Discussion Papers

Buy Now, Pay Later:
Survey Evidence of Consumer Adoption and Attitudes

Tom Akana
Federal Reserve Bank of Philadelphia
Consumer Finance Institute

Buy Now, Pay Later:

Survey Evidence of Consumer Adoption and Attitudes

Tom Akana[*]

Federal Reserve Bank of Philadelphia

June 2022

Abstract

Consumers use a variety of tools to make purchases with deferred payments — general-purpose credit cards, private-label cards, and point-of-sale installment loans have all been available in various forms for decades. In 2019, we began to see the rise of a newer form of deferred payment tool, primarily in online stores; these products allowed customers to make a purchase while splitting the transaction into four payments over six weeks and became known as *buy now, pay later* (BNPL). Marketed primarily by fintech companies, the products advertised no fees or interest and no credit checks. Since then, the segment has grown dramatically, and with that growth has come increased scrutiny from regulators, traditional banks, and consumer advocates. In this paper, we report on the results from a survey of 2,070 U.S. consumers conducted by the Consumer Finance Institute at the Federal Reserve Bank of Philadelphia to gain insight into BNPL use. We note that the adoption of BNPL among our respondents appears to be largely experimental, with most users reporting three or fewer uses over the previous 12 months. We also find that, contrary to the assumptions of most observers, BNPL users did not cite lack of credit access as a primary reason for choosing BNPL as a payment option.

---

[*] Federal Reserve Bank of Philadelphia, Ten Independence Mall, Philadelphia, PA 19106-1574; email: tom.akana@phil.frb.org.

Introduction

This paper focuses on recently launched products in the point-of-sale installment loan space. These loans offer the opportunity to make four payments over a short term (generally six weeks) for the current purchase, with no interest or fees to the customer. These payment options began to appear in 2019 at a variety of online retailers and constituted the early appearances of what we now know as *buy now, pay later* (BNPL) products.

Traditional point-of-sale loan products (general-purpose credit cards, private-label charge cards, and traditional installment loans) provide most consumers with a means of paying electronically for their purchases. This begs the question: Why have firms like Affirm, Klarna, QuadPay, Splitit, and Bread gained a such a rapid and large foothold in the online market? That foothold has become more entrenched during the pandemic — business closures and lockdowns around the country beginning in March 2020 led to massive increases in online purchasing and that shift has likely contributed to the significant growth of BNPL firms.[1]

This growth has increased the scrutiny of BNPL products among investors, industry watchers, and regulators. However, data on BNPL loans, as we define the term here, are scarce. BNPL loans are not currently reported to any of the major credit reporting agencies, and the firms themselves are understandably reluctant to share proprietary data in a competitive environment.[2] The Consumer Finance Institute (CFI) at the Federal Reserve Bank of Philadelphia (FRB Philadelphia) identified an opportunity to contribute to the understanding of BNPL at the consumer level in late 2021.

In November 2021, CFI conducted a consumer survey in conjunction with Competiscan, a marketing research company, to obtain data on the consumer use of BNPL. Competiscan is an existing partner of CFI and the FRB Philadelphia, and it provides monthly data on financial services marketing activity among

---

[1] Most BNPL providers offer a mobile application to use their product, enabling customers to pay with BNPL for in-person transactions and at merchants that may not offer it natively. It is not clear how much of the BNPL volume that is reported publicly consists of online, in-app, or in-person use; the online environment is where the products initially gained attention.

While a number of the companies previously mentioned began offering more traditional installment loans with monthly payments, we are using the term *BNPL* to refer specifically to products that offer four payments over a six-week term; these products are generally underwritten with no or with a very limited credit check.

[2] In December 2021, the Consumer Financial Protection Bureau (CFPB) issued orders to the five largest BNPL providers to submit customer data that will allow for analysis of consumer risk and regulatory exposure in the portfolios. It should be noted that the three largest national credit reporting agencies have announced plans to allow BNPL loans to be reported, but there is no clarity on when this will begin or what the information will look like. Hunt (2002) provides an analysis of the history and economics of the decision to share credit data.

their consumer panel.[3] The survey questionnaire was presented to members of Competiscan's consumer panel; after cleaning and weighting the responses to the 2020 American Community Survey national distributions by age, income, and gender, we had 2,070 records to analyze.

This paper is organized as follows: Section 1 discusses the definition of BNPL and the complications that arise from definition creep; Sections 2 and 3 review how respondents reported their use of and satisfaction with a variety of payment tools, including credit cards, debit cards, person-to-person (P2P) payments, and BNPL; Sections 4–7 examine BNPL users in detail by demographic segment and by the intensity of their BNPL adoption, including their reasons for choosing the product; Section 8 compares the attitudes of BNPL nonusers toward the product, particularly the large discrepancies in their assumptions about how and why people would choose to use it; and Section 9 reviews self-reported information about missed BNPL payments. The paper concludes with a brief discussion of future work on the topic.

Definition Creep

One of the main challenges in analyzing and researching BNPL is that the term is used to describe a wide range of products, many of which are well established and well understood. Arguably, any product that lets you take possession of an item or receive a service without requiring you to pay the full amount immediately can be considered a buy now, pay later product, including well-established banking products like credit cards, auto loans, education loans, and mortgages. Many of those products have long been available at point-of-sale, both in-store and online, as a means of financing a purchase immediately. This creates confusion among researchers and customers when we use the term BNPL to talk about a specific subset — in this case, the four-payments-in-six-weeks products that have proliferated in the last three years.

Traditionally, retailers had three primary options when taking payments on credit, whether in-store or over the web: general-purpose (GP) credit cards, private-label (PL) credit cards, and in-house installment loans. GP credit cards are widely available to consumers and allow fast and secure transactions but come with a

---

[3] Competiscan is a market intelligence service company established in 2006 and based in Chicago. Competiscan lets clients analyze direct and digital marketing activity. Competiscan's comprehensive coverage is updated daily and enables clients to react to changes in the marketplace quickly. Competiscan owns U.S. and Canadian longitudinal panels of consumers, business owners, financial advisors, insurance producers, mortgage brokers, and providers. Panelists apply to join Competiscan's panels directly or are recruited. Competiscan's consumer panel is balanced to mirror the U.S. census with respect to age, income, gender, and homeownership. Competiscan's omnichannel panelists are incentivized to participate via direct mail, email, and digital. These communications are then entered into Competiscan's searchable database.

Competiscan worked with the FRB Philadelphia to conduct primary research on buy now, pay later products via an online survey during the period of October–November 2021. Members of Competiscan's consumer panel were incentivized to complete the survey. The survey was distributed by Competiscan without prior awareness of whether panelists had used a buy now, pay later service.

cost per transaction (the interchange rate) to the merchant and potential cost to the consumer in interest or late fees. PL credit cards can be tightly linked to a merchant's loyalty program and have lower or no interchange expense, but their lack of utility at other merchants and higher-average interest rates and fees may deter many customers from wanting the cards. In-house installment loans, funded by the merchant or a partner bank, allow the merchant to offer promotional rates and gives customers the opportunity to spread their payments over time, if necessary; however, they also come with overhead and credit risk to the merchant and cost to the customer.

In 2020, the term *buy now, pay later* became shorthand for the four-payment, no interest products that were rapidly becoming more available across the online marketplace. This has ultimately led to significant definition creep in the ensuing months.

There is a long-standing history of using the phrase *buy now, pay later* to describe any point-of-sale, instant-credit loan product. Some merchants have used the phrase buy now, pay later in their credit program marketing materials for years. For example, Colony Brands (the parent company of several online retail sites including Swiss Colony, Ashro, Country Door, and Ginny's) has advertised its company-owned credit program with the phrase as early as November 2011, and it is prominently used on its websites today. Notably, the credit program itself is a traditional PL credit product with monthly payments, interest, and fees. A recent *Wall Street Journal* article asked the question, "Should You Book Travel With a Buy-Now, Pay-Later Plan?" but the product offered by the fintech firm Uplift is a traditional term loan with a monthly payment.[4] Therefore, if BNPL is not specifically defined, consumers may have a wide variety of products in mind.

Further complicating matters is the diversification of a number of the larger BNPL issuers. When most of the major BNPL issuers launched in the U.S. market, they only offered the four-in-six-weeks product; however, many of the firms have expanded their offerings to include more traditional loan products. This means that researchers can no longer help consumers understand the product being investigated simply by naming companies who issue it. Indeed, the main product advertised on Affirm's website as of March 2022 is a three- to 12-month traditional installment loan, and PayPal (whose BillMeLater product was an early version of BNPL and is now known as *Pay in 4*) offers a wide variety of traditional credit products.

