PROTECT BORROWERS

A LOAN IN EVERY CART

How BNPL Lenders Take Advantage of Americans' Financial Desperation and the Case for a BNPL Borrower Bill of Rights

July 2026

PROTECTBORROWERS.ORG

About Protect Borrowers

Protect Borrowers (formerly Student Borrower Protection Center) is a nonprofit organization led by a team of experts, lawyers, and advocates fighting to build an economy where debt doesn't limit opportunity. We investigate financial abuses, take predatory companies to court, and push for policies to protect working people from debt traps. We aim to deliver immediate relief to families while building power, driving systemic change, and fighting for racial and economic justice.

PROTECT BORROWERS

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Executive Summary

In 2026, it's hard to buy anything without being offered some special financing to cover it. Now a ubiquitous part of the online (and increasingly also in-person) shopping experience, Buy Now, Pay Later (BNPL) lenders are touting shiny and oftentimes deceptive offers of zero-interest, fee-free installment loans to millions of Americans struggling with the rapidly rising costs of groceries, rent, utility bills, takeout, new clothes, medical care, and more. Leading BNPL lenders currently include Affirm, Klarna, Afterpay, PayPal, Synchrony, Splitit, Sezzle, and Zip, but more are popping up by the day, largely funded by private equity firms and venture capitalists looking to cash in on families' financial desperation.

This report sheds light on what we know about BNPL loan users and why they are driven into using these products, and provides an original analysis of the loan features, pricing models, risks to borrowers, and market structure of the eight leading BNPL lenders. Here are our findings:

About BNPL Borrowers

- **Americans are turning to BNPL to pay for recurring basic necessities, not just big-ticket purchases.** Nearly half of users (46 percent) have taken out BNPL debt to finance groceries. Between over a third to almost half of users have taken out BNPL debt for medical or dental care (42 percent), paying down other debt (40 percent), utility bills (39 percent), gasoline (38 percent), restaurants or meal delivery (38 percent), and rent or other housing costs (33 percent). Over 1 in 5 users (22 percent) have used BNPL to pay for childcare.

- **Nearly half of Americans have taken out a BNPL loan, and nearly half of BNPL users have been late on a payment in the last year** as of 2026.

- **The pivot toward BNPL financing reflects broader downward trends in families' financial stability amid an escalating affordability crisis and stagnant wages.** Americans tend to turn to BNPL when they have constrained income, low savings, few alternative borrowing options, and pressing cash needs—often because they are managing several other debt obligations. A majority of BNPL borrowers have less than $2,000 in savings. Americans with an income between $25,000 to $50,000 use BNPL more than any other income group. BNPL borrowers are also significantly more likely to have other unsecured debt, including high-cost payday and predatory debt; on average, BNPL users have an average unsecured debt balance of over $22,000.

- **Women and Black and Latino/a Americans are overrepresented among those who rely upon BNPL.** Nearly 1 in 4 Black women and Latinas have used a BNPL loan. Black and Latino/a Americans are about twice as likely to use BNPL, compared to other groups. The disproportionate reliance upon BNPL among women and communities of color likely reflects the ongoing influence of wealth and income gaps by race and gender.

About BNPL Loans

- **BNPL loans are packed to the brim with financing fees, late fees, and other junk fees.** Many BNPL loans feature late fees of $7 to $8 per missed payment, up to an aggregate cap of 25 percent of the purchase price. Additional fees may be charged for financing, if the user does not set a bank account as the default method of payment, reschedules an upcoming payment, or has non-sufficient funds or a bounced payment.

- **The BNPL model *depends* upon junk fee churn. Practically by design, nearly half of BNPL users have missed a payment and been forced to pay late fees in the last year**. The fact that BNPL loans are issued for individual purchases, have frequent payment due dates (occurring every 2 weeks), and feature per-payment, per-transaction fees, maximizes opportunities for lenders to extract junk fees compared to more traditional loans which extend a single lump sum of cash that can be split across any number of transactions, with less frequent repayment obligations.

- **The fees incurred for experiencing income shocks while owing even a modest amount of BNPL debt *can cost more than a 200 annual percentage rate (APR) loan***, which far exceeds the cost of revolving a credit card balance and puts these loans on par with predatory payday debt. Yet, the very borrowers who are most likely to turn to BNPL debt in the first place are at greater risk of experiencing lapses in or interruptions to their income—as people tend to increase utilization of or exhaust other forms of credit, and have lower savings and income, before turning to BNPL loans.

