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August 25, 2025

Scott Turner, United States Secretary of Housing and Urban Development
Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410-0500

Re: [Docket No. FR-6547-N-01] Request for Information Regarding Buy Now Pay Later Unsecured Debt

Dear Secretary Turner:

On behalf of the Center for Responsible Lending,[1] thank you for the opportunity to offer our thoughts on HUD's Request for Information Regarding Buy Now Pay Later Unsecured Debt. As use of buy-now, pay-later financing continues to increase, the need to consider that debt's relationship and impact on both mortgage access and mortgage default risk is timely. Accordingly, CRL applauds the Department for taking a critical first step in better understanding buy-now, pay-later financing effects by soliciting information from the general public and all concerned stakeholders. For the reasons discussed in this response, CRL believes that this important step should be followed, however, by focused research into the relationship between mortgage defaults and buy-now, pay-later (BNPL) financing before any changes are made to underwriting policies at the Federal Housing Administration (FHA). As further discussed herein, given their short-term nature and small sizes, most BNPL financing agreements appropriately fall outside underwriting consideration for large, long-term loans such as FHA-insured mortgages. Decisions made to mitigate risk to borrowers and, derivatively, to the Mutual Mortgage Insurance Fund should be based on concrete research and data absent any evidence of an emergency threat to borrowers or the Fund's wellbeing. This need to exercise caution before engaging in making underwriting changes that would limit access to housing credit is especially true in the present environment where stagnant wages, steep home prices, high interest rates, inflation, and rental affordability challenges are already imposing significant constraints on mortgage access.

Mainstream Usage of Buy-Now, Pay-Later Financing is a Relatively Recent Phenomenon.

Beginning with the COVID-19 pandemic, BNPL financial agreements— which are generally defined as zero-interest, "pay-in-4" arrangements [2]—have transformed from a niche offering into a mainstream

[1] The Center for Responsible Lending is a non-profit, non-partisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices, including predatory small dollar lending. CRL's views on buy-now, pay-later products are informed by its affiliation with Self-Help, one of the nation's largest nonprofit community development financial institutions. Self-Help has provided more than $12 billion in financing to help more than 174,000 borrowers buy homes, start and grow businesses and strengthen community resources. It also serves more than 235,000 members through 80 retail credit union branches in California, Connecticut, Florida, Georgia, Illinois, North Carolina, South Carolina, Virginia, Washington and Wisconsin.

[2] CRL notes that BNPL financing agreements are often conflated with attempts to include within the definition of BNPL, short-term installment loans with interest and/or finance charges that offer varying interest rates from 6-48 months, 0-35.99%, typically for items with prices above $150. See Veling, J. (July 31, 2024). Affirm buy now, pay later: 2025 review. NerdWallet. Retrieved August 20, 2025, from https://www.nerdwallet.com/reviews/loans/personal-loans/affirm-buy-now-pay-later.

payment option offered to consumers on any number of retail platforms.[3] Usually offered for purchases ranging from $50 to $1,000,[4] the Consumer Financial Protection Bureau (CFPB) found that—in just two years—the market for BNPL financing grew from $2 billion in 2019 to over $24 billion in 2021.[5] More recent U.S. estimates show sustained growth with a projected market value above $97 billion in 2025.[6]

Millions of Americans now use BNPL financing agreements as an alternative form of credit that allows them access to capital without a hard credit inquiry, interest or finance charges, or direct impact on their credit report. Some of these very characteristics, specifically, those suggesting opaqueness, make studying the impact of buy-now, pay-later credit on consumer health and default risk profiles exceptionally challenging for both private researchers and regulators. As noted by the Consumer Financial Protection Bureau:

> Lenders have typically not reported BNPL loans to the nationwide consumer reporting companies. As a result, the loans have not appeared in credit records in large enough volumes for external observers to measure key statistics relevant to consumers in this market, including overall persistence in use, loan stacking across firms and total unsecured consumer debt balances.[7]

The Newness of and Lack of Credit Reporting on Buy-Now, Pay-Later Financing Has Limited Publicly Available Research on its Consumer Financial Health and Default Risk Effects and there is Little Public Research on its Correlation with Mortgage Payment Performance.