Definition creep has an impact on analyses of the BNPL market. In our work, while our intention was to collect data specifically on the four-in-six-weeks loan products, we have evidence in the data that people

---

[4] A number of major credit card issuers, whose products are already tools to allow people to buy something now and pay later, have announced BNPL features that will be available for credit card purchases. Generally, these are features so customers can specifically identify transactions to be billed over a specific term, effectively changing their monthly minimum-due calculation for a defined period.

who told us they had previously used BNPL are including products that do not meet our definition. For instance, in response to a question that allowed respondents to write in the names of stores where they used BNPL, companies including Ashley Furniture, Conn's, and QVC were listed by multiple people even though none of those companies offered four-in-six-weeks payment plans during the time of the survey. With that in mind, our results do generally align with other BNPL use data reported in other publications, so we believe our results are consistent with other sources.

Payment Tool Usage and Satisfaction

To establish the usage rate of various payment tools, we asked respondents to report the frequency at which they used credit cards, debit cards or cash, P2P payment tools, or BNPL over the previous 12 months. As expected, credit and debit are nearly ubiquitous among respondents, with 92.2 percent and 87.2 percent, respectively, reporting at least one use of those tools (**Table 1**). Our respondents reported P2P usage at 84.7 percent, consistent with reports on the segment's growth in recent years; PaymentsJournal.com reported a 70 percent penetration in 2020, while McKinsey reported 82 percent in 2021. BNPL was by far the least used tool among respondents, with 31.0 percent reporting one or more BNPL transactions over the previous 12 months. Focusing on heavy users (those who reported 11+ uses of a given tool in the previous 12 months), we see a much larger difference in usage for BNPL. Only 5.2 percent of respondents are considered heavy BNPL users as compared with credit, debit, and P2P at 77.1 percent, 64.3 percent, and 40.5 percent, respectively.

Customer satisfaction ranks orders with usage rates across the four products. On a seven-point scale, 81.1 percent of credit card users reported that they were satisfied or very satisfied with their experiences using the product (**Figure 1**). More than 75 percent of debit and P2P users reported high satisfaction rates as well, with BNPL users reporting high satisfaction at a 68.5 percent rate. Dissatisfaction rates (those choosing the bottom two satisfaction levels) were less than 2 percent for all four categories. Much of the satisfaction difference for BNPL consists of users who are ambivalent about their experience; 16.9 percent of BNPL users were "Neither Satisfied nor Dissatisfied" with their experience versus 6.4 percent or fewer of other products' users.

All respondents were asked about the likelihood of them using each of the four products in the future. The data suggest some ambivalence regarding BNPL. Credit, debit, and P2P users all reported the high likelihood (top two boxes on a seven-point scale) of using the products in the future, at 82.7 percent, 84.1 percent, and 67.7 percent, respectively (**Figure 2**). Only 53.2 percent of BNPL users (people with experience using the product) said they were likely to use it again in the future; this information, combined with the low volume of heavy users for the BNPL product may be an indicator that many BNPL users over this period were testing the product. As would be expected, nonusers of each product were much less likely

to predict future use, but only 2.5 percent of BNPL nonusers believe they would try the product in the future (less than one-third the rate of credit nonusers, the next least-likely group, at 7.8 percent).

Payment Tool Usage by Demographic Segment

The survey results reveal some noticeable differences in the demographic characteristics of BNPL users compared with other payment tools. BNPL users are generally lower earning, younger, non-White, and more likely to be employed (within our respondent population, there was no difference in usage rates between genders for any of the products).

BNPL users are more likely to earn less than $75,000 annually, compared with credit, debit, and P2P users; 72.6 percent of BNPL users reported incomes below that mark, compared with less than 70 percent for the other tools (**Table 2**). BNPL users are younger, with 41.6 percent indicating that they are under 36 years old; less than 33 percent of the other products' users are younger than 36. BNPL users are more likely to be non-White, with 30.0 percent reporting a non-White race/ethnicity, compared with less than 26 percent for the other products. The difference is largest among Black respondents; 13.1 percent of BNPL users were Black, compared with less than 10 percent for the other products (not reflected in the table). For our respondents, BNPL users were the most likely to report being employed, with 70.6 percent selecting full-time or part-time employment, compared with less than 66 percent for the other products.[5]

Demographic Characteristics and Frequency of BNPL Use

Respondents indicated how frequently they used each product over the previous 12 months, selecting from the following options:

A. Have not used in the past year.
B. 1–3 times in the past year.
C. 4–10 times in the past year.
D. 11–20 times in the past year.
E. More than 20 times in the past year.

There were 642 respondents who reported using BNPL at least once in the past year. Just over half of those users reported the lowest level of engagement with the product; 53.2 percent selected 1–3 uses over the

---

[5] To confirm that the higher rate of employment among BNPL users was not a function of the lower average age of the BNPL population, we recalculated the employment responses after removing those who chose *Retired*. The BNPL user population remains the highest group selecting some form of employment at 66.5 percent, compared with less than 62 percent for the other products.

previous 12 months and will be referred to as *light users,* which encompasses people we would think of as testing the product (**Table 3**). *Moderate users* comprised 30.2 percent of the group and reported 4–6 uses. The remaining 16.6 percent are *heavy users* and fall into the two highest categories, using BNPL almost every month or more.

When looking at usage intensity within income ranges, we see that BNPL usage increases as income increases (**Table 3**). Respondents earning less than $40,000 have the highest proportion of light users at 57.8 percent, compared with less than 50 percent of higher earners. Respondents with moderate incomes (earning between $40,000 and $74,999) have the higher proportion of moderate users at 36 percent, compared with less than 32 percent for higher and lower earners. And our highest income range (earning $75,000 or more) reports the highest percentage of heavy users at 19.1 percent, compared with less than 16 percent of the lower ranges.

Younger respondents are more likely to be moderate or heavy BNPL users; 36.9 percent and 20.7 percent of respondents, respectively, under the age of 36 are moderate or heavy users, while older groups report less than 28 percent and less than 19 percent, respectively. In our sample, male and female respondents report similar rates for moderate users (around 30 percent), but men are more likely to be heavy users at 19.3 percent, compared with women at 13.9 percent. White respondents are more likely to be light users at 54.2 percent, compared with 50.7 percent for non-White respondents, with the non-White cohort reporting about 2 percentage points higher than White respondents for both moderate and heavy users.

Use and Understanding of BNPL by Users

BNPL users were asked how likely they were to recommend BNPL to friends or family; on a 10-point scale, 61.2 percent of users selected the top three boxes, indicating a high likelihood to recommend. As we would expect, the likelihood of recommending is correlated to the level of use — only 53.8 percent of light users would recommend BNPL, whereas 66.1 percent and 76.0 percent of moderate and heavy users, respectively, would recommend it (**Figure 3**). Among heavy users, nearly 40 percent selected the highest value, indicating they are *extremely likely* to recommend, whereas less than 32 percent of the other groups were that sure of their recommendations (not reflected in figure). The likelihood of recommending was similar across all income ranges, with lower and higher earners just above 58 percent and those earning between $40,000 and $74,999 at 61.5 percent.

While younger users were generally more likely to be heavy users, they are also the least likely to recommend BNPL; overall, 56.5 percent of those under 36 years old said they would recommend it, while older groups came in above 63 percent (**Figure 3**). That gap appears across all usage levels, but it is smallest among heavy users (**Figure 4**).

In general, all levels of users agreed that they understood the user agreements for the BNPL products they used; 78.0 percent, 67.8 percent, and 75.2 percent of light, moderate, and heavy users, respectively, chose the top two boxes from a seven-point scale (**Figure 5**).[6] Higher earners and older users were more likely to report understanding the agreements. Across income, understanding rose from 71.8 percent to 75.6 percent as respondents' income range increased; across age, understanding rose from 65.1 percent to 86.5 percent as respondents' age range increased.

Reasons for Using BNPL

Users were asked to select from a list of reasons why they chose to use BNPL for their purchases, with the options relating to lack of credit access, convenience, and cost. *Convenience* was the most frequently selected reason (52.6 percent of BNPL users), followed by *the size of the purchase* (46.2 percent) and *ability to better manage finances* (43.8 percent) (**Figure 6**). The least chosen options were *it is my preferred payment method* (11.5 percent), *inability to get approved for credit* (13.6 percent), and *lack of credit* (19.1 percent); this particular observation is interesting, given BNPL's reputation as a last-resort credit product for those who do not have access to traditional credit.[7] Indeed, we will see in data below that while there is variation across demographic segments in the rate that credit access is chosen, it never appears in the top half of the list.