- **BNPL lenders have grown their offerings far beyond traditional, “interest-free” pay-in-four products. Interest-bearing installment loans now account for over 1 in 3 BNPL originations, and that share is growing over time.** Practically all BNPL lenders that offer pay-in-four products also offer installment loans that carry interest and/or financing fees of up to *36 percent* before factoring in junk fees. In 2025, such interest-bearing installment loans accounted for 37 percent of total loan issuance, which was nearly double the share (16.5 percent) in 2021.

- **BNPL lenders offer a wide variety of financial products and payment methods, including virtual and digital cards, that allow borrowers to take out a loan at practically any merchant, regardless of**

whether it partners with a BNPL lender. Banks, credit card issuers, and other financial technology (fintech) firms are following their lead, offering embedded financing products for rent, tax filing, medical bills, and more.

- **BNPL companies now offer debit cards, bank accounts, and credit cards, and are even pushing products through artificial intelligence (AI)-powered chatbots.** Some of these products follow existing conventions, while others push the envelope. For example, some BNPL lenders' hybrid "debit" cards allow users to retroactively toggle between paying for purchases with a connected bank account or a BNPL loan. These products present significant consumer risks, and underscore that BNPL lenders are racing to make it as easy as possible for Americans to enter debt, for any purchase, across the economy, while becoming reliant upon the BNPL financial ecosystem.
- **The adoption of BNPL financing by merchants ultimately raises costs for everyone, including Americans who don't use BNPL.** Most BNPL lenders charge a merchant fee of up to 6 percent plus some fixed amount (usually 30 cents) on every transaction. This is between double to nearly 10 times the cost of payment processing for debit cards and credit cards. As BNPL uptake increases, merchants will increasingly pass the costs of these fees onto all customers by raising prices.

Recommendations

Americans deserve robust protections against predatory financial practices, junk fees, data privacy violations, and other harms posed by BNPL lenders. Congress, state legislatures, and regulators have a responsibility to deliver these protections to working families who are increasingly turning to BNPL and other high-cost debt to make ends meet. We therefore recommend the following:

1. **Congress should enact a BNPL Borrower Bill of Rights.** Policymakers should ensure that any BNPL Borrower Bill of Rights includes sweeping protections that end deceptive pricing and bring down the cost of BNPL debt, ban predatory practices that harm consumers, and empower Americans to enforce their own rights.
2. **Congress should compel the Consumer Financial Protection Bureau (CFPB) to do its job.** The CFPB is the only federal financial regulator with direct supervisory authority over non-bank lenders like BNPL companies and fintech firms, but under the Trump Administration, the CFPB has been gutted and abandoned its obligation to protect Americans. Congress should compel the CFPB to use its research, regulation, supervision, and enforcement tools to comprehensively regulate the BNPL industry, and fully restore its funding to help ensure its success.

3. **States should also enact BNPL Borrower Bill of Rights laws and regulate BNPL lenders the way they regulate other lenders: through licensure, supervision, and enforcement.** States should require BNPL lenders and their fintech partners to follow a set of standards that protects borrowers from common abuses, obtain licenses before engaging in BNPL lending to their residents, empower their financial regulator to regulate the market, and exercise their authority under state law and under the federal Consumer Financial Protection Act to enforce against lenders that commit unfair, deceptive, and abusive acts or practices. These laws should be privately enforceable.

4. **States should guarantee BNPL borrowers a place to turn for help.** States should establish a dedicated Borrower Advocate office, with the authority to help borrowers struggling with BNPL debt and other products offered by BNPL lenders. Additionally, Congress could establish a BNPL Borrower Advocate position at the CFPB.

