



## NEWS RELEASE

**FOR IMMEDIATE RELEASE**

**April 26, 2023**

### **Financial Literacy Tip of the Week** **Buy Now, Pay Later Loans: Considerations for Consumers**

**Boise, Idaho...** Buy Now, Pay Later (BNPL) loans have gained popularity with consumers shopping online as an alternative option to credit cards. A recent study by the CFPB found that between 2019 and 2021, the amount of consumer BNPL loans grew nearly tenfold.<sup>1</sup> As more retailers offer BNPL at checkout, it is important for potential borrowers to understand the risks and benefits to avoid any unintended consequences.

#### **What is BNPL?**

BNPL is a short-term loan option that breaks the total price of a purchase into smaller payments with little to no interest. The structure and terms of BNPL loans vary, however traditionally there are two models, merchant driven wherein a consumer applies for financing at point of sale, and app based wherein a consumer sets up an online profile and applies for a loan directly from the lender.

In both models once an applicant is approved, they can make a purchase immediately, often making the first installment payment at checkout and repaying the remainder of the balance over three additional payments due every two weeks. Some lenders may offer longer repayment timelines and additional fees such as late fees and returned payment fees may apply. Most BNPL lenders require applicants to be 18 years old to apply and have a source of income.

#### **Benefits**

- A convenient way to pay for a purchase over time.
- May be easier to qualify for with less emphasis on an individual credit score to determine creditworthiness.
- Potential for less interest and fees compared to other personal or credit card loans.
- Commonly, BNPL will only negatively impact a credit score if the borrower makes late payments or fails to pay.
- Fixed repayment terms. A borrower will know the payment amount up front and each payment amount will be the same.

#### **Risks**

- Although BNPL loans are less cumbersome to apply and qualify for than the more traditional personal loans or credit cards, an applicant is evaluated more frequently, on a per-purchase basis vs. a onetime application.
- The loan terms can vary dramatically between the different BNPL lenders, and having multiple obligations from various lenders may be confusing.

<sup>1</sup> See Martin Kleinbard, Jack Sollows and Laura Udis, "Buy Now, Pay Later: Market Trends and Consumer Impacts," Consumer Financial Protection Bureau, September 2022, [https://files.consumerfinance.gov/f/documents/cfpb\\_buynow-pay-later-market-trends-consumer-impacts\\_report\\_2022-09.pdf](https://files.consumerfinance.gov/f/documents/cfpb_buynow-pay-later-market-trends-consumer-impacts_report_2022-09.pdf) (hereinafter Kleinbard et al. 2022).

- May lead to overspending by providing a borrower the means to make a purchase they would not otherwise be able to afford. Taking on too much debt can negatively impact credit, and the ability to repay other obligations.
- Paying with BNPL may impact or change the return policy and refund options available to the purchaser. There may be a delay in receiving credit while the merchant notifies the BNPL lender of the processed return, and the borrower may be required to continue to make installment payments in the meantime.
- Payments can be more difficult to track, especially for consumers with multiple BNPL loans from various lenders, as borrowers are usually required to set up automatic payments at time of purchase.
- Should a borrower miss a payment, late fees and payment representation fees can add up quickly.
- Privacy risks via the tracking of consumers' shopping preferences and behaviors, allowing BNPL lenders to harvest and monetize this information.

### Summary

BNPL loans expand credit access to borrowers that may not otherwise qualify and provide flexibility and additional purchase options for consumers in the marketplace. Potential borrowers should closely review all terms and conditions and consider their ability to repay the loan to avoid incurring more debt than they can reasonably afford.

For more information on BNPL, listen to the latest episode of the Insights by IDOF podcast released today: **Buy Now, Pay Later Loans: Considerations for Consumers**, available on the Department website at <https://www.finance.idaho.gov/insights>.

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*Consumers can obtain information about financial firms, professionals, or products, as well as view more Department press releases and other information on the Internet at <http://finance.idaho.gov> or by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.*