Heavy BNPL users are understandably more likely to say that BNPL is their payment method of choice (23.3 percent versus the overall average of 11.5 percent), and they also identify improved ability to manage their finances more frequently (55.1 percent versus the average of 43.8 percent) (**Figure 7**). This group is also where users are most likely to cite lack of credit access as a reason; both *lack of credit* (25.7 percent versus 19.1 percent) and *inability to get approved for credit* (16.5 percent versus 13.6 percent) are higher for heavy users. This seems to indicate that while low access to credit is not a primary driver of general BNPL usage among our respondents, it is a more important driver of heavier use (although it is still an infrequently cited reason). Interestingly, heavy users are *less* likely to cite *convenience* as a reason; 44.2 percent chose that compared with an overall average of 52.6 percent.

As we would expect, income is related to credit access, with lower-earning respondents citing those reasons more frequently than the higher-earning cohort. Those earning less than $40,000 were more likely to cite

---

[6] It is interesting that more frequent users admitted to understanding the agreements slightly less often than light users; it is possible that is driven by heavier users getting exposed to a wider variety of agreements or encountering issues with the purchase or return processes as they engage more frequently.

[7] Additional work examining the credit characteristics of BNPL users and nonusers — including changes to credit scores, positive and negative changes to tradelines, and general credit-seeking behavior — will be critical to understanding the consumer impact of the segment. CFI hopes to evaluate this type of data in the future.

inability to get approved for credit than those earning $75,000 or more (17.7 percent versus 8.9 percent, respectively) (**Figure 8**). *Lack of credit* was cited most often by midrange incomes; 24.1 percent of respondents earning $40,000–$74,000 selected that reason, compared with only 13.6 percent of the highest-income range.

In **Figure 9**, we see the largest variations by age ranges in the credit access reasons. Respondents younger than 36 years old were more likely to cite credit access than those ages 56 or more; 21.0 percent versus 3.3 percent, respectively, for *inability to get approved for credit* and 29.5 percent versus 7.5 percent, respectively, for *lack of credit*. The only category in which the oldest cohort was appreciably higher than younger respondents was *costs less to use*, which was selected by just over 30 percent of those ages 56 and older, compared with less than 21 percent for the younger groups.

Attributes Associated with BNPL and Credit Cards

BNPL users were presented with a list of concepts and asked to indicate whether they associated each concept more with credit cards (which had nearly 100 percent usage across the group) or BNPL. Across the full user population, terms associated with *flexibility* and *customer needs* were more frequently associated with BNPL; *convenience*, *dependability*, and *security* were more frequently associated with credit cards; and *transparency* and *user-friendliness* were evenly split between the two (**Figure 10**).

The more times respondents have used BNPL, the more likely they are to associate certain terms with BNPL rather than with credit cards. In particular, heavy users are more likely than light users to associate BNPL with security, dependability, and interest alignment (although the first two items are still more frequently associated with credit cards, even among heavy users (**Figure 11**). Heavy users are less likely than light users to associate BNPL with flexibility or with being focused on their financial needs — perhaps this is an indication that frequent use is more likely to expose a consumer to the downside of a product.

Lower-earning respondents are more likely than higher earners to associate any given concept on the list with BNPL over credit cards. With the exception of security and dependability, respondents earning less than $40,000 associate most of the concepts with BNPL more often than credit cards; this ranged from just over 50 percent selecting BNPL for convenience to close to 70 percent favoring it for flexibility (**Figure 12**). Those earning more than $75,000 favored credit cards in all categories expect for *focused on my financial needs*, where BNPL was selected by just over 62 percent of respondents.

Across age ranges, we see the widest variances in security, flexibility, and focus on customers' needs. For the latter two, the youngest respondents (those ages 35 or less) were the least likely to have selected BNPL,

although in both cases, BNPL still accounts for the majority of respondents (e.g., more than 50 percent of the youngest group favors BNPL for flexibility and focus on needs, whereas 60 percent or more of the older age ranges favor it) (**Figure 13**). For security, all age ranges favor credit cards, with middle-aged respondents (ages 36–55) being the least likely to favor BNPL over cards.

BNPL Nonuser Opinions About the Product

Respondents who indicated that they had not used BNPL in the past year were asked a series of similar questions to the user population to evaluate where nonuser understanding of the product diverges from the user population.[8] We see general familiarity with the product among nonusers; only 23.7 percent of nonusers reported that they were *not at all familiar* with the product, and 45.0 percent reported being *somewhat familiar* (28.2 percent) or *very familiar* (16.8 percent) (**Figure 14**). Feelings about the product are fairly neutral among nonusers. When evaluating their opinion about BNPL as a payment product on a seven-point favorability scale, 13.8 percent of nonusers reported favorable opinions (top two boxes) and 19.2 percent reported unfavorable opinions.

We asked nonusers to select the primary reasons they believe someone would choose to use BNPL to make a purchase. The responses reveal differences between the assumptions that nonusers have about the product and the reasons reported by users. In particular, nonusers believe that the lack of credit access drives the decision to use BNPL significantly more than users report; nonusers selected *lack of credit* and *inability to get approved for credit* at rates of 57.0 percent and 50.8 percent, respectively, compared with users who selected those reasons at 19.1 percent and 13.6 percent, respectively (**Figure 15**). We see a large gap in the other credit-related reason (*weariness of adding credit card debt*), where nonusers selected the reason 10.7 percentage points more often than users (36.4 percent versus 25.7 percent, respectively).

Nonusers generally agreed with users on the words they are most likely to associate with BNPL over credit cards; both groups associate flexibility most frequently with BNPL (46.2 percent and 64.0 percent for nonusers and users, respectively), compared with any of the other terms listed, while they associate security least frequently (32.9 percent and 8.7 percent, respectively) (**Figure 16**). However, nonusers associated all of the terms more frequently with credit cards, whereas users favored BNPL for half of the options.

---

[8] Respondents in the nonuser category may have previous experience with BNPL; however, it was beyond the 12-month window mentioned in the question.

Missed BNPL Payments

Because BNPL loans are not reported to credit reporting agencies, there is little information available about delinquency or losses on the accounts, although concern abounds. Credit Karma, for instance, reported that 34 percent of BNPL users in a study conducted in mid-2021 said they had fallen behind on one or more payments, and 72 percent of those who missed payments believed that their credit scores declined as a result. Given the lack of credit data used in underwriting these loans (most BNPL providers market the product as not requiring a credit inquiry), concerns about runaway risk in the segment are not unfounded.

What information is available from the providers seems to indicate at this point that those concerns have not materialized to the degree observers have feared. In its December 2021 SEC filing, Affirm reported that 6.4 percent of its loan balances were delinquent (defined as at least four days past due).[9] Most other major BNPL providers do business in multiple international markets and are listed on non-U.S. stock exchanges, making information specifically on the U.S. market challenging to locate.

All BNPL users in our survey were asked about their success in making payments on the BNPL loans they took out. Using the ranges of BNPL use, we estimate that the average number of loans per BNPL user over the 12 months prior to the survey is between 4 and 8.[10] Assuming the four-in-six-weeks structure, that means that respondents made between 16 and 32 individual payments during that period. We asked respondents if they were able to successfully make all of those payments in full and on time. They selected from the following responses:

A. Yes — I made all of the payments in full and on time.
B. No — I made some of the payments late, but I did pay everything I owed.
C. No — I made some of the payments late, and I was not able to pay everything I owed.

Overall, 89.3 percent of users reported that they made all payments in full and on time. Of the remainder, 8.4 percent missed at least one payment, but paid in full, and 2.3 percent were not able to pay everything they owed, for a total of 10.7 percent who reported difficulties paying (**Figure 17**). Among the sub-populations we have been analyzing, the groups that reported the most difficulty with payments were heavy users (14.7 percent), those earning less than $40,000 (15.3 percent), and 18- to 35-year-olds (13.8 percent).

---

[9] It is important to note that Affirm's document does not distinguish between balances on its BNPL accounts and balances on its more traditional installment loan accounts, which are underwritten using credit data.

[10] BNPL users selected from the ranges 1–3, 4–10, 11–20, and 20+ to indicate the number of times they used BNPL over the previous year. We calculated the weighted average of each range based on the minimum, median, and maximum values to obtain the weighted averages quoted previously.

The highest rates of failure to complete payments are moderate users (4.0 percent) and those earning less than $40,000 (4.6 percent).

The penalties for missing payments on a BNPL loan vary from issuer to issuer, but most of the terms and conditions make it clear that the *no fees and no interest* selling point of the product is largely negated when a payment fails. An examination of the online terms and conditions for five large BNPL providers shows that the consequences of missing scheduled payments can vary widely (**Table 4**).[11] While Affirm and PayPal do not charge fees for missed payments, AfterPay, Klarna, and Zip charge $7 to $10 per missed payment. Fee caps vary from 25 percent of the order amount (Afterpay and Klarna) to a maximum of $7 per later payment (Zip) and are often dependent on the amount of the original purchase.