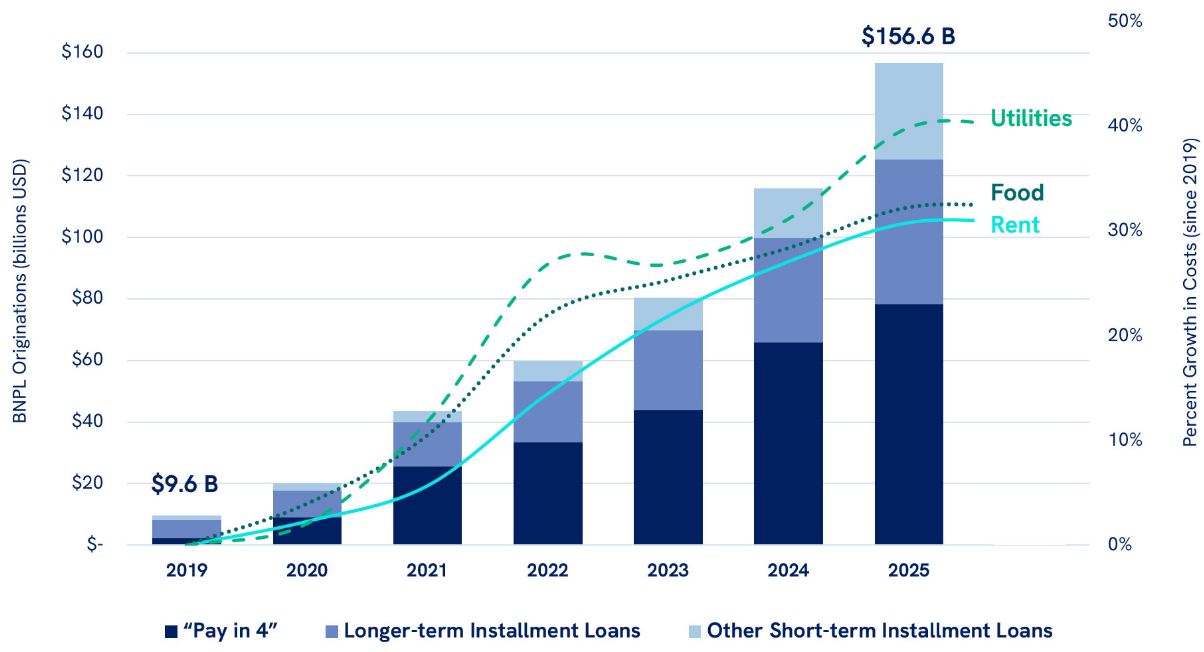
See the Recommendations section for additional information.

BNPL Has Skyrocketed Amid a Growing Affordability Crisis

As of 2026, roughly half of American adults have taken out a Buy Now, Pay Later (BNPL) loan.[1] This is a significant increase from 2021, when 31 percent of Americans had used BNPL.[2] Powered by merchant partnerships, point-of-sale integrations, and ubiquitous promises of zero percent interest rates, Americans are increasingly turning to BNPL lenders for financing as they deal with skyrocketing costs on everything from essential necessities like rent, utilities, groceries, and medical bills, to consumer goods including clothing, electronics, concert tickets, and more.

From 2019 to 2025, the BNPL market exploded from under $10 billion in originations to over an estimated $156 billion and growing. Over the same period, the cost of rent, groceries, and utilities shot up by 30 to 40 percent on average (see Figure 1).[3]

Figure 1: BNPL loans have surged alongside rising costs of living.[4]

