

## Four (or Fewer) Thoughts on the CFPB and Buy Now, Pay Later: A Review of "Consumer Use of Buy Now, Pay Later."

March 30, 2023 | [K. Dailey Wilson](#)

On March 2, 2023, the CFPB released a report entitled "Consumer use of Buy Now, Pay Later: Insights from the CFPB Making Ends Meet Survey," examining Buy Now, Pay Later ("BNPL") products. BNPL products typically allow consumers to pay for purchases at the point of sale in four or fewer installments with zero interest. The popularity of these products has soared over the last few years, allowing people to use BNPL to purchase everything from baby clothes to exercise equipment. And the CFPB has definitely taken note. The report examines the characteristics of the typical BNPL customer, while also providing insight into what the CFPB really thinks about the BNPL product.

### **1. BNPL Customer More Likely to be Educated, Black or Hispanic, and Female**

The CFPB's report delves into who is using BNPL products. The CFPB examined the profiles of BNPL customers using the results of its Making Ends Meet survey and an anonymized sample of credit bureau records. Based on those sources, the CFPB found that the typical BNPL customer:

- is female,
- is Black or Hispanic,
- has a household income ranging from \$20,001 to \$50,000, and
- likely has a bachelor's degree.

### **2. BNPL Customer More Likely to be Financially Distressed**

The CFPB's survey also revealed interesting information regarding the typical BNPL customer's financial situation. The average BNPL customer has a credit score between 580 and 669, placing them in the subprime category, and has access to traditional forms of credit, such as credit cards, personal loans, student loans, and auto loans. The average BNPL customer is also more likely to exhibit signs of being in financial distress, such as having higher credit card debt and utilization rates, having an overdraft, a higher likelihood of carrying a balance on at least one credit card, and using alternative financial services like payday and title loans that charge high interest rates.

### **3. CFPB Unsure of Whether BNPL is a Positive or Negative for Consumers**

The report also sheds some light on what the CFPB thinks about BNPL products. The CFPB notes that based on the limited nature of the data, it was unable to solve the age-old question of which came first - the chicken or the egg? Are BNPL customers in financial distress because they use BNPL products? Or were those customers already in financial distress and the availability of zero interest products like BNPL helps to alleviate their financial troubles?

The CFPB is not giving BNPL products a seal of approval and believes further study of the effects of the use of BNPL products is warranted. In fact, Director Rohit Chopra confirmed continued CFPB activity in the BNPL space, stating that "Since Buy Now, Pay Later is like other forms of credit, we are working to ensure that borrowers have similar protections and that companies play by similar rules."

However, the CFPB does appear to recognize there is some value in BNPL products. The other forms of credit available to the typical BNPL customer are either credit cards with interest rates ranging from 19%-23%, or other high-interest alternative financial services products, like payday loans and title loans. Zero interest products like BNPL are thus a less expensive credit option for consumers. Additionally, BNPL customers are knowingly and voluntarily choosing to use the BNPL product over other more expensive forms of traditional credit - these consumers have a choice and are deciding to use BNPL.

Ultimately, whether BNPL products will be seen by the CFPB as a positive option for consumers remains unknown. BNPL products offer customers a more cost-effective way to option products and services at the point of sale. But do BNPL products relieve financial distress, or do they only add fuel to the fire? Only time will tell.

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