

August 2024

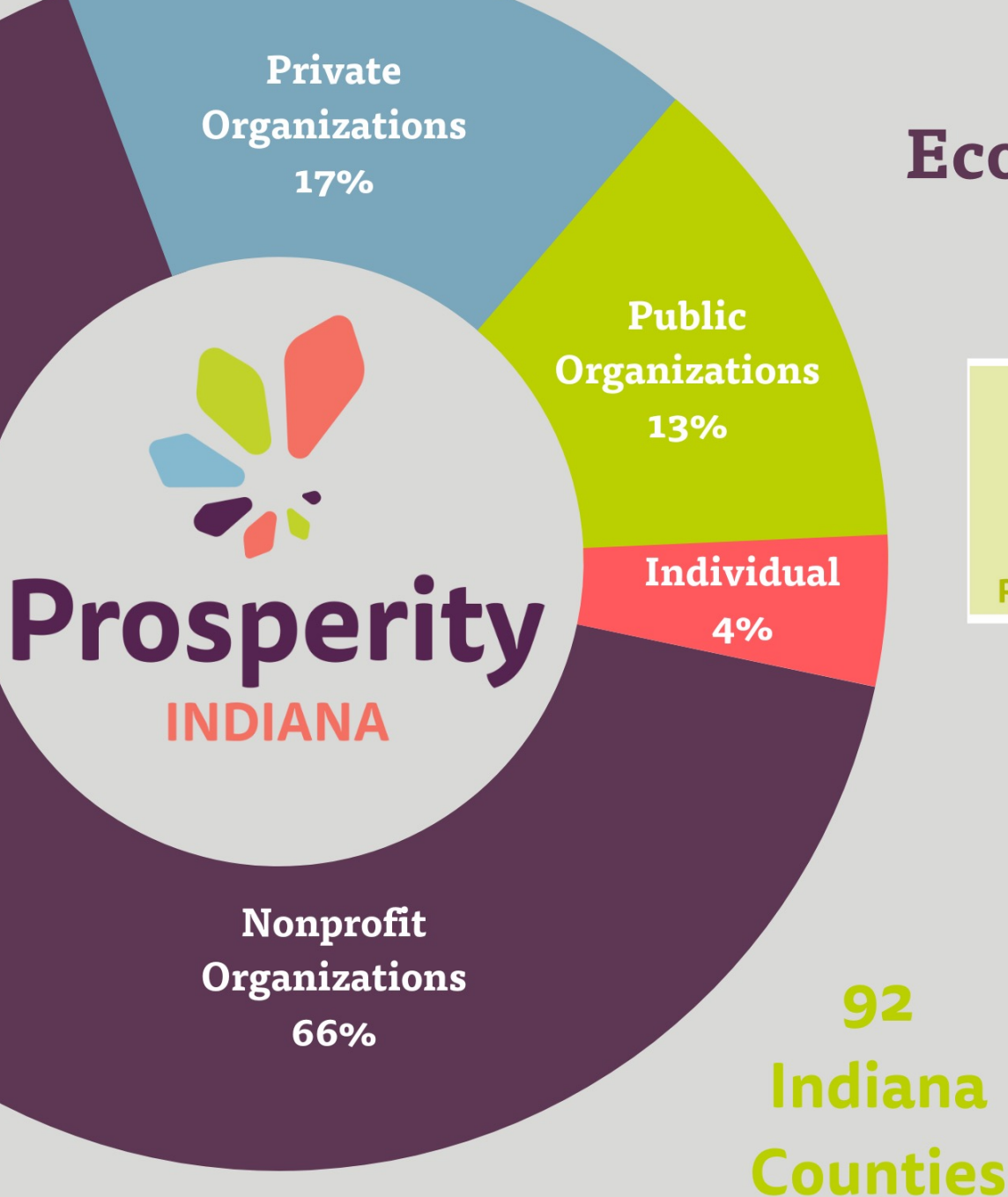
The Hidden Cost of Buy-Now-Pay-Later Products



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Welcome!

Indiana's Community Economic Development Network



200 organizations

1000+ members

Banks ~ Developers ~ Housing Authorities
Social Justice Advocates ~ Utilities ~ United Ways
Foundations ~ Human Service Providers
Community Development Corporations ~ Associations
Local Governments ~ Healthcare Corporations
Universities ~ Community Action Agencies
Neighborhood Groups ~ and more!