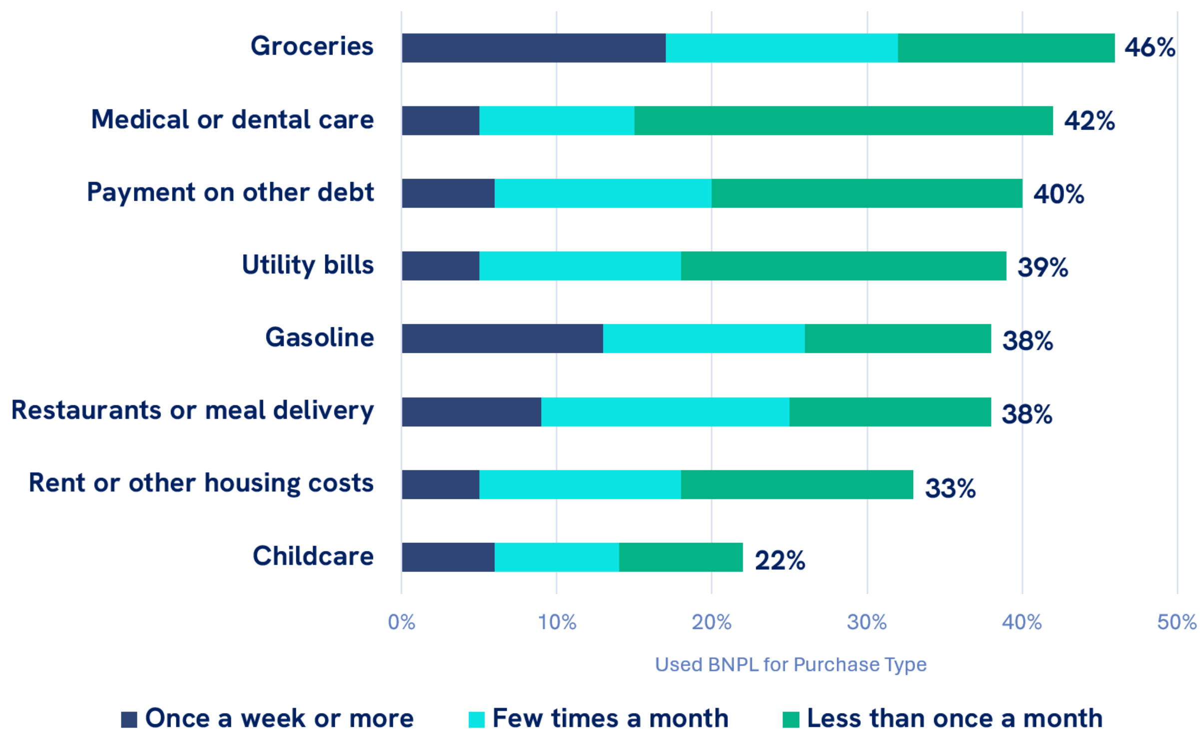


Families are being forced to cover significantly larger rent, utility, and grocery bills alongside other costs, but their paychecks are not keeping up. Debt is often the first and only place that working families can turn when their budgets are stretched to the breaking point. Unsurprisingly, Americans now owe a record-setting $5.2 trillion in non-mortgage household debt—more than at any point in history—and are falling behind on payments faster than anytime since the aftermath of the Great Recession.[5] On top of this, over half of American families are financially insecure, with no income left after paying their bills each month.[6] Over half of families lack the savings to cover even a $2,000 emergency.[7] The explosive growth of BNPL loans only underscores how rapidly costs have outpaced working families' paychecks and bank accounts, and how quickly Americans are sinking into debt in order to survive.

Americans are Turning to BNPL to Cover Basic Necessities

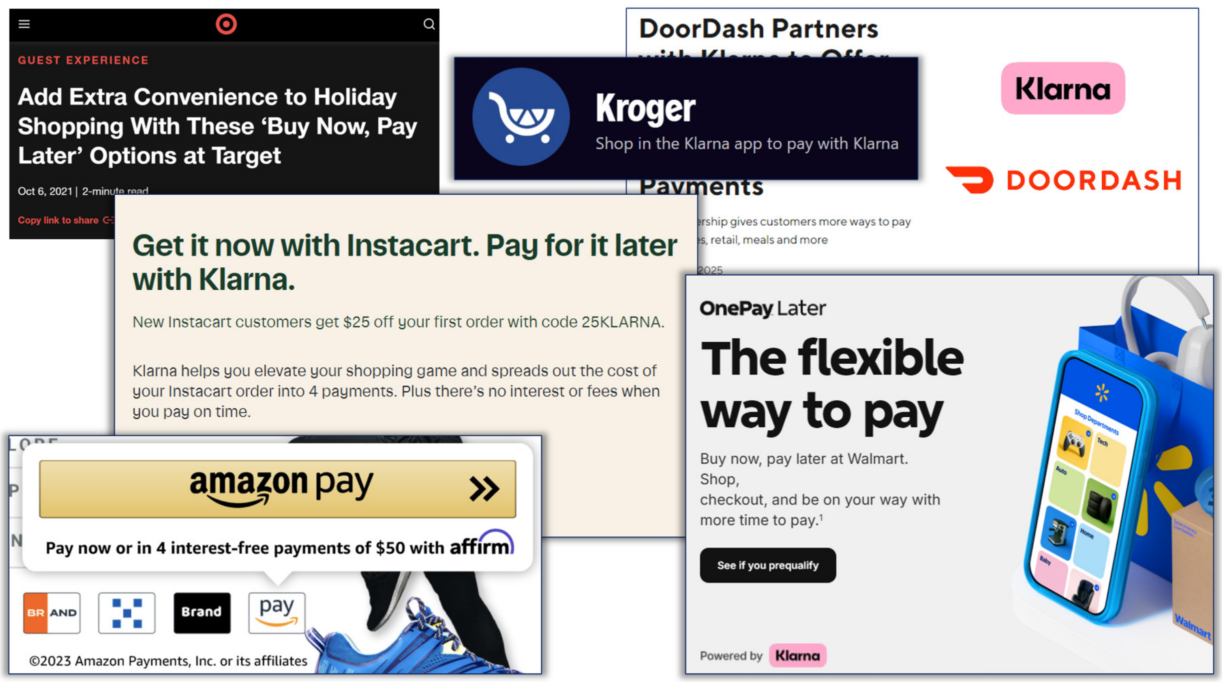
A LendingTree survey found that over 1 in 4 BNPL users (27 percent) report using the loans "as a bridge to their next paycheck."[8] This is reinforced by consumer surveys showing that an alarming share of Americans who use BNPL are taking on the debt in order to pay for basic necessities. According to a survey conducted by Data for Progress and Protect Borrowers in July 2026, **nearly half of BNPL users have used the service to pay for everyday essentials**: 46 percent have used BNPL to pay for groceries, 42 percent for medical or dental care, 40 percent to pay down other debt, and 39 percent to pay utility bills (see Figure 2 for additional use findings). Other consumer surveys have found that the share of Americans who report using BNPL to pay for necessities has increased significantly year-over-year.[9]