Credit reporting practices for BNPL products are a key point of discussion among issuers, regulators, credit reporting agencies (CRAs), and consumer advocates. The ability to obtain short-term credit without requiring a traditional credit check allows consumers without credit or with poor credit to obtain goods and services they may otherwise not be able to access. However, since the accounts are not reported to CRAs, consumers who pay the accounts as agreed do not benefit from their positive performance, and regulators have reasonable concerns that consumers may be carrying debt that is not visible to other financial services companies (including other BNPL lenders). In the event that the consumer has problems with a payment, there is risk that the consumer will experience negative credit consequences.

Credit reporting policies for late or missing payments vary across the five issuers. Affirm and AfterPay state that they do not report late or nonpayments on their four-payments-in-six-weeks products to credit bureaus, PayPal will report missed payments, and Klarna and Zip *may* report missed payments or defaults (but are unclear regarding when that reporting will actually happen). This means that there is some risk of negative credit score impacts when a user misses payments on a BNPL loan, but the risk varies based on the issuer in question. All of the issuers report, however, that they will send past due accounts to collections; in that event, it is likely that a record of that collection action will be posted to users' credit reports, particularly if the issuers use third-party collections agencies.

In light of this issue, the three largest CRAs have all announced plans to begin including BNPL loans in their credit report data (Experian, Equifax, and TransUnion released announcements between December 2021 and February 2022 describing different solutions to address BNPL reporting). It is not clear yet how

---

[11] Missed payment policies were collected from Affirm, AfterPay, Klarna, PayPal Pay-in-4, and Zip through online terms and conditions. These providers were selected based on their inclusion in the CFPB's request for BNPL data.

the accounts will appear in the reports, and the success of these efforts is contingent on the participation of the issuers.

Conclusion

The *CFI Buy Now, Pay Later Survey* collected data on consumer awareness and use of BNPL products to shed more light on a new market, one that has generated significant speculation and debate in a relatively short time. We found that over the 12 months prior to the survey, nearly one-third of respondents had used a BNPL product to make a purchase, but just over half of those users had made three or fewer transactions, indicating that the growing use of BNPL may still be characterized by users experimenting with the new payment tool.

Evidence that BNPL generates higher levels of ambivalence among users compared with more established point-of-sale payment tools implies that general adoption and ubiquity is still a long way off. Additional study of the financial impact of BNPL use on consumers, including an understanding of how BNPL affects their access to credit in the long run, will be important to determine if there is a need for specific regulations of these products and what those might be.

References

CreditKarma.com. 2021. *Buy Now Pay Later Surges Throughout Pandemic, Consumers' Credit Takes a Hit,* CreditKarma.com, accessed May 31, 2022, https://www.creditkarma.com/about/commentary/buy-now-pay-later-surges-throughout-pandemic-consumers-credit-takes-a-hit (September 9, 2021).

Goel, Vaibhav, Deepa Mahajan, Marie-Claude Nadeau, Owen Sperling, and Stephanie Yeh. 2021. "New Trends in US Consumer Digital Payments," Mckinsey.com, accessed May 31, 2022, https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/new-trends-in-us-consumer-digital-payments (October 26, 2021).

Hunt, Robert M. 2002. "What's in the File? The Economics and Law of Consumer Credit Bureaus." *Federal Reserve Bank of Philadelphia Business Review* Q2 2002, pp. 17–25. https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/business-review/2002/q2/brq202rh.pdf.

PaymentsJournal.com. 2021. "How Consumers Are Using P2P Payment Apps," PaymentsJournal.com, accessed May 31, 2022, https://www.paymentsjournal.com/how-consumers-are-using-p2p-payment-apps/ (March 4, 2021).
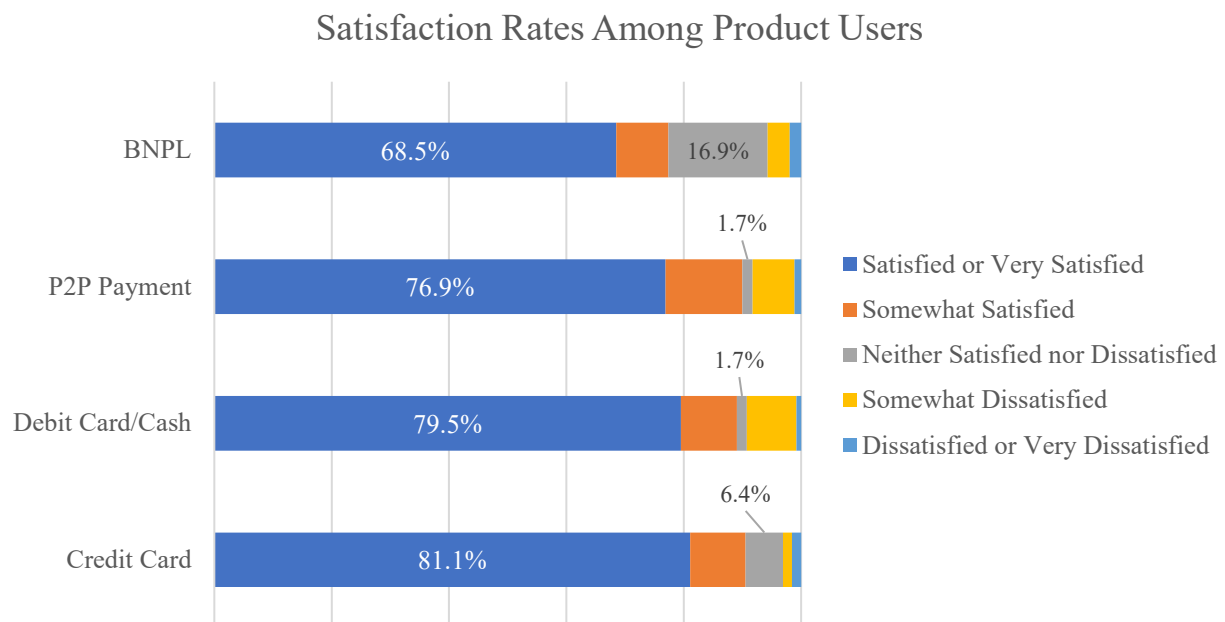
Appendix – Tables and Figures

Table 1: Respondents Reporting Product Use over Previous 12 Months

% Respondents Reporting Product Use over the Previous 12 Months	Overall Users	Heavy Users (11+ Times)
Credit Card	92.2%	77.1%
Debit Card/Cash	87.2%	64.3%
P2P Payment	84.7%	40.5%
BNPL	31.0%	5.2%

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 1:

Satisfaction Rates Among Product Users

- BNPL: 68.5% | 16.9%
- P2P Payment: 76.9% | 1.7%
- Debit Card/Cash: 79.5% | 1.7%
- Credit Card: 81.1% | 6.4%

Legend:
- Satisfied or Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
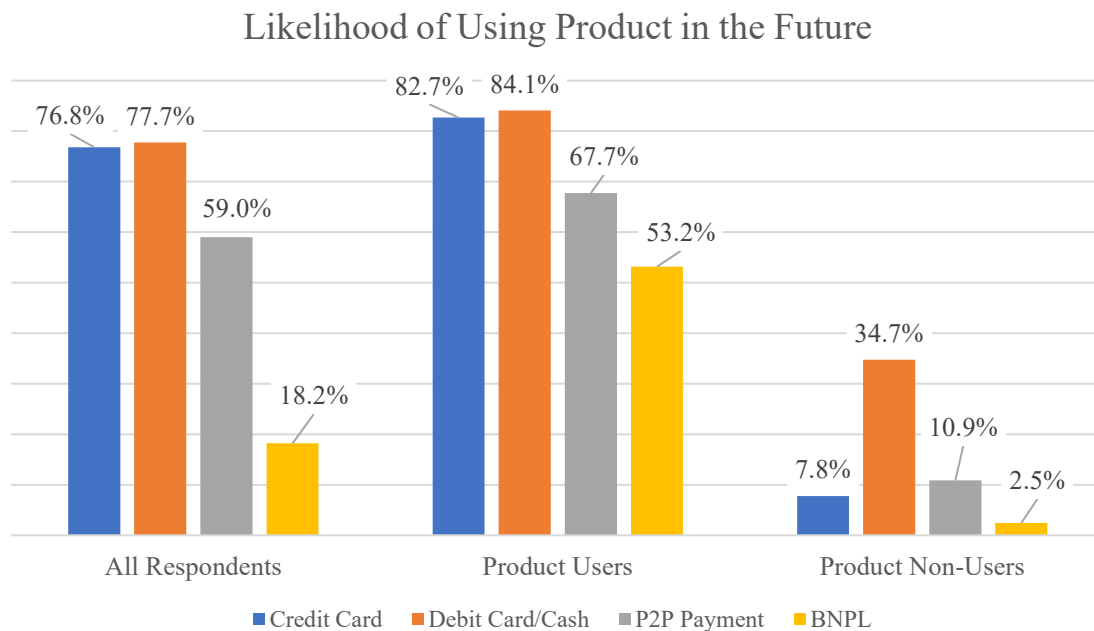- Somewhat Dissatisfied
- Dissatisfied or Very Dissatisfied

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey* (survey responses were provided on a seven-point scale; the top two and bottom two responses have been combined in this figure).

