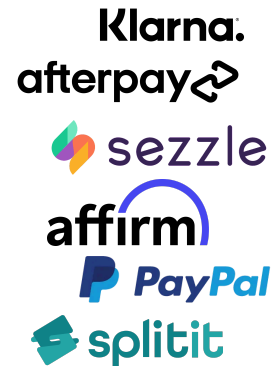


Shoppers often have the choice to “buy now, pay later” using companies such as Klarna, AfterPay, Sezzle, Affirm, Splitit, and PayPal. With the typical “pay-in-four” buy now, pay later (BNPL) loan, a quarter of the price is due at checkout followed by three payments every two weeks for the next six weeks. BNPL credit can often be used online, through BNPL apps, and using BNPL debit cards. BNPL accounts can be used repeatedly, effectively becoming a form of credit card.

BNPL credit is especially popular among young consumers, who may be wary of credit cards, though older consumers use it as well. BNPL credit can offer an attractive alternative to paying the full price up front or putting it on a credit card, with interest that can pile on for months and even years. But BNPL credit comes with its [own risks](#), and consumers should consider whether BNPL credit is the [best choice](#) for a purchase.



New Protections

Until recently, BNPL users did not have the same clear consumer protections that they have with traditional credit cards. That has changed, as the [Consumer Financial Protection Bureau](#) – a federal watchdog set up to protect the public – has adopted a [new interpretive rule](#) that improves protections for BNPL credit. BNPL companies now must provide:

- ***Clear account-opening disclosures***

Some BNPL providers charge no fees whatsoever; others charge late fees, subscription fees, bounced payment fees, and other fees. When a consumer opens a BNPL account, the BNPL company now must provide clear information about fees and pricing, using the same familiar disclosure table as other credit cards.

- ***Statements***

When a BNPL account has a balance, BNPL lenders now must provide statements showing charges made, fees, payments and credits applied, amounts due, and due dates, as well as where to send billing disputes. Companies have the option of providing a separate statement for each purchase or a consolidated one combining all purchases with that BNPL account. Statements may be provided on a biweekly, monthly, or other periodic schedule.

BNPL lenders typically require consumers to consent to receive information electronically by email or through the BNPL app.

- ***Time to pay before late fees or negative credit reporting***

Lenders may charge a late fee, report a payment as late to credit bureaus, or take other negative action for a late payment only if a statement is delivered to the consumer at least 14 days before a payment is due. (Current industry practice is to wait 30 days after the due date before reporting a payment as late.)

- ***Dispute rights***

BNPL providers must now provide the [same dispute rights](#) and protections that other credit cards have.

- **Right to withhold payment for problematic purchases.** People who did not get what they paid for using BNPL credit, returned an item, or had another problem with a purchase were often caught in the middle, stuck making the BNPL payments. Now consumers have the same right to dispute BNPL charges and withhold payment as they do with other credit cards. BNPL lenders cannot demand payment or report the consumer as late during the investigation of the dispute.
- **Protection against errors.** If there is a mistake on the BNPL account, such as an improper or duplicate charge, a payment that was not applied, or a fee that should not have been charged, consumers now have the right to challenge the error or charge and require an investigation by sending a written dispute within 60 days of the statement where the error appears. Pending the investigation, the consumer can withhold payment on the disputed amount. If the lender concludes that the payment is due, the consumer must be given at least 10 days to pay.
- **No liability for unauthorized use.** Consumers cannot be held liable for more than \$50 if someone uses their BNPL account without their permission. (In practice, most companies will also protect consumers from that first \$50.)

Risks Remain

These new Consumer Financial Protection Bureau rules will better protect consumers who use BNPL credit. Nonetheless, BNPL credit still poses risks, and consumers should be aware of potential pitfalls:

- ***Unaffordable debt***

BNPL credit can make purchases look cheaper than they are if consumers focus on the initial one-quarter payment rather than the entire purchase price. The full price will typically be due in six weeks, which is little more than a single monthly rent cycle. If a consumer cannot afford to make a purchase in full, it is not clear if deferring the payment for six weeks

will make the purchase any more affordable, and it may cause problems paying other bills. [Studies show](#) that many BNPL users struggle with their finances.

