

Risks and Advice for Buy Now, Pay Later Borrowers

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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 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 users tend to be [younger](#) and are disproportionately Black, Hispanic or female, though usage is growing in other populations. Many users are ‘[financially fragile](#)’ with [lower credit scores](#), [higher, often revolving, credit card debt](#), and [higher balances](#) on other unsecured consumer credit. BNPL is not just being used for [discretionary purchases](#). [LendingTree found](#) that many people use BNPL to try to make ends meet, including for items like groceries.

Used sparingly and carefully, BNPL credit could be a reasonable 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 one survey found that about [half of users](#) experience issues, including overspending, missing payments and regretting a purchase. BNPL credit has [significant risks](#), and what looks like free financing can turn into a [high cost loan](#).

Risks

- ***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 cycle for rent and other bills. If a buyer 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 [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.

- ***Disputes if purchase returned or problematic***

People have had trouble canceling BNPL loans for purchases that were returned or did not deliver what was paid for. The Consumer Financial Protection Bureau had said that BNPL providers legally [must resolve disputes and errors](#), but it recently withdrew that interpretation, though the dispute resolution obligations [may remain](#).

- ***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 late fees and overdraft fees.

- ***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. One lender requires a credit card. That can be the worst of both worlds: The consumer will likely incur interest, may end up with longer term debt, and still have the risk of [late fees](#) on the BNPL loan if the credit card is maxed out and the BNPL payment is rejected.

- ***Unlikely credit building but possible harm to credit scores***

While BNPL lenders are [increasingly](#) reporting loans to credit bureaus, it's unlikely that reporting will help credit scores in the immediate future. Timely payments are generally not considered in credit scores and likely [would not help](#) under current credit scoring models, though those models [may be changing](#). But if the consumer defaults on a BNPL loan, the lender or a debt buyer may report the debt, which will definitely 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 can cause difficulties managing rent, student loan payments, or other expenses.

- ***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 interest at a reasonable rate (36%, or lower for large loans) could be less than late payments on BNPL loans. But be wary of “no interest” credit card promotions, which can 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. Subscription fees can be easy to lose track of recurring fees and it may be 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.

- ***Monitor your BNPL account for fraud and errors***

BNPL accounts can be hacked and have unauthorized charges. Payments may not be credited correctly or accounts may be billed even if a purchase was returned. BNPL providers are required to [investigate and resolve disputes](#).

- ***You can cancel automatic debits***

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. You can contact the BNPL lender to ask for other repayment options if the payments have become unaffordable.

- ***Complain if you have problems***

If the BNPL company will not fix the problem, you can contact your [state attorney general](#) or the [Consumer Financial Protection Bureau](#).