Figure 2:

Likelihood of Using Product in the Future

All Respondents: Credit Card 76.8%, Debit Card/Cash 77.7%, P2P Payment 59.0%, BNPL 18.2%

Product Users: Credit Card 82.7%, Debit Card/Cash 84.1%, P2P Payment 67.7%, BNPL 53.2%

Product Non-Users: Credit Card 7.8%, Debit Card/Cash 34.7%, P2P Payment 10.9%, BNPL 2.5%

Legend: Credit Card | Debit Card/Cash | P2P Payment | BNPL

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Table 2: Demographic Characteristics of Product Users

	Overall	Credit Card	Debit Card/Cash	P2P Payment	BNPL
By Income					
<$75,000	67.0%	65.3%	69.2%	67.8%	72.6%
$75,000+	21.2%	22.6%	20.1%	21.9%	17.6%
By Age					
18–35	28.5%	27.8%	30.3%	32.7%	41.6%
36–55	34.1%	34.2%	35.3%	36.8%	31.6%
56+	37.4%	38.0%	34.4%	30.5%	26.8%
By Gender					
Male	50.2%	50.4%	49.9%	50.6%	49.9%
Female	49.8%	49.6%	50.1%	49.4%	50.1%
By Race/Ethnicity					
White (Non-Hispanic)	76.2%	76.6%	75.4%	74.2%	70.0%
Non-White	23.8%	23.4%	24.6%	25.8%	30.0%
By Employment					
Employed	61.7%	63.1%	63.0%	65.9%	70.6%
Not Employed	38.3%	36.9%	37.0%	34.1%	29.4%

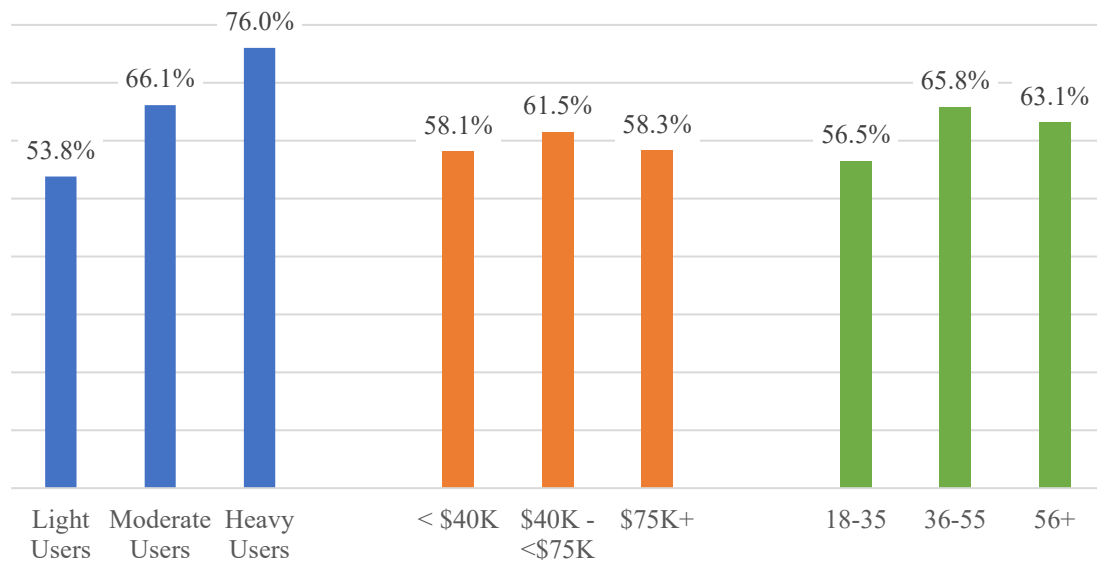Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Table 3: Frequency of Respondents' Level of Use

BNPL Users by Level of Use	Light Users	Moderate Users	Heavy Users
% of BNPL Users	53.2%	30.2%	16.6%
Usage Across Demographic Groups	**Light Users**	**Moderate Users**	**Heavy Users**
By Income			
< $40,000	57.8%	26.7%	15.5%
$40,000 – <$75,000	48.3%	36.0%	15.7%
$75,000 +	49.7%	31.2%	19.1%
By Age			
18–35	42.5%	36.9%	20.7%
36–55	53.9%	27.6%	18.6%
56+	69.0%	22.9%	8.1%
By Gender			
Male	50.3%	30.4%	19.3%
Female	56.0%	30.0%	13.9%
By Race/Ethnicity			
White (Non-Hispanic)	54.2%	29.7%	16.1%
Non-White	50.7%	31.4%	17.9%

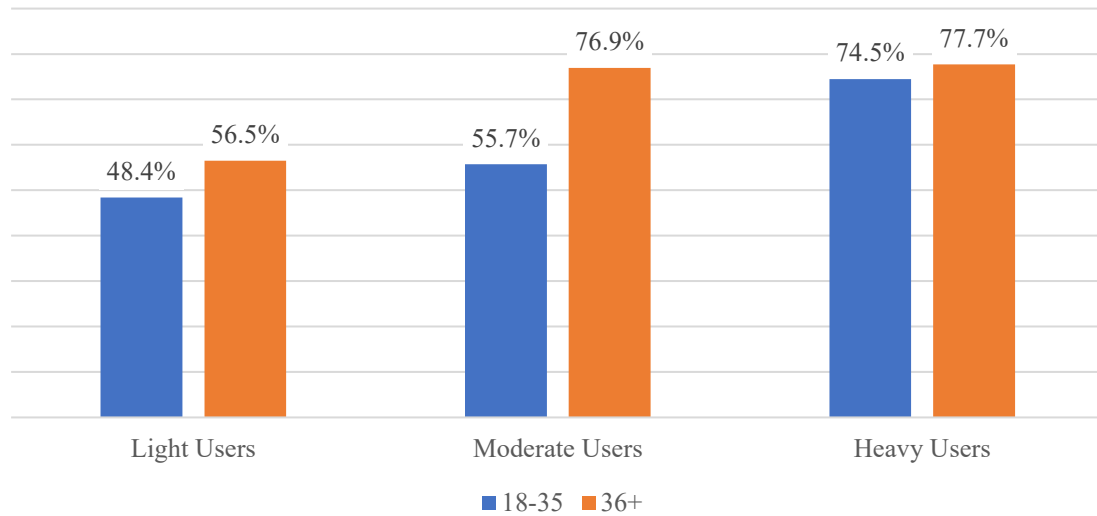Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 3:

Likelihood of Recommending BNPL to Friends or Family

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 4:
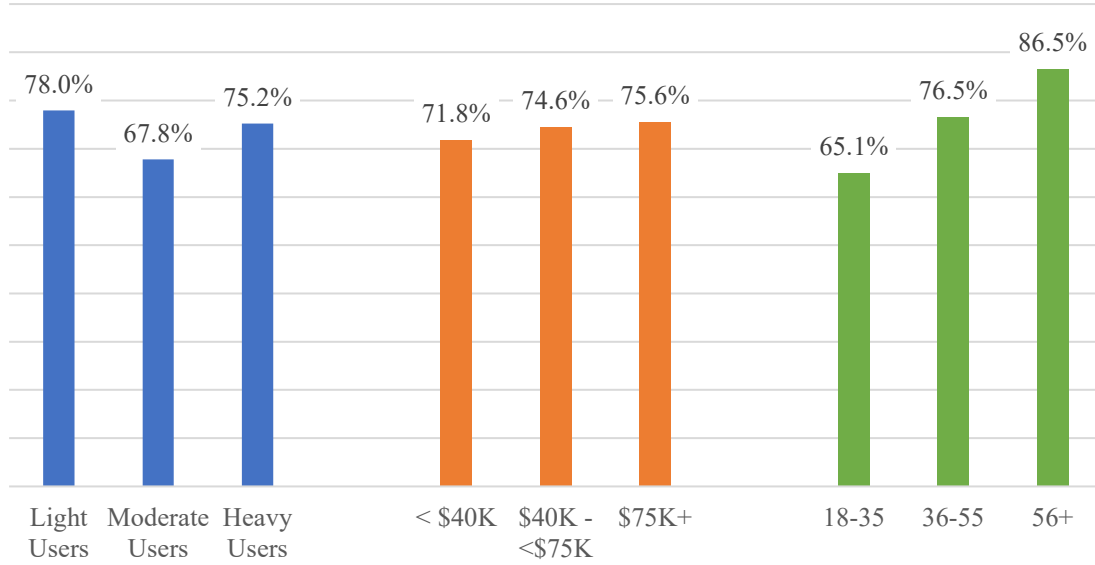
Likelihood of Recommending BNPL to Friends or Family
(by age and usage rate)

