

Buy Now Pay Later: Frequently Asked Questions

American consumers are increasingly turning to Buy Now Pay Later (BNPL) to manage their spending responsibly. This FAQ focuses primarily on pay-in-four BNPL products, which allow consumers to split the cost of a purchase into four or fewer fixed installments over six to eight weeks. Approximately [1 in 5 U.S. households](#) have used these products, which carry no interest on outstanding balances, no revolving debt, and no hidden fees. With an average loan [size of \\$135](#) and a [98% repayment rate](#), BNPL is a transparent and trusted alternative to high-cost credit for millions of Americans.

BNPL and Consumers

What is BNPL, and how does it work?

Pay-in-four BNPL is a payment method that allows consumers to split the cost of a purchase into four fixed, equal installments, typically paid over six to eight weeks. Each loan is individually underwritten with a clear repayment schedule that the consumer sees before completing a purchase. There are no surprises, as the payment terms are transparent and fixed from the start.

Does BNPL accrue interest?

BNPL pay-in-four products do not charge interest on outstanding balances. Unlike credit cards, which generate revenue primarily through interest rates and fees, most BNPL providers earn the majority of their revenue through merchant partnerships. Providers pay the merchant upfront for a purchase and then handle all the credit risk and installment payments from the consumer. This means their incentives are aligned with successful repayment rather than prolonged debt.

Who uses BNPL?

BNPL is [valued by Americans](#) across all income levels and demographics. Once consumers use BNPL, they are [more likely to use it again](#), reflecting positive experiences with the product. BNPL offers flexible payment options for a broad range of consumers, from those building their credit history to established borrowers seeking a convenient, flexible alternative to traditional credit.

What consumer protections are built into BNPL?

Pay-in-four BNPL products are designed with consumer protection at their core. Consumers cannot revolve a balance, fees are fully disclosed, and, critically, leading BNPL providers will not make additional loans to consumers who are past due on prior transactions, a built-in safeguard that prevents debt accumulation and encourages responsible repayment.

How often do consumers pay their BNPL loans?

The data shows that consumers are using BNPL responsibly and paying in full and on time. According to a market monitoring report released by the [CFPB](#), 98% of pay-in-four BNPL loans are repaid, and 96% are paid on time.

BNPL and Responsible Spending

How does BNPL enable responsible spending?

Pay-in-four BNPL is structured to reduce the risk of debt accumulation compared with revolving credit. Each BNPL transaction begins with individual underwriting. From there, each loan is a fixed, short-term obligation with a defined end date. Unlike credit cards, which allow consumers to carry revolving balances indefinitely, there is no opportunity to roll debt forward or accrue interest over time with pay-in-four BNPL.

Is BNPL creating "phantom debt" that economists can't track?

No. With an average loan size of \$135 and a 98% repayment rate, the notion of BNPL phantom debt is not supported by the data. Additionally, while BNPL use is increasing, payment volume remains a tiny fraction of credit card spending. The [Richmond Fed](#) estimates that Americans spend roughly 100 times as much on credit cards and owe 400 times as much to credit card companies as to BNPL providers.

Does BNPL encourage overspending?

Pay-in-four BNPL products include safeguards designed to help consumers manage purchases responsibly. Leading providers pause accounts when payments are missed, preventing consumers from taking on additional BNPL obligations before resolving existing ones. Each transaction is underwritten individually, and as consumers demonstrate responsible repayment, they may be gradually approved for higher credit limits.

Credit Reporting and BNPL Loans

Does a pay-in-four BNPL loan affect a customer's credit score?

Some Buy Now Pay Later lenders now report certain BNPL loan data to credit bureaus, and the industry continues to work with credit reporting agencies to modernize how BNPL repayment is reflected. At this time, pay-in-four BNPL data is not reflected in current credit scoring models. Scoring models are still catching up and may not yet consistently account for these loans in ways that reflect their short-term structure.

What is the problem with the current reporting model?

Existing credit reporting models were built for longer-term, interest-bearing products, such as credit cards, car loans, and mortgages, and currently do not accurately capture the short-term nature of BNPL. The current approach could treat each BNPL transaction like the opening of a new individual line of revolving credit, similar to a new credit card. A consumer who uses BNPL responsibly multiple times a month could appear, on paper, to have opened several new maxed-out credit accounts simultaneously, even while paying on time.

Is there a real-time reporting problem, too?

Yes. Pay-in-four BNPL loans are short-term by design, and most are fully repaid within six to eight weeks. Yet the current reporting system has no capacity for near-real-time reporting. A loan that has already been repaid in full could still appear as open, outstanding debt on a

consumer's credit file. A lender reviewing that file would have no way of knowing which installment a consumer is on, whether they are current, or whether the loan has already been resolved.

Where does BNPL stand on credit reporting?

The industry supports modernizing credit reporting to more accurately reflect how Americans actually manage their finances today. The vast majority - 98% - of pay-in-four BNPL loans are repaid. Credit reporting modernization should accurately reflect repayment data and allow consumers who use BNPL responsibly to build positive credit scores. That's why our members are in active conversations with credit reporting agencies and other entities to modernize scoring models with BNPL-related data and ensure that prompt repayment does not negatively impact credit scores.

Is BNPL regulated?

Yes. BNPL providers are subject to a range of existing federal and state consumer protection laws, depending on how the product is structured. These may include fair lending requirements, anti-money laundering rules, debt collection laws, privacy protections, electronic fund transfer regulations, and money transmitter licensing in applicable states. The industry supports fit-for-purpose updates to these frameworks that reflect the short-term installment structure of pay-in-four products.

ABOUT US

The Financial Technology Association (FTA) is a network of fintech leaders shaping the future of finance. We champion the power of technology-driven financial services to catalyze innovation and advocate for modernized policies and regulations that reflect the digital transformation.

To learn more about Buy Now Pay Later, please visit <https://www.buynowpayyourway.com/> or contact Miranda Margowsky at miranda@ftassociation.org.

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