Figure 2: Americans are turning to BNPL to cover basic necessities (Jul. 2026).[10]



Both BNPL lenders and merchants are capitalizing upon Americans' financial desperation—including grocery and retail conglomerates, corporate landlords, tech platforms, and other large corporations that have likely price-gouged working families in the past.[11] Walmart, Kroger, Instacart, Doordash, Amazon, and Target all have BNPL partnerships (see Figure 3). Several of these companies have been sued or investigated for price-fixing or price-gouging, and together they account for 84 percent of the online grocery market.[12] These companies have partnered with BNPL lenders to effectively raise costs and pile debt onto working families at the cash register and the checkout screen.

Figure 3: The largest corporations and alleged price-gougers in the economy are helping push BNPL debt onto working families at the cash register and the checkout screen.[13]



Americans' increased reliance upon BNPL loans for basic necessities is more than just an alarm bell for the economy. **It's also a warning that more and more Americans are at risk of paying sky-high BNPL junk fees for stacked, recurring loans.** Borrowers are more likely to take out multiple loans with overlapping repayment schedules if they are using BNPL to pay for recurring necessities like groceries and gas. Borrowers also often only turn to BNPL loans if their bank accounts are stretched thin or close to empty.[14] Many borrowers are already in this boat: in 2022, nearly 2 in 3 BNPL users had multiple, stacked loans with overlapping due dates.[15] This exposes them to significant financial risks: a single missed paycheck or lapse in funds can lead to a cascade of late fees across stacked loans. Some BNPL lenders also charge junk fees for any of the measures borrowers might take to prevent this, such as rescheduling their payment date or changing their payment method.[16] These fees, when converted to an APR, can cost borrowers more than a revolving credit card balance and even some payday loans. See Section 3 for a deeper discussion of BNPL junk fees and consumer harms.

Who Uses BNPL?

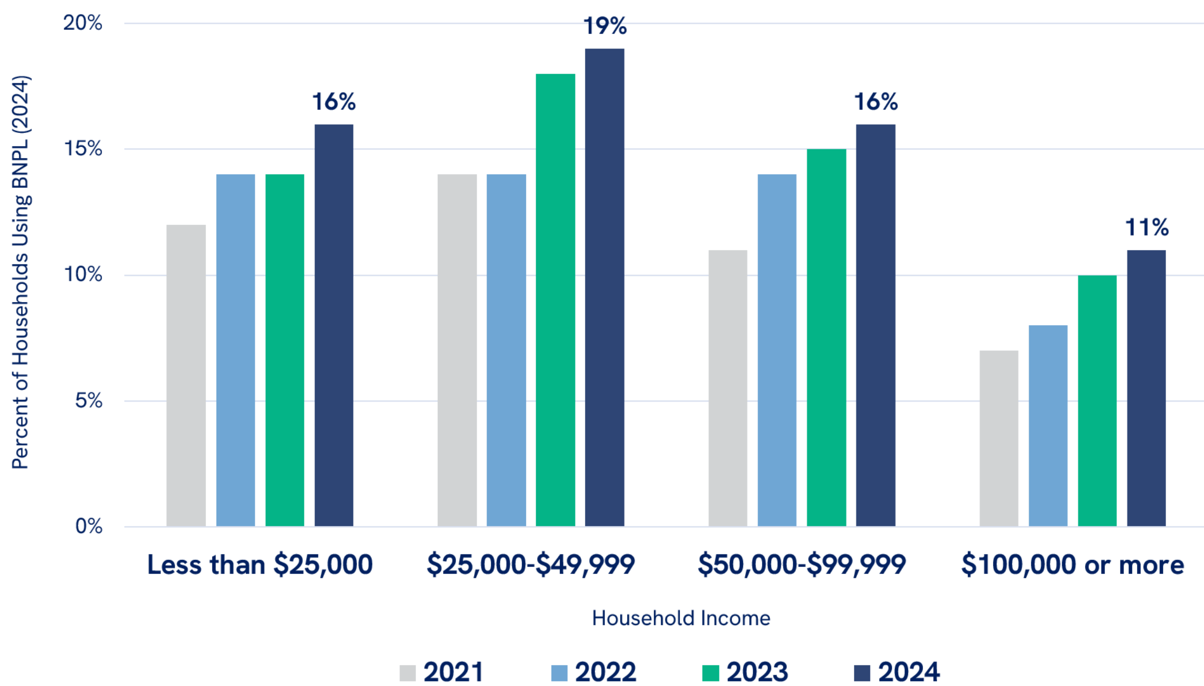
For millions of working families, BNPL loans have become a significant source of household debt and financial strain. **As of 2026, nearly half of Americans have taken out a BNPL loan, and nearly half (47 percent) of BNPL users have been late on a payment in the last year**, according to Lending Tree.[17] This continues a three-year-long trend of more and more Americans falling behind on their BNPL debt—34 percent were late at least once in the prior year in 2024, 41 percent in 2025, and 47 percent in 2026.[18] It also mirrors an upward trend in Americans falling delinquent across all forms of consumer credit, including credit cards, auto loans, and student loans.[19]