Newness and transparency challenges surrounding BNPL financing have severely limited the amount of publicly available research and data on the industry. Because the nation's largest providers of BNPL credit are non-depository institutions, specifically, Affirm, Afterpay, Klarna, PayPal, Sezzle and Zip,[8] there

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[3] Avani Pradhan, Federal Reserve Bank of Richmond, "The Rise of Buy Now, Pay Later Plans," Econ Focus (4th Quarter 2024), available at https://www.richmondfed.org/publications/research/econ_focus/2024/q4_feature1.

[4] Shupe, Cortnie and DeLuca, Joshua, Consumer Use of Buy Now, Pay Later and Other Unsecured Debt (January 13, 2025). Consumer Financial Protection Bureau Office of Research Reports Series No. 24-1, Available at: Consumer Use of Buy Now, Pay Later and Other Unsecured Debt | Consumer Financial Protection Bureau

[5] Consumer Financial Protection Bureau. (May 31, 2024). *Truth in Lending (Regulation Z); Use of digital user accounts to access buy now, pay later loans*. *Federal Register, 89*(106), 46915–46925. https://www.federalregister.gov/documents/2024/05/31/2024-11800/truth-in-lending-regulation-z-use-of-digital-user-accounts-to-access-buy-now-pay-later-loans.

[6] SaleHoo Group. (March, 2025). *US Buy Now, Pay Later market size (2023–2027): Growth drivers & challenges*. SaleHoo. Retrieved August 25, 2025, from https://www.salehoo.com/learn/us-bnpl-market-size.

[7] Shupe, Cortnie and DeLuca, Joshua, Consumer Use of Buy Now, Pay Later and Other Unsecured Debt (January 13, 2025). Consumer Financial Protection Bureau Office of Research Reports Series No. 24-1, Available at: Consumer Use of Buy Now, Pay Later and Other Unsecured Debt | Consumer Financial Protection Bureau

[8] Consumer Financial Protection Bureau. (December 16, 2021). *Consumer Financial Protection Bureau opens inquiry into "Buy Now, Pay Later" credit*. Consumer Financial Protection Bureau. Retrieved August 25, 2025, from https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-opens-inquiry-into-buy-now-pay-later-credit/ , Consumer Financial Protection Bureau. (January 13, 2025). *CFPB research reveals heavy Buy Now, Pay Later use among borrowers with high credit balances and multiple Pay-in-Four loans*. Consumer Financial Protection Bureau. Retrieved August 25, 2025, from https://www.consumerfinance.gov/about-us/newsroom/cfpb-research-reveals-heavy-buy-now-pay-later-use-among-borrowers-with-high-credit-balances-and-multiple-pay-in-four-loans/.

is no federal entity that has complete jurisdiction over supervision.[9] Instead, as the only federal regulator with jurisdiction over both bank and nonbank financial entities, the Consumer Financial Protection Bureau exercised its oversight to begin conducting research on emerging trends in BNPL financing—starting in 2021.[10] That research, however, focused on primarily identifying the scale of BNPL usage, customer demographics, and industry practices related to consumer protections.[11]

The Bureau's research did establish that five of the largest providers of BNPL financing had a loan charge-off rate between 1.83 percent to 2.39 percent during the 2020 – 2021 period.[12] More recent industry-provided analysis revealed that three BNPL members of the Financial Technology Association had a delinquency rate of less than 2 percent as of 2024.[13] It is worth noting that these delinquency rates are well below the 3.5 percent aggregate delinquency rate for all consumer debt,[14] the 3.98 percent seasonally adjusted delinquency rate for mortgages,[15] and the 8.8 percent credit-card delinquency rate in 2024.[16] Still, this information does little to determine how BNPL usage may either impact or predict a consumer's repayment of other financial debts, especially mortgages[17]—which is the core consideration posed by HUD's request for information. A recent working paper from two CFPB researchers does find

