Consumer Reports

Buy Now Pay Later Loans

The Problem for Consumers

Buy Now, Pay Later (BNPL) loans are a form of short-term credit that allow a consumer to split the cost of retail transactions into smaller installments and take immediate possession of the product or service after making the first payment. The most typical BNPL loans are the so-called "pay-in-four" products, where consumers pay 25 percent of the cost of the product or service at the time of sale, and the rest of the balance in three additional payments of 25 percent of the purchase price over the next six weeks, typically at 0 percent interest. Leading U.S. BNPL lenders such as Afterpay, Affirm, Klarna, Sezzle, PayPal, and Zip all offer pay-in-four 0 percent interest BNPL loans. In addition, many providers such as Affirm, Klarna and Paypal offer longer-term BNPL loans with terms of 3 months, 6 months or 24 months, at higher rates of interest similar to credit cards. Additional BNPL lenders are focusing on other market segments such as travel, auto repair and health care.

According to the Federal Reserve, BNPL lending has grown roughly 20 percent per year since 2021, reaching an estimated $70 billion in 2025, or about 1.1 percent of total credit card spending. BNPL payments are now widely integrated with in-person retail and online checkout processes, and are also available as digital apps where consumers can manage their loans and receive marketing offers for additional products.

Consumers who use BNPL loans say that they help them to purchase products they could not otherwise afford by breaking up the cost into installment payments. Users of BNPL tend to skew younger than the general population, but the loans are widely used by diverse demographics. Many users also already have credit cards and use BNPL as an additional form of credit.

Consumer protection concerns about BNPL loans include the following:

1. BNPL loans don't always clearly disclose fees, interest rates, and payment terms
2. Consumers report problems with customer service when making returns and seeking refunds
3. BNPL loans are not subject to an "ability to repay" standard that applies to credit cards and other loans. Therefore, borrowers can find themselves overextended on credit and unable to keep up with payments.

4. Consumers can incur costly late fees and overdraft penalties
5. BNPL lenders do not consistently report user payment history to credit bureaus
6. BNPL lenders collect personal data that may threaten consumer privacy and security

Because BNPL loans did not initially contain finance charges and required 4 or less payments, they were exempt from the credit protections in the federal Truth-in-Lending Act. In 2024, the federal Consumer Financial Protection Bureau proposed an interpretive rule that classified BNPL lenders as "card issuers" under Regulation Z, directing them to process payment disputes and refunds in a similar manner to credit cards, and to provide periodic billing statements. In 2025, the Trump administration withdrew the proposed CFPB rule and said it would not issue a new one, exempting the loans for now from federal oversight.

In the absence of federal oversight, 14 states have adopted licensing requirements for BNPL loans. In addition, New York and Illinois have recently passed comprehensive BNPL oversight laws that restore and enhance some of the federal protections for consumers in those states. Both states have created an "ability to repay" standard to ensure responsible underwriting. New York caps interest rates for most BNPL loans at 16% and late fees at $8. Illinois caps interest rates for BNPL at 36% and gives the state banking commissioner the authority to set lower interest rates and fees. Both states require returns and refunds to be processed in a similar way to credit card transactions, and direct lenders to send periodic billing statements to customers, similar to the former CFPB requirement.

Consumer Reports' Positions

Consumer Reports supports comprehensive consumer protections for BNPL loans similar to those enacted in New York and Illinois, including state licensing of BNPL lenders.. We also support pending legislation in Congress to reinstate the federal CFPB interpretive rule for BNPL. Taken together, these protections will help consumers manage their borrowing wisely, stay on track with repayment of their loans, and avoid the other potential harms listed above.

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