The Hoosiers for Responsible Lending Steering Committee



Policy Brief:

Buy Now Pay Later

Implications for Low-Income Hoosiers

institute.incap.org/policy-briefs

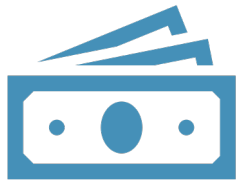


INDIANA
COMMUNITY ACTION
POVERTY INSTITUTE
Research and Public Policy

INTRODUCTION TO BNPL

- Timeline:
 - 2019 - First year widely offered
 - Pandemic - skyrocketing usage (online purchases and rising costs)
 - Post-pandemic inflation - continued sales
- The Product:
 - Integrated payment with online retailers
 - Quarter payment upfront, 3 subsequent payments over 6 weeks
 - Soft credit checks
 - "Safe alternative" marketing
 - Similar to a layaway loan, less similar to credit cards, but neither categories quite fit

INDUSTRY GROWTH



2019: \$2 billion for the whole year



2021: \$24.2 billion purchases

1,092 percent increase



2023 holiday season: \$16.6 billion in purchases

Prime Day partnerships drove an additional \$927 million

BNPL WEBSITE INTEGRATION



BNPL for groceries: a larger market than expected

6.5 percent (15 million people) of the U.S. population uses BNPL for groceries ([PYMNTS, 2024](#))



"Everyday" purchases with BNPL are increasing

Contact lens purchases up 465 percent between 2022 and 2023 (Afterpay, 2024)
Garbage bag purchases up 182 percent the same years (Afterpay, 2024)



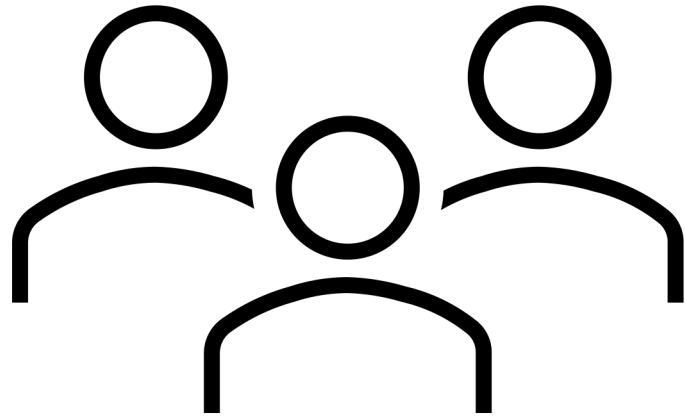
Over 503 Websites in Indiana integrate BNPL

Up from 321 when the policy brief was published in June 2024

You can pay using BNPL at:

- Aldi
- Dollar General
- Target
- Walmart

PROFILE OF BNPL USERS



- No substantive differences: Credit card ownership
- Small differences: Audience is slightly younger, more women using the market, lower levels of education, lower incomes
- Larger differences: Lower reported ability to pay bills in the past month, lower confidence in credit card approval (for hypothetical application), lower rates of having emergency savings
- Big difference: BNPL firms will lend to individuals with credit scores below 620
 - Estimated to "save" users from APR of 22 to 24 percent (CFPB, 2023)
 - Credit access is important, but regulations and ensuring responsible lending in these cases becomes paramount

BENEFITS OF BNPL

Consumption smoothing

- Individuals with fluctuating liquidity levels can now break larger purchases into smaller chunks
 - Across the board, average of 88% of BNPL users cite spreading out payments as a driving factor in their choice to use it
- Temporary economic dry spells (low debit accounts, credit access) no longer hinder consumption
 - Individuals making \$49,999 and under report using BNPL to afford something at twice the rate of individuals earning \$100,000 and more

Increased credit access

- No "hard" credit checks
- Instant decision on access
 - Convenience cited as another top reason for BNPL-usage (83% of users)
- Caveat: BNPL users and non-users, however, have similar access to credit products already, just different usage
 - 86% of non-users have a credit card, 85% of users have one



Interactions with traditional financial products

Overdraft/NSF fees from re-presented payments

Credit score declines from unpaid BNPL sent to collections contrast with "risk-free" marketing

Late payment harms to credit scores (72 percent of users with late payments saw declines)