> *"The Federal Reserve found that over half of BNPL borrowers have less than $2,000 in savings as of 2023, and low-income Americans are more likely to rely upon BNPL…"*

Americans tend to turn to BNPL when they have constrained income, low savings, few borrowing options, and pressing cash needs—often because they are managing several other debt obligations. The Federal Reserve found that over half of BNPL borrowers have less than $2,000 in savings as of 2023, and low-income Americans are more likely to rely upon BNPL (see Figure 4).[20] Research by the Consumer Financial Protection Bureau (CFPB) found that BNPL users' credit card utilization rates tend to steadily increase in the year prior to first taking out a BNPL loan.[21] The CFPB also found that BNPL users are significantly more likely to carry open-ended, unsecured debts—including high-cost credit like overdraft loans, payday loans, pawnshop loans, auto title loans, and revolving credit card debt—compared to Americans who have never used BNPL.[22] "Heavy" BNPL users (who took out more than 12 BNPL loans in a year) were more than twice as likely to have student loans as those who do not use BNPL, and more likely to have student loans than any other type of debt.[23] In 2022, BNPL borrowers held a monthly average of $22,163 in unsecured debt (including student loans, credit card debt, personal loans, retail loans, and other loans).[24] As a consequence, BNPL users tend to have lower credit scores. Nearly 2 in 3 (61 percent of) BNPL originations go to users with subprime credit scores (619 and below), and nearly half (45 percent) go to those with deep subprime scores (579 and below).[25]

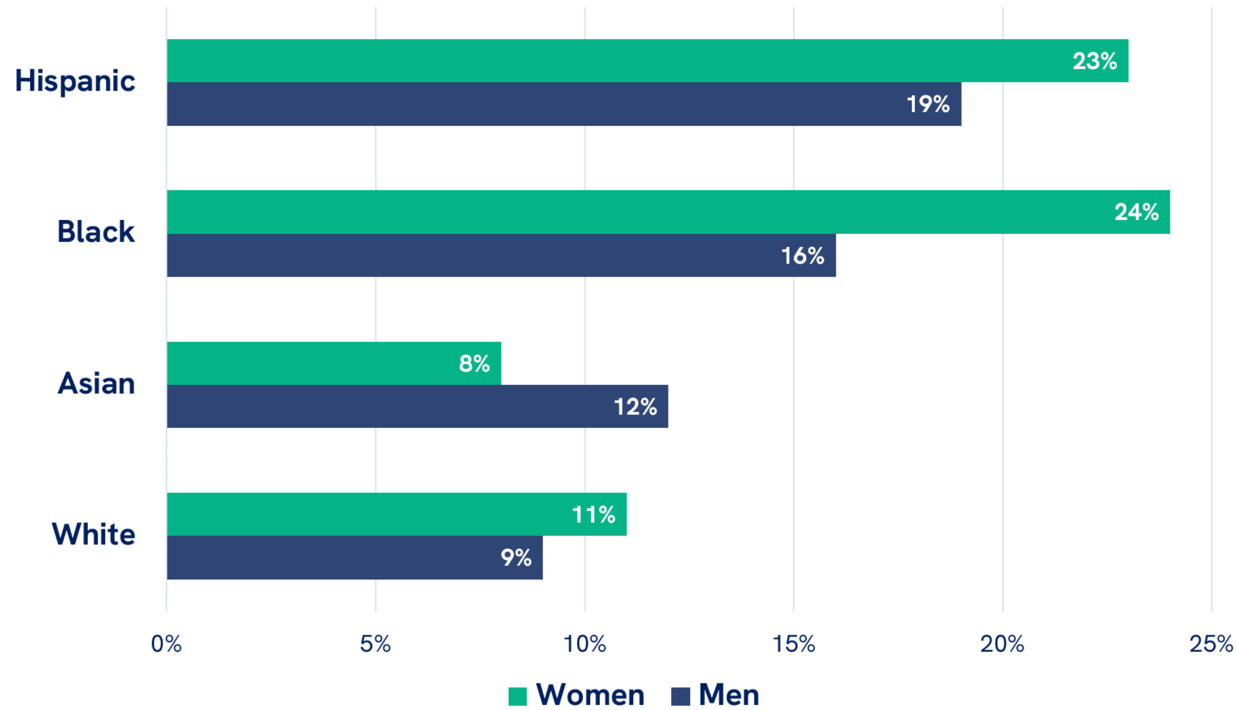
> *"Nearly 2 in 3 (61 percent of) BNPL originations go to users with subprime credit scores…"*