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*
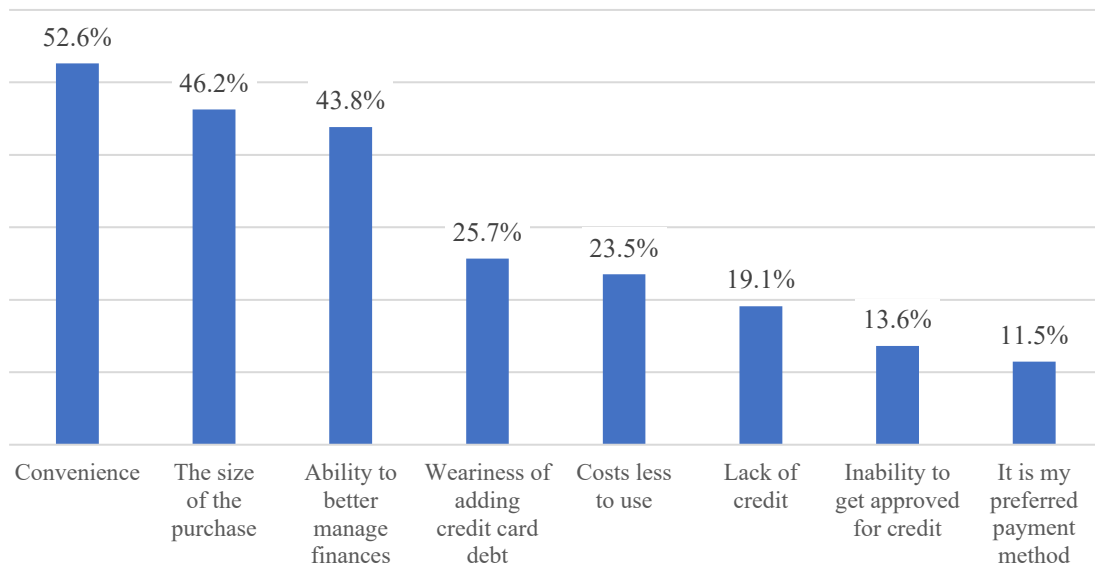
Figure 5:

Percentage of Users Who Understood User Agreement

78.0% Light Users
67.8% Moderate Users
75.2% Heavy Users
71.8% < $40K
74.6% $40K - <$75K
75.6% $75K+
65.1% 18-35
76.5% 36-55
86.5% 56+

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 6:

BNPL Users' Reasons for Choosing BNPL

52.6% Convenience
46.2% The size of the purchase
43.8% Ability to better manage finances
25.7% Weariness of adding credit card debt
23.5% Costs less to use
19.1% Lack of credit
13.6% Inability to get approved for credit
11.5% It is my preferred payment method

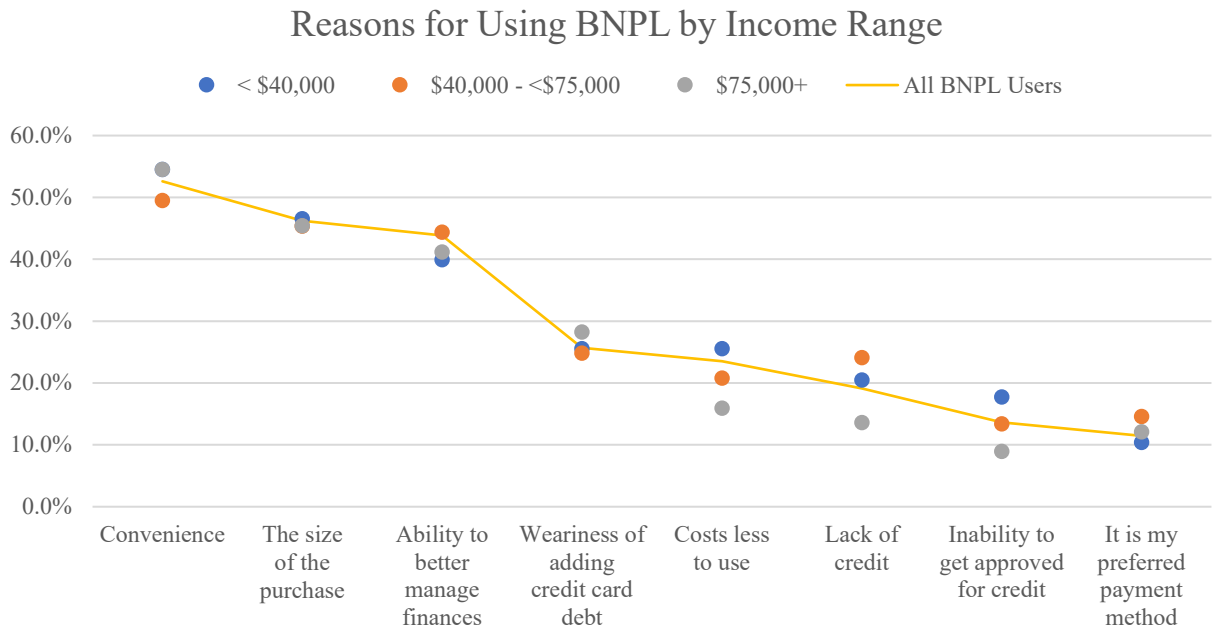Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 7:

Reasons for Using BNPL by Usage Level

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 8:
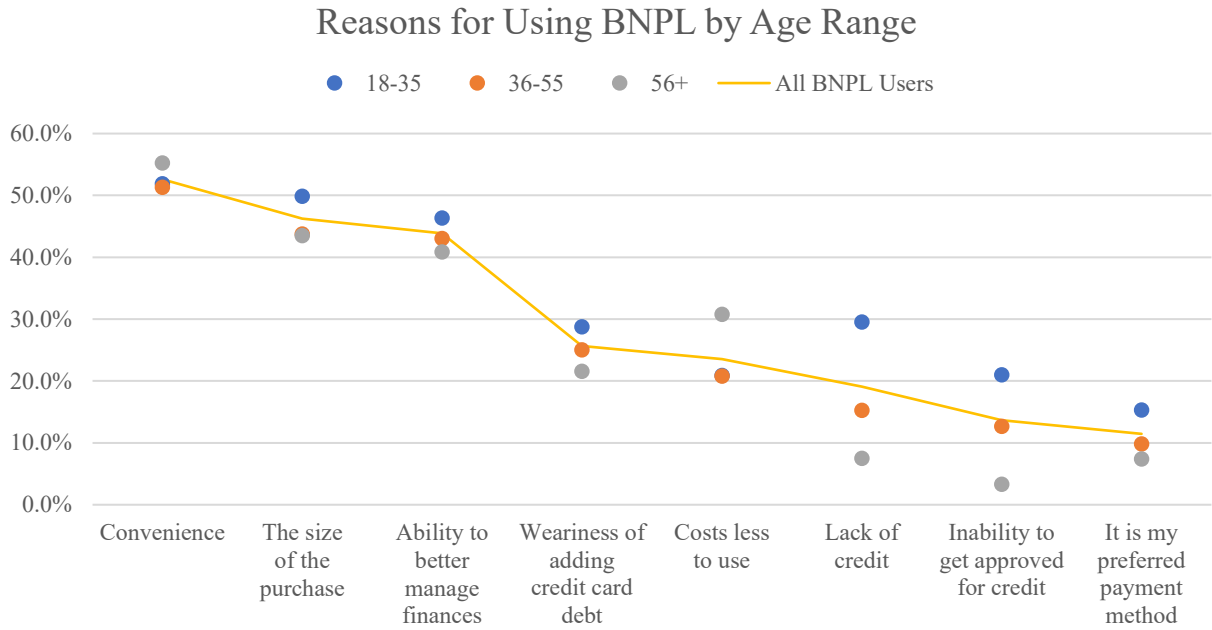