Financial Overextension

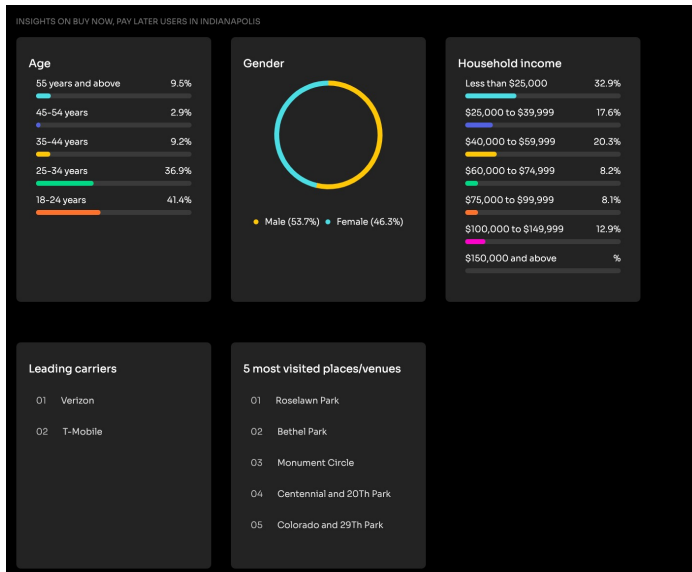
Autopay mandates prevent users from prioritizing other (perhaps more crucial) payments

BNPL creates additional spending

- Consumers offered it spend 20 percent more than those not (Berg *et al.*, 2023)
- 70 percent of BNPL users say they spent more than they would have otherwise (LendingTree, 2022)

RISKS OF BNPL

RISKS OF BNPL (CONTINUED)



- Data generation and lack of privacy
 - Tracked movements on merchant sites
 - Unparalleled access to consumer spending insights in-app
 - Spontaneous changes to credit
 - Data can be purchased quite easily
 - Screenshot to the right of Start.io
- Regulatory and consumer confusion
 - 73 percent of users say BNPL = credit card or installment loan (Gittleman *et al.*, 2023)
 - Average score of 0.29/5.0 on BNPL knowledge test (Gittleman *et al.*, 2023)
 - Complaint data: product categorization includes: “Payday loan, title loan, personal loan, or advance loan” (23.78 percent), “Credit Card or Prepaid Card” (8.93 percent), “I don't know” (7.7 percent)

A personal story

**Brought to you by a Hoosiers for Responsible
Lending Steering Committee member**

CURRENT INDUSTRY OVERSIGHT

Federal:

- Truth in Lending Act (TILA)
 - Lenders must clearly disclose terms of lending
 - Previously not applicable to repayment plans involving less than or equal to four installments and without interest

State:

- 14 states (as of 2023) have enacted installment lender license requirements for BNPL firms
 - Indiana is not one of them

NEW CFPB REGULATIONS



CFPB ruled that BNPL firms meet criteria for TILA coverage (May 2024)

"...lenders that issue digital user accounts that consumers use from time to time to access credit products to purchase goods and services are 'card issuers'"

"...digital user accounts with the purpose of giving consumers access to credit from time to time in the course of completing transactions to purchase goods or services, including those marketed as BNPL, meet the regulatory definition of 'credit card.'"



New requirements from Regulation Z:

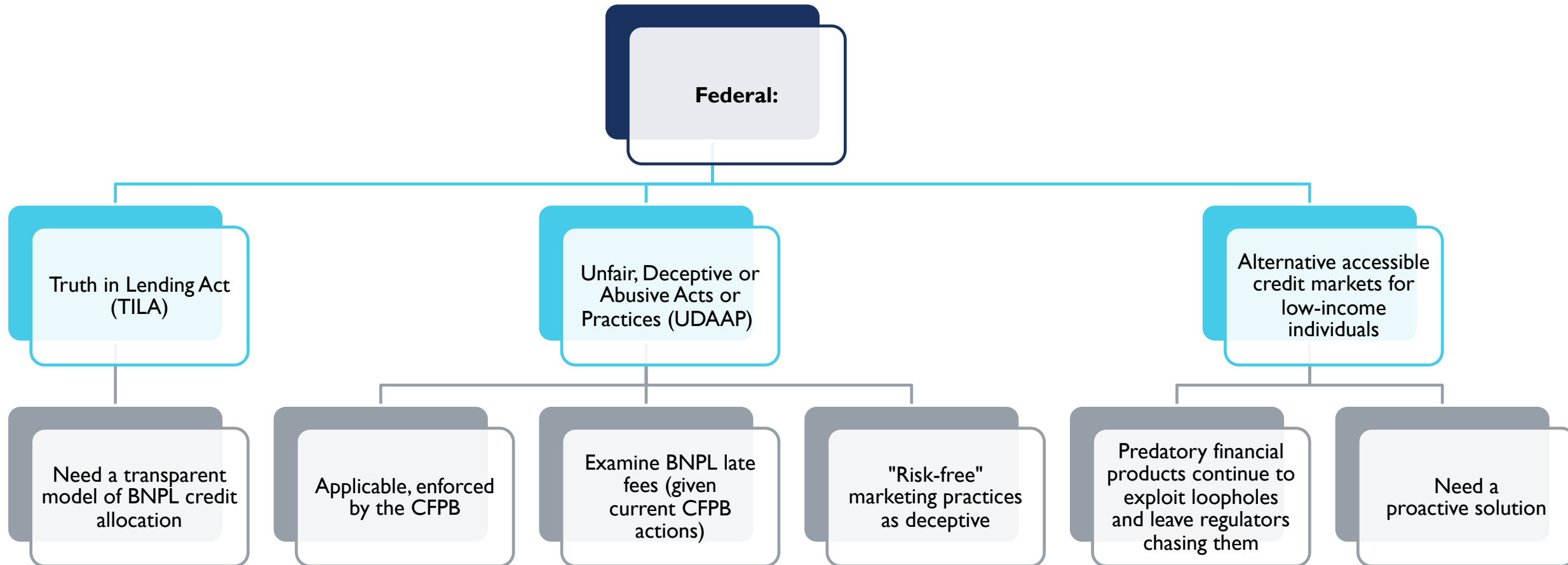
Investigation into disputes

- One in ten (13%) of BNPL purchases have a return or dispute

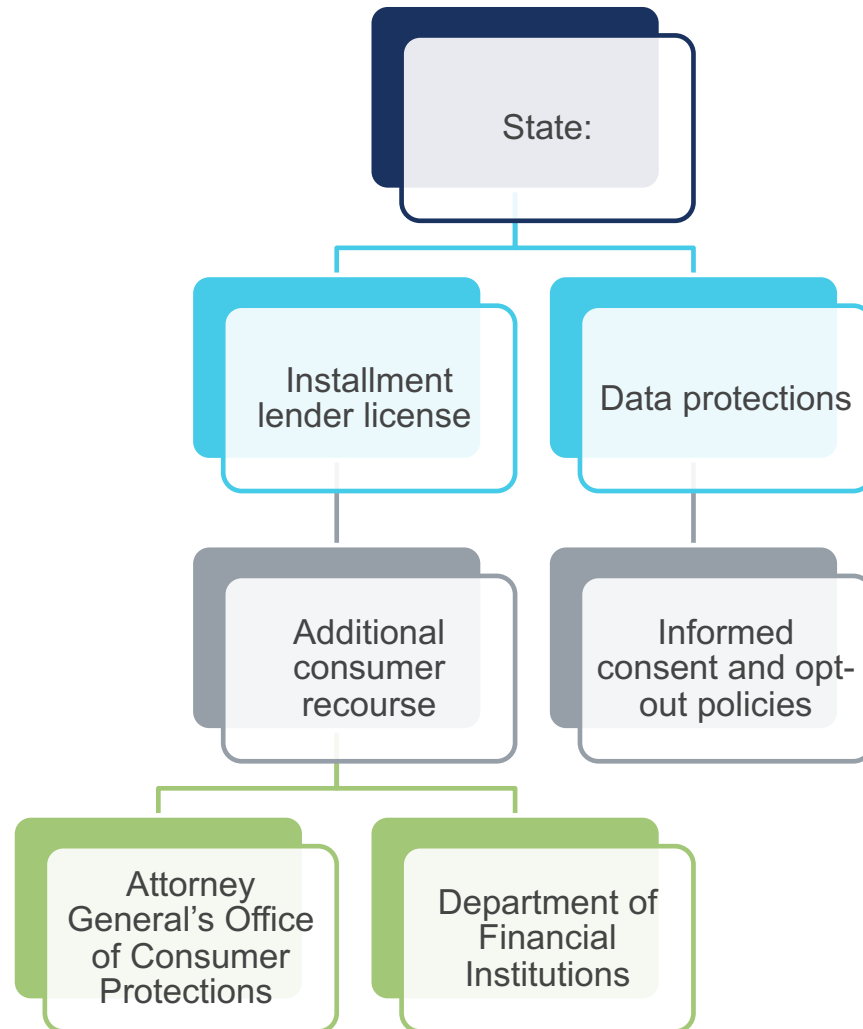
Refunds for returned products

- Total of \$1.8 billion in merchandise from the top five firms
- Provision of billing statements for consumers (like those for credit cards)

POLICY RECOMMENDATIONS



POLICY RECOMMENDATIONS



QUESTIONS?

Full brief online:
institute.incap.org/assets/docs/Policy-Briefs/BNPL_June_2024_Final.pdf

Read more policy briefs from
the Institute: institute.incap.org/policy-briefs

Report made possible through funding from the
Americans for Financial Reform Education Fund.

Consumer advocacy, thoughts,
future suggestions: zsaylor@incap.org

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