[9] See, e.g., Consumer Financial Protection Bureau. (January 6, 2025). Supervisory Highlights, Issue 37 (Winter 2024) (Final rule; 90 FR 607–613; FR Doc. 2024-31670). While certain BNPL lenders have consented to examination, the identity of the lenders is not made public, nor is there a rule that subjects the entire group to examination, under, for example, risk-based or larger participant authority. See Consumer Financial Protection Bureau. (January 6, 2025). Supervisory Highlights, Issue 37 (Winter 2024) (Final rule; 90 FR 607–613; FR Doc. 2024-31670). Federal Register. Retrieved August 25, 2025, from https://www.govinfo.gov/content/pkg/FR-2025-01-06/pdf/2024-31670.pdf; Consumer Financial Protection Bureau. (November 10, 2022). Supervisory authority over certain nonbank covered persons based on risk determination; Public release of decisions and orders (Final rule). Consumer Financial Protection Bureau. Retrieved August 25, 2025, from https://www.consumerfinance.gov/rules-policy/final-rules/supervisory-authority-over-certain-nonbank-covered-persons-based-on-risk-determination/.

[10] See, e.g. Consumer Financial Protection Bureau. (September 15, 2022). *Buy now, pay later: Market trends and consumer impacts* (Research report). Consumer Financial Protection Bureau. Retrieved August 25, 2025, from https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts/,

[11] Id.

[12] Id.

[13] Financial Technology Association. (May 22, 2024). *FTA responds to CFPB rule: "BNPL products provide strong consumer protections, differ fundamentally from credit cards"*. Financial Technology Association. Retrieved from https://www.ftassociation.org/fta-responds-to-cfpb-rule-bnpl-products-provide-strong-consumer-protections-differ-fundamentally-from-credit-cards/.

[14] Federal Reserve Bank of New York. (November 13, 2024). *Quarterly Report on Household Debt and Credit: Q3 2024*. https://resources.newyorkfed.org/newsevents/news/research/2024/20241113.

[15] Mortgage Bankers Association. (February 6, 2025). *Mortgage delinquencies increase in the fourth quarter of 2024* [Press release]. https://www.mba.org/news-and-research/newsroom/news/2025/02/06/mortgage-delinquencies-increase-in-the-fourth-quarter-of-2024.

[16] Federal Reserve Bank of New York. (November 13, 2024). *Quarterly Report on Household Debt and Credit: Q3 2024*. https://resources.newyorkfed.org/newsevents/news/research/2024/20241113

[17] As noted by the Federal Reserve Bank of Richmond, lower default characteristics of BNPL loans may be driven by loans' small dollar amounts, automated repayment procedures, or consumer incentives to prioritize repayment to preserve future use. Zhu Wang, "Buy Now, Pay Later: Market Impact and Policy Considerations, Federal Reserve Bank of Richmond, Economic Brief no. 25-03 (January 2025).

that BNPL does not "cause[] negative impacts on any of the measures of financial distress in non-BNPL products, including past-due non-BNPL debt…."[18]

CRL continues to believe that examining the relationship between BNPL usage and default risk on other outstanding debts, particularly mortgages, is an important issue worthy of additional examination and study by the CFPB, HUD, FHFA, and private researchers. But in the absence of that research, there is no available evidence to suggest that existing guidelines governing the consideration of BNPL in underwriting are insufficient.

Given the General Lack of Research and Absence of Data Showing a Heightened Correlation Between BNPL Usage and Mortgage Default, Existing FHA Policy is Adequate to Protect the Mortgage Insurance Fund while Additional Analysis is Performed.