Reasons for Using BNPL by Income Range

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 9:

Reasons for Using BNPL by Age Range

● 18-35　　● 36-55　　● 56+　　—— All BNPL Users

(scatter plot with line)

Y-axis: 0.0% to 60.0% in 10% increments

X-axis categories: Convenience | The size of the purchase | Ability to better manage finances | Weariness of adding credit card debt | Costs less to use | Lack of credit | Inability to get approved for credit | It is my preferred payment method
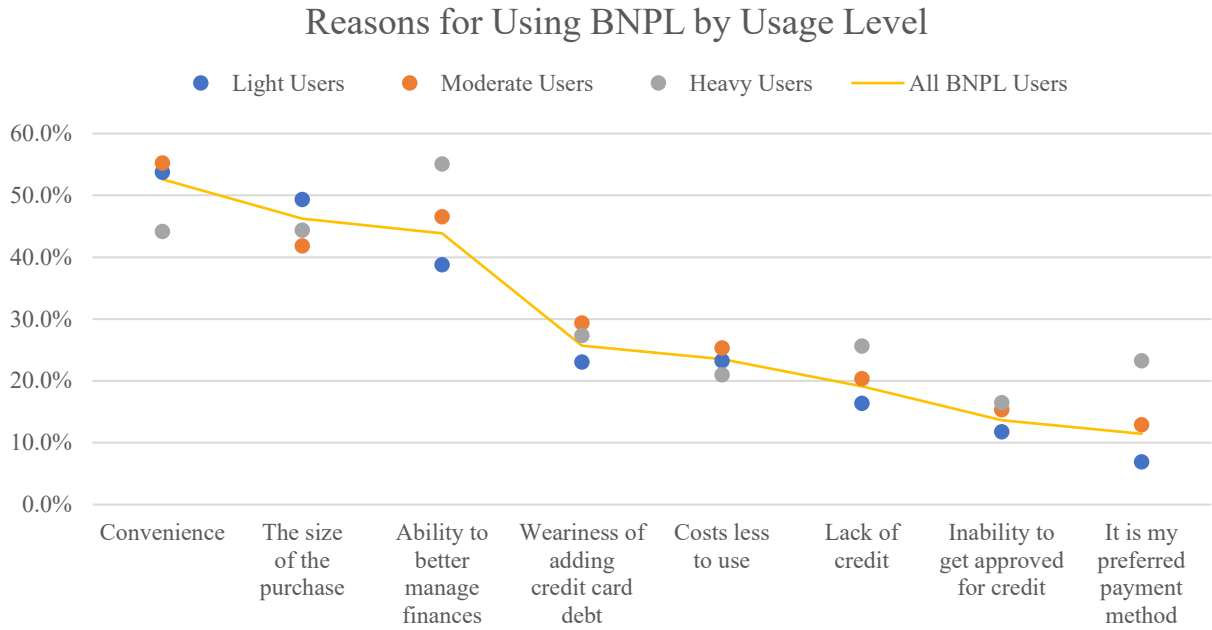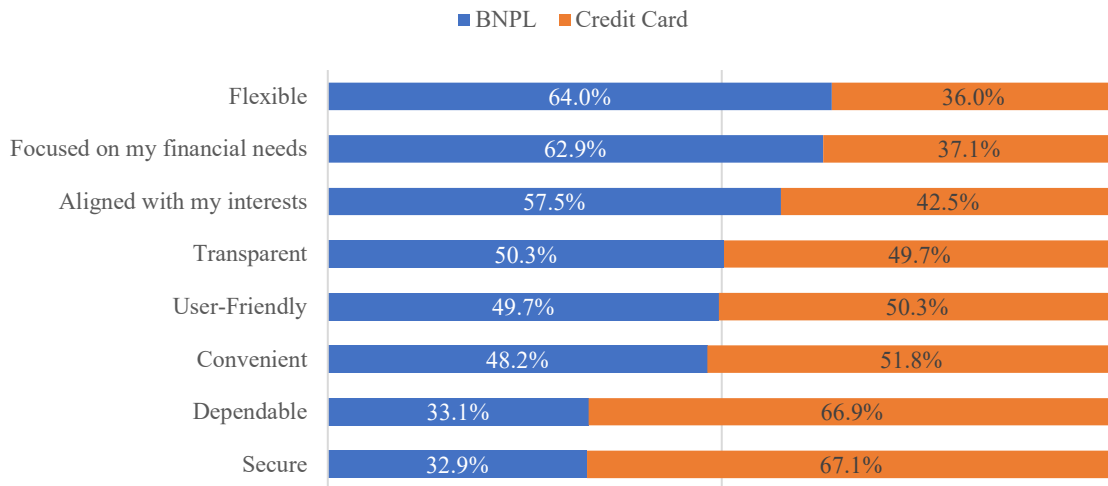
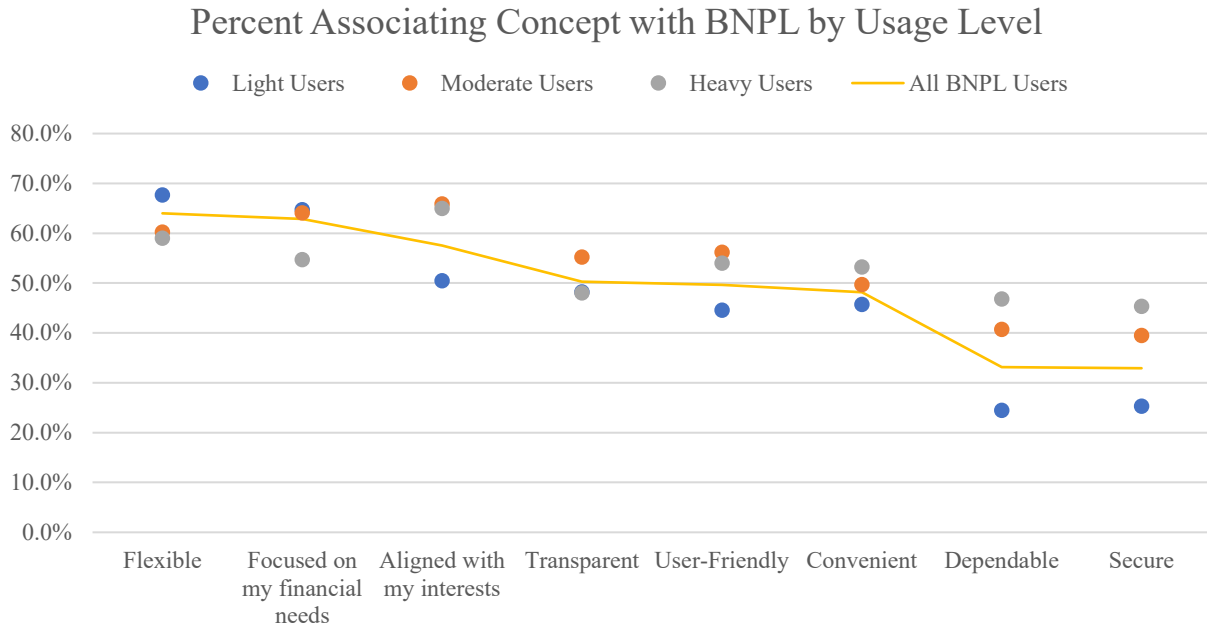Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 10:

Based on your experiences, would you be more likely to associate the following words with credit cards or buy now, pay later payment services?
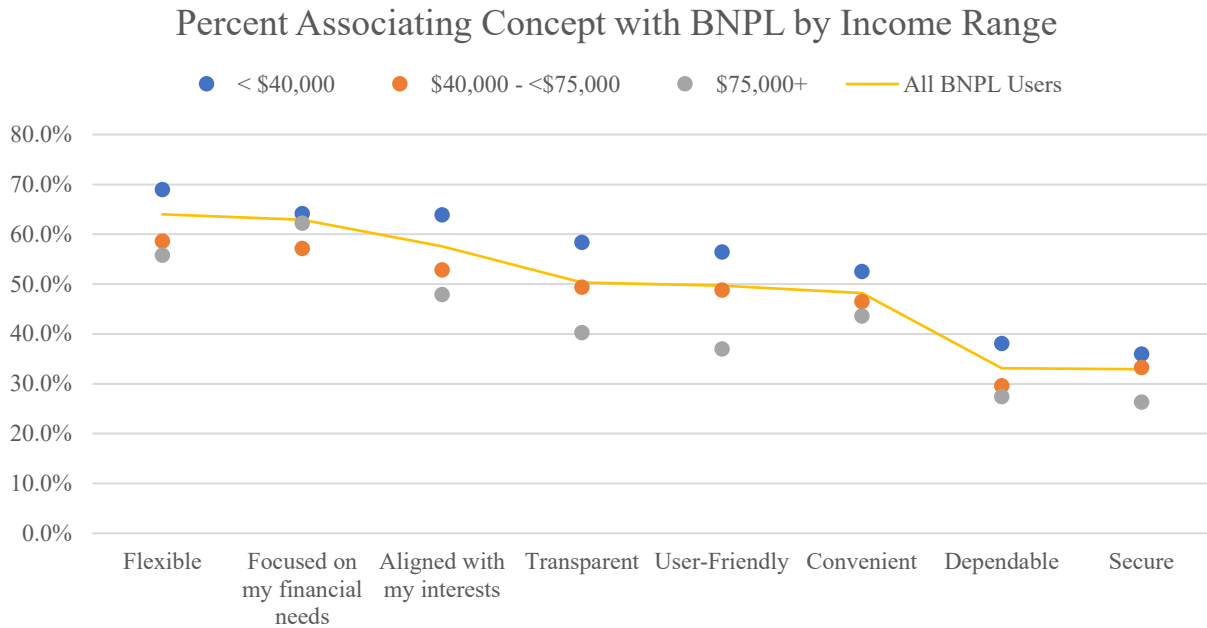
■ BNPL　　■ Credit Card

Word	BNPL	Credit Card
Flexible	64.0%	36.0%
Focused on my financial needs	62.9%	37.1%
Aligned with my interests	57.5%	42.5%
Transparent	50.3%	49.7%
User-Friendly	49.7%	50.3%
Convenient	48.2%	51.8%
Dependable	33.1%	66.9%
Secure	32.9%	67.1%

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 11:

Percent Associating Concept with BNPL by Usage Level

● Light Users ● Moderate Users ● Heavy Users ── All BNPL Users

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 12:

Percent Associating Concept with BNPL by Income Range

● < $40,000 ● $40,000 - <$75,000 ● $75,000+ ── All BNPL Users

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 13:

Percent Associating Concept with BNPL by Age Range

● 18-35　　● 36-55　　● 56+　　—— All BNPL Users

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 14:

BNPL Nonuser Awareness and Opinion of BNPL

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*
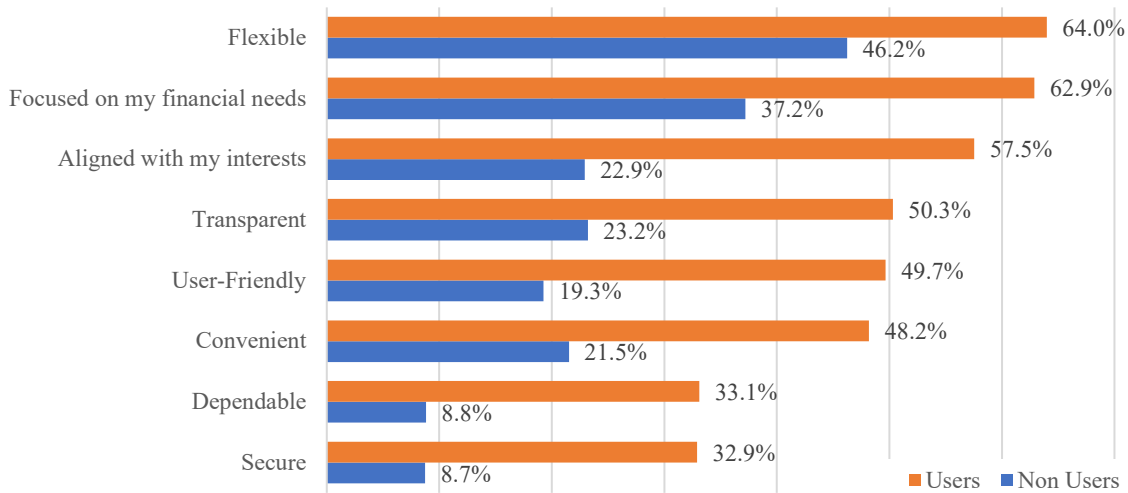
Figure 15:

Reasons for Using BNPL

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*
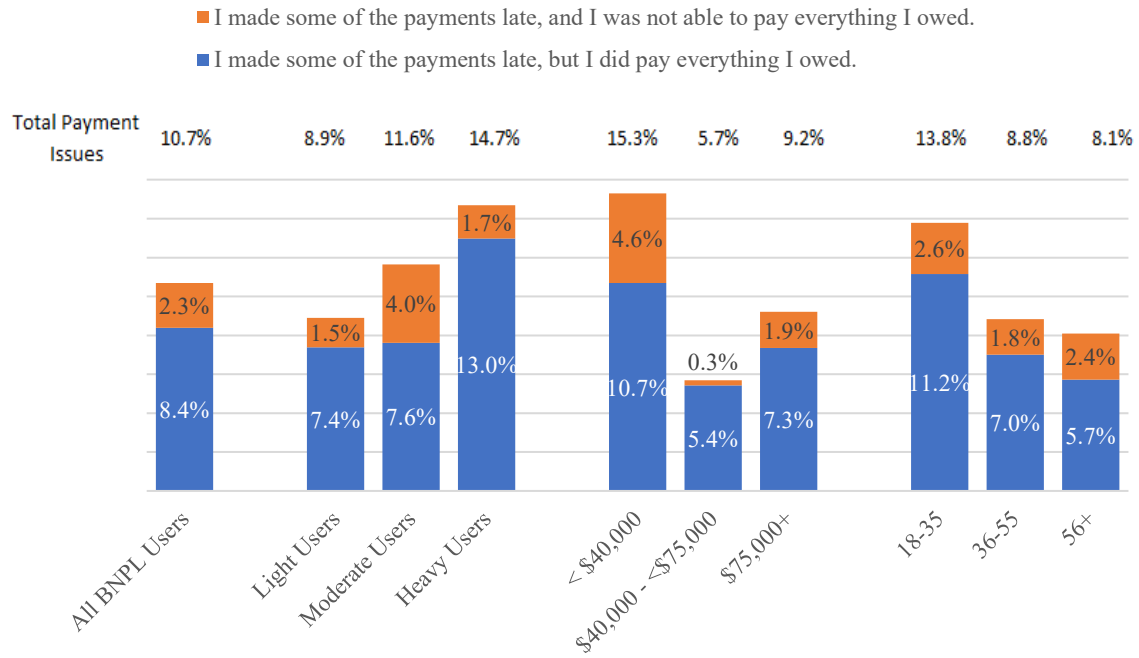
Figure 16:

Based on your experiences, would you be more likely to associate the following words with credit cards or buy now, pay later payment services?

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Figure 17:

Missed Payment Rates for BNPL Users

■ I made some of the payments late, and I was not able to pay everything I owed.
■ I made some of the payments late, but I did pay everything I owed.

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*

Table 4:

Issuer	Missed Payment Policy	Fee	Caps on Fee	Send to Collections	Send to Credit Reporting Agencies	Source
Affirm	No late fees for missed repayment. Customer must schedule a payment as soon as possible; Affirm will continue to send reminders.	No	-	Yes	No, does not report if loan is 0% and 4 biweekly payments, but for other loans, it may report the payment history to Experian.	Terms (affirm.com)
AfterPay	If an installment payment is not paid prior/on the specified date and remains unpaid for 10 days, a late fee of up to $8.00 will be imposed.	Yes	The aggregate sum of late fees associated with a particular order will not exceed 25% of the order value at the time of purchase.	Yes	No, does not report late payments or nonpayments to credit bureaus.	Installment Agreement (USA) - Afterpay
Klarna	If Klarna cannot collect a payment after two attempts, it is added to the payment along with a late fee of up to $7.00.	Yes	Late fees will never exceed 25% of the order value.	Yes	May report the default information to credit bureaus.	https://www.klarna.com/us/pay-in-4/ Terms and Conditions (klarna.com)
PayPal Pay-in-4	No fee for missed payments.	No	-	Yes	Yes, will report missed payments to a credit reporting body.	Buy Now, Pay Later | Pay in 4 Installment Payments | PayPal US
Zip	If customers do not pay their Total Minimum Payment in full by the applicable due date, they are charged a late fee of up to $7.00.	Yes	Will never exceed $7 per late payment.	Yes	Yes, may report a late or missed payment to credit bureau.	Zip Terms of Service | Zip, previously Quadpay

Source: Federal Reserve Bank of Philadelphia *CFI Buy Now, Pay Later Survey*
(Note: All information was obtained from reviews of online terms and conditions as of March 17, 2022.)

FEDERAL RESERVE BANK PHILADELPHIA

Consumer Finance Institute