Figure 4: BNPL use by household income (2024).[26]



Women and Black and Latino/a Americans are overrepresented among those who rely upon BNPL (see Figure 5). Nearly 1 in 4 Black women and Latinas have used a BNPL loan, according to a Federal Reserve survey conducted in 2023.[27] As of 2024, Black and Latino/a Americans were roughly twice as likely to use BNPL as other groups.[28] These patterns align with broader evidence that BNPL users tend to have more constrained income, limited savings, and less access to traditional credit. The disproportionate reliance upon BNPL among women and communities of color likely reflects the ongoing influence of these economic constraints, which are themselves shaped by persistent income and wealth gaps by race and gender.[29]

Figure 5: BNPL borrowers by race and gender (2023).[30]



Note: The last available demographic survey by the Federal Reserve on BNPL use, with racial demographic results disaggregated by gender, was conducted in 2023.

Additionally, younger Americans and parents are significantly more likely to fall behind on their BNPL debts than other groups. A 2026 Lending Tree survey found that about 57 percent of Gen Z borrowers were late on a BNPL payment in the last year, compared to 15 percent of Baby Boomers.[31] Parents are also more likely to have missed a payment by a 3 to 2 margin—61 percent of parents with children under 18 were late in 2026, compared to 42 percent of adults without children.[32] This supports other research finding that Americans tend to turn to BNPL when their incomes are constrained and/or they have high expenses—younger Americans tend to have lower incomes, and the aggregate cost of raising a child has increased to over $300,000 on average (without factoring in college) given rapid increases in the cost of groceries and childcare.[33]

The financial precarity of BNPL users reflects the financial precarity that Americans more generally face under a "K-shaped" economy, where the top 10 percent of earners now account for half of all consumer spending, while everyone else drowns in rising costs of living, the rising cost of credit, and the worst job market since the start of the COVID-19 pandemic.[34]

Debt for Everything, Everywhere

BNPL lenders laud themselves for streamlining the typically cumbersome and stressful process of taking on debt into a sleek, tech-forward experience. Unlike many other types of credit, access to a BNPL loan does not require looking up a bank, deciphering a loan mailer, or navigating a lengthy application with a hard credit check. Instead, it's just a few taps away on a candy-colored smartphone app. Borrowers can even apply for financing *after* completing a purchase using a BNPL-branded card. Behind the streamlined BNPL user experience lies a rapidly expanding ecosystem of loan types, payment methods, and surveillance-powered marketing, designed to make it easy to enter debt for any purchase, anywhere, at any time.

BNPL Loan Types

Most people are familiar with BNPL as the "zero-interest," **pay-in-four loans** that Affirm, Klarna, and Afterpay slip into online checkouts behind an unassuming button. In this setup, the borrower connects a bank account or debit card to their BNPL account and makes an initial payment of 25 percent of the order price upon purchase. The lender then pays the merchant in full for the order, and issues a loan to the borrower for the remaining balance across three payments, typically spaced two weeks apart, for a repayment term of six weeks total.

