

The exploding market of Buy Now Pay Later (BNPL) credit demands the same level of oversight that we give to credit cards. BNPL can help some borrowers spread out their payments, but entails real risks and costs, which is not clear in advertisements highlighting interest-free payments and “no impact” on credit scores. Regulation is necessary to protect consumers from hidden harms and costs and to promote true financial inclusion.

Buy Now Pay Later: A Growing Market

Online and in-store retailers now commonly offer BNPL plans, which allow consumers to make purchases in installments, typically four payments over six weeks. Lenders typically require these payments to be tied to a credit card or debit card with direct deductions of the payments. Data show that borrowers are purchasing multiple items per month with each having its own payment date, unlike with a credit card. This can cause confusion and missed payments for consumers.

Spurred by pandemic-era increases in online buying, the market is exploding, with a third of U.S. adults, according to one survey, reporting having used BNPL already. Analysts project a 10- to 15-fold increase by 2025. (See sidebar for citations.)

Hidden Fees: Interest Free Does Not Equal Harm Free

While many BNPL provider promotions emphasize that their product is interest-free, there are potentially hidden costs and harms for consumers. Fees for late payments, account reactivation, and/or returned payments are often not adequately disclosed. BNPL lenders are not required to determine the borrower’s ability to repay the loan given their other financial obligations. The lenders may run a “soft credit check” or none at all. Currently, BNPL lenders are off the hook for assessing whether potential borrowers can afford their loans.

BNPL By the Numbers

Size, Scope and Concerning Signs

8.42 million users in December 2021.¹

200% to 350% increase in market size estimated in the past two years.²

10% of all e-commerce dollar volume expected to be BNPL by 2024.³

10-15 fold increase in usage by 2025,⁴ with a third of U.S. adults surveyed already having reported using BNPL.⁵

24% of financially vulnerable BNPL users report challenges making payments.⁶

91% of all non-bank consumer loans originated in California in 2020 were BNPL loans.⁷

¹ Jonathan Berr, [Buy now-pay later demand hit U.S. high during holiday season | Payments Dive](#), (Jan 14, 2022)

² Cardify, [Covid-19 and the surge of “buy now, pay later”](#) (July 29, 2020); Kate Fitzgerald, [Missed payments don't faze new buy now/pay later lenders | American Banker](#) (Sept. 17, 2021).

³ Accenture (Commissioned by Afterpay), [The Economic Impact of Buy Now, Pay Later in the US](#), at 13 (Sept. 2021).

⁴ CB Insights, [Disrupting The \\$8T Payment Card Business: The Outlook On ‘Buy Now, Pay Later’](#) (Mar. 2, 2021), <https://www.cbinsights.com/research/report/buy-now-pay-later-outlook/>.

⁵ Erika Giovanetti, Dan Shepard, LendingTree “Shoppers Use ‘Buy Now, Pay Later’ Financing to Purchase Things They Can’t Afford” (Apr. 20, 2021), <https://www.lendingtree.com/personal/buy-now-pay-later-survey/>.

⁶ Financial Health Network, [Buy Now, Pay Later: Implications for Financial Health – A FinHealth Spend Product Spotlight](#), at 8 (March 2022).

⁷ Ca. Dept. of Financial Protection and Innovation, [Annual Report of Finance Lenders, Brokers, and PACE Administrators Licensed Under the California Financing Law](#), at 2 (2020).

Existing and Potential BNPL Harms

Since BNPL providers do not always provide adequate underwriting, loans are approved for consumers who **may not be able to afford them**. In one survey, 40% of respondents said they had used BNPL to make purchases that would not otherwise fit their budget.⁸ By far, according to industry reports, Millennials (approximately ages 23-38) and Generation Z (approximately ages 9-22) are the primary generations that utilize BNPL. It is particularly important that BNPL have sufficient protections since younger consumers may not be experienced in using credit.

Inadequate disclosures make it difficult to compare costs, both *among* BNPL providers and *between* BNPL and other forms of credit. **Surprise hidden fees** can catch borrowers unawares. Additionally, consumers may find themselves charged by both the BNPL provider and by their bank for **overdrafts** if they are using their debit card for purchases. In turn, overdraft and NSF fees can lead to the **closure of bank accounts and other lasting negative consequences**. Losing access to mainstream banking is a hardship for families that can last for years. And though a BNPL provider's initial soft credit inquiry may not affect consumers' credit, falling behind on BNPL loans has potential to hurt **credit scores**.

Return and refund rights vary from one BNPL provider to another, and **information is often hard for consumers to decipher**. BNPL often does not come with the return and fraud protections of credit cards, so consumer may end up with no merchandise and their money still being taken out of debit card accounts or credit cards. Consumers have complained to the Consumer Financial Protection Bureau (CFPB) and the Better Business Bureau about **difficulty initiating disputes, delays in receiving refunds, and continued demand for repayment** during that process.

Recommendations

BNPL products are certainly credit products. Because of this, the CFPB has indicated it will issue guidance to clarify that Buy Now Pay Later should adhere to many of the regulations we have in place for credit cards. For example, under the Truth in Lending Act (TILA) and the Credit Card Accountability and Disclosure (CARD) Act, BNPL lenders would need to comply with TILA's protections around fee disclosures, periodic statements, dispute/chargeback rights, reasonable penalty fees, and underwriting documenting the borrower's ability to repay.

The CFPB should also issue a rule bringing BNPL lenders under its supervision to ensure that, at a minimum, consumers are not subjected to unfair, deceptive, or abusive acts or practices, or unlawful discrimination.

States should require BNPL lenders to obtain state licenses and collect data to better understand the risks associated with this novel form of credit.

Comments to CFPB March 25, 2022

[CFPB Should Treat 'Buy Now, Pay Later' Products Like Credit Cards and Protect Consumers from Harmful Practices. | CRL, NCLC, CFA](#)

[77 Groups Urge the CFPB to Supervise the 'Buy Now, Pay Later' Market | Center for Responsible Lending](#)

⁸Williams, Claire. Morning Consult, "'Buy Now, Pay Later' Users Significantly More Likely to Overdraft Than Nonusers" (March 2, 2022), <https://morningconsult.com/2022/03/02/buy-now-pay-later-bnpl-overdraft-data/>.