- ***No interest, but late fees and other charges obscure the cost of BNPL***

BNPL companies tout the credit as interest free. But if payments are late, some lenders charge late fees, bounced payment fees, and other fees, which can add up to the equivalent of a high annual percentage rate (APR). Other companies are starting to charge monthly subscription fees for the option of “free” BNPL loans. BNPL providers that charge fees that are not included in the APR make it difficult to compare the total cost of BNPL credit to credit cards and other credit options.

- ***Complicated, multiple payment dates***

A credit card has a single payment due once a month on a predictable date, regardless of the number of purchases a consumer has made. A consumer who has made four BNPL purchases could have eight or more payments due in a single month, falling haphazardly on different dates depending on the date of purchase. Juggling multiple due dates can be confusing and result in miscalculations that could trigger a late fee.

- ***Overdraft fees***

BNPL providers typically require consumers to authorize automatic debits to their bank account or credit card. If the bank account does not have sufficient funds, the payment may trigger a negative balance and an overdraft fee or nonsufficient funds (NSF) fee as high as \$35, negating the benefit of “no interest.”

- ***Double whammy if BNPL credit is repaid through a credit card***

Though most people repay through their bank account, some select the credit card repayment option. That is the worst of both worlds: The consumer is incurring longer term debt and interest and still has the risk of late fees on the BNPL loan if the credit card is maxed out and the BNPL payment is rejected.

- ***No credit building but possible harm to credit scores***

Most BNPL lenders do not report to credit bureaus when the consumer makes payments on time, and reporting timely payment might actually [harm credit scores](#) because the credit scoring models are built around credit cards, not short six-week loans. However, if the consumer defaults on a BNPL loan, the lender or its debt collector may report the debt, which can harm the consumer’s credit score.

Advice for Consumers

- ***Consider forgoing purchases that cannot be paid for in full.***

Pay attention to the full price, not just the one-quarter payment initially due. Pushing off three-quarters of the cost into three biweekly payments might cause difficulties managing

rent, student loan payments, or other expenses. Don't take on BNPL loans unless the payments will be manageable when due.

- ***Consider an installment loan or credit card installment payments instead.***

Some stores and BNPL providers offer the option of installment loans, i.e., monthly payments for three or six months. Some credit cards have installment payment features that ensure purchases are paid off in a certain number of months. While interest may be charged, spreading payments over a longer period of time may be more manageable, and the interest could be less than late payments on BNPL loans. But be wary of "no interest" promotions, which could contain [hidden time bombs](#) of retroactive interest.

- ***Be aware of all fees and hesitate before signing up for subscriptions.***

Make sure to identify all possible fees that could be charged and avoid them. Subscription fees will be charged even in months when BNPL credit is not used. It can be easy to lose track of recurring fees and difficult to unsubscribe. Subscriptions also create pressure to use the credit and take on debt that can be unaffordable.

- ***Keep careful track of all payment dates.***

Ensure that payments will not bounce or trigger overdraft or NSF fees.

- ***Avoid multiple BNPL purchases per month and pay attention to total BNPL debt.***

Multiple payments due on different dates can be difficult to manage. Debt can add up in ways that may not be apparent if the provider does not provide consolidated monthly statements that show the total amount of all purchases.

- ***Know your right to cancel automatic payments.***

Consumers have the [right to stop automatic debit card payments](#) by contacting their bank. But the bank may charge a stop payment fee, and the BNPL debt will still be owed, potentially triggering debt collection or negative credit reporting. Nonetheless, consider cancelling automatic payments if the payments are likely to bounce or trigger overdraft fees. It is best to contact the BNPL lender to ask for other repayment options if the payments have become unaffordable.

For more information, see [Your Credit Card Rights](#) or visit the website of the [Consumer Financial Protection Bureau](#).