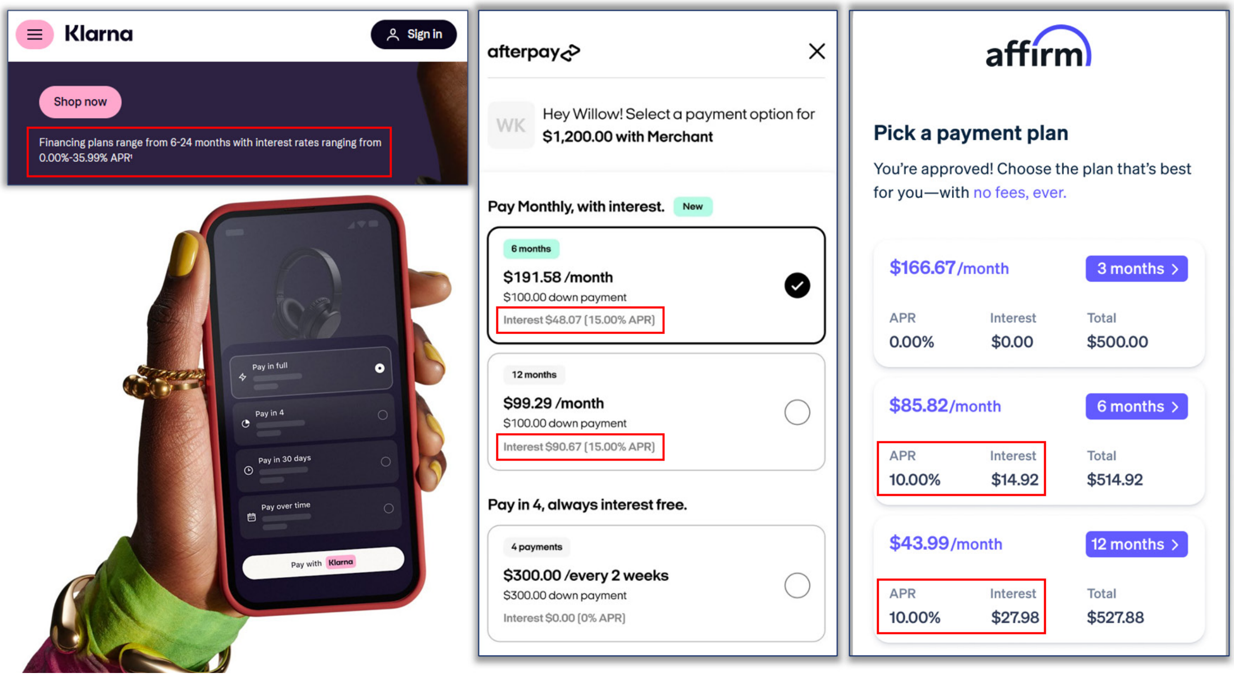
However, BNPL companies also offer a wide and growing variety of financing options beyond this model, including other short-term and longer-term installment loans, "credit split" loans, and credit cards. **Installment loans** that are not pay-in-four can carry APRs of up to 36 percent and terms of up to two years (see Figure 6), as well as other onerous fees for late payments, payment rescheduling, changing the method of payment, and so forth. The fact that BNPL companies provide these loans alongside pay-in-four products indicates that they are already obligated to follow the Truth In Lending Act (TILA) and other consumer protection laws that unambiguously apply to longer-term installment loans, but which some have argued do not apply to pay-in-four loans.[35]

> *"Installment loans that are not pay-in-four can carry APRs of up to 36 percent and terms of up to two years..."*

Moreover, a large chunk of the BNPL market consists of these longer-term loans, and BNPL lenders' portfolios have increasingly pivoted toward interest-bearing loans over time. In 2026, interest-bearing installment loans accounted for over 37 percent of annual BNPL loan issuance, which is nearly double the share (16.5 percent) in 2021.[36] As of 2024, over 1 in 4 BNPL borrowers (28 percent) had taken out a longer-term installment loan with payment terms consisting of five or more payments.[37]

Lenders generate substantial revenue from these other installment loans. In 2025, interest-bearing installment loans accounted for 71 percent of Affirm's, 44 percent of Afterpay's, 19 percent of Zip's, and 10 percent of Klarna's total loan issuance.[38] Interest-bearing installment loans may be the only products offered to certain borrowers for larger transactions.[39] Additionally, some users may opt for interest-bearing loans to access lower monthly payments, as BNPL lenders often present interest-free and interest-bearing loans to users side-by-side (see Figure 6 for examples). Once borrowers have taken out one BNPL loan and already downloaded a lender's app, they are more likely to turn to the same lender for future financing, and more susceptible to targeted advertising for interest-bearing loans.

Figure 6: Many BNPL loans are NOT interest-free (emphasis added).[40]



A third category of financial products offered by some BNPL lenders are **"credit split" loans**, which leverage borrowers' existing credit cards and credit limits to underwrite and minimize risk to the lender. These products allow borrowers to split one transaction into multiple staggered charges to a separately issued credit card, while placing a temporary hold for the full remaining loan balance. When a borrower makes a monthly payment toward their loan, the previous temporary hold falls off and a new one is placed for the remaining loan balance. A lender that provides this service, Splitit, argues that it allows borrowers to keep earning credit card rewards and does not require additional cumbersome underwriting.[41] The catch, of course, is that if a borrower uses up enough of their credit limit that Splitit can no longer retain an authorized pending hold for the remaining balance, Splitit charges the full remaining balance to the borrower's card, recouping their lending costs. Meanwhile, the borrower is subjected to any potential over-limit fees, late fees, interest, and other financial consequences imposed by their card issuer, which could include the issuer adding the full over-limit amount to their next upcoming minimum payment.[42]