Under existing FHA policy, BNPL financing is treated as a closed-end debt that must be considered if the payment amounts to more than five percent of the borrower's gross monthly income or has a repayment period that extends beyond 10 months from the home purchase date.[19] FHA's five percent limit on gross monthly income for closed-end debt is cumulative, making it broad enough to encompass consideration of the subset of so-called heavy users that repeatedly use BNPL credit or obtain multiple BNPL loans simultaneously.[20] As a result, FHA's existing written policy accounts for both duration and budgetary impact in evaluating an originator's need to consider BNPL loans. Because the average amount of a pay-in-4 credit agreement is $140,[21] with some recent research showing a quarter of purchases under $50 and about half under $100, [22] most purchases will not currently be considered as impacting a consumer's ability to repay a mortgage debt. Similar guidelines, considering both the duration of the debt and/or its significance, have been adopted by both Fannie Mae and Freddie Mac.[23]

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[18] Shupe, Cortnie and Palloni, Giordano E, The Effect of BNPL on Consumer Debt and the Ability to Repay Non-BNPL Debt Obligations (June 06, 2025). Consumer Financial Protection Bureau Office of Research Working Paper No. 25-11, Available at SSRN: https://ssrn.com/abstract=5284530.

[19] U.S. Department of Housing and Urban Development. (2023). *FHA Single Family Housing Policy Handbook 4000.1: Update 16.5 (Redline version)* (p. 233).

[20] Shupe et al at 6. The CFPB has previously defined CFPB defined this population originating more than one BNPL loan on average per month. Id.

[21] Consumer Financial Protection Bureau. (September 15, 2022). *Buy now, pay later: Market trends and consumer impacts* (Research report). Consumer Financial Protection Bureau. Retrieved August 25, 2025, from https://www.consumerfinance.gov/data-research/research-reports/buy-now-pay-later-market-trends-and-consumer-impacts/.

[22] The Motley Fool. (August 26, 2024). *2024 Buy Now, Pay Later Trends Study*. The Ascent by The Motley Fool. Retrieved August 20, 2025, from https://www.fool.com/the-ascent/research/buy-now-pay-later-statistics/.

[23] At present, Fannie Mae and Freddie Mac do not have explicit policies regarding BNPL loans in their seller guides. Instead, their guides address installment loans and differentiate them based on the number of payments: loans with more than 10 payments and those with fewer than 10 payments. Freddie Mac's Seller Guide states that when determining a borrower's monthly DTI ratio, lenders may exclude installment loans if there are less than 10 months of payments remaining. Freddie Mac. (August 13, 2025). Single-Family Seller/Servicer Guide (Bulletin 2025-11, p. 1147). https://guide.freddiemac.com/ci/okcsFattach/get/1002095_2. Fannie Mae's seller's guide states that "if [an installment loan duration is] under 10 months, then [it] only need[s] to include it into DTI if it significantly affects the borrower's ability to pay."32 The term "significantly affects" is not defined and allows lenders to assess how much the loan impacts the monthly DTI. Fannie Mae. (July 2, 2025). Selling Guide (p. 505 and p. 516). https://singlefamily.fanniemae.com/media/43011/display.

Conclusion

The issues raised by the Department of Housing and Urban Development's request for information on BNPL financial products are both important and timely. Chief among these issues should be recognition of the need to obtain and monitor information on consumer use of BNPL products and its impact on the consumer's long-term financial health. In the absence of this information, developing solid policy recommendations on underwriting best practices or FHA policy modifications would be both imprudent and impractical. Additional research and data analysis is needed to ensure that federal policy strikes the appropriate balance between mitigating default risk and preserving mortgage access for a broad scope of consumers. Because existing policies in the mortgage market, specifically, at FHA, Fannie Mae, and Freddie Mac, already include procedures for evaluating the consideration of buy now, pay later debt as short-term installment loans and there has not been any reported increase in default risk to the Mutual Mortgage insurance Fund correlated with borrowers usage of BNPL usage, CRL believes that existing policy is sufficient while regulators and researchers work together to evaluate any long-term risks on mortgage performance. We appreciate the opportunity to share our thoughts on this important issue.