproportionate exposure to predatory financial practices, discriminatory policies, and systems that perpetuate existing disparities.

Table A2: Race of Surveyed BNPL Users Compared to CA and US Levels

Race	Percent Survey Respondents (BNPL Users) (N=363)	Percent CA Population (Overall) (2021)	Percent US Population (Overall) (2021)
Asian, Asian American, Pacific Islander	14	16.8	6.6
Black or African American	17	6.5	13.6
Native American/Alaska Indian	3	1.7	1.3
White	30	70.7	75.5
Other	35	4.3	3

Source: BNPL Survey and US Census Bureau

Table A3: Ethnicity of Surveyed BNPL Users Compared to CA and US Levels

Ethnicity	Percent Survey Respondents (BNPL Users) (N=363)	Percent CA Population (Overall) (2021)	Percent US Population (Overall) (2021)
Hispanic, Latino, Spanish Origin	46	40.3	19.1
Non-Hispanic Latino, Spanish Origin	50	59.7	80.9
White, Non-Hispanic, Latino, Spanish origin	17	34.7	58.9

Source: BNPL Survey and US Census Bureau

Within this survey population, cisgender female consumers are more likely than cisgender males to use BNPL. The Federal Reserve Bank of St. Louis estimated in 2021 that women have 71

cents per \$1 of men’s wealth.⁵⁶ Female consumers may have less liquidity to spare and financial cushion than male consumers.

Table A4: Gender of Surveyed BNPL Users

Gender	Percentage of Surveyed BNPL Users (N=363)	Percent CA Population (Overall) (2021)	Percent US Population (Overall) (2021)
Cisgender Female	60	Not available	50.3
Cisgender Male	22	Not available	47.1
Nonbinary	4	Not available	Not available
Other	1	Not available	Not available
Transgender Female	0	Not available	Not available
Transgender Male	0	Not available	Not available
Prefer not to answer	13	Not available	Not available

Source: BNPL Survey and US Census Bureau

Thus, the results of this survey accord with preexisting demographic research that indicates that consumers most likely to use BNPL are disproportionately lower income consumers and consumers of color.⁵⁷ When financial harms from BNPL occur, therefore, those harms may have an outsized effect on these consumers’ financial well-being. Consumer risks associated with BNPL may then exacerbate wealth and financial gaps among income and racial groups that have historically faced structural discrimination.

⁵⁶ Ana Hernandez Kent, Lowell R. Ricketts, Federal Reserve Bank of St. Louis, *Gender Wealth Gap: Families Headed by Women Have Lower Wealth* (January 2021), <https://www.stlouisfed.org/publications/in-the-balance/2021/gender-wealth-gap-families-women-lower-wealth>

⁵⁷ See footnotes 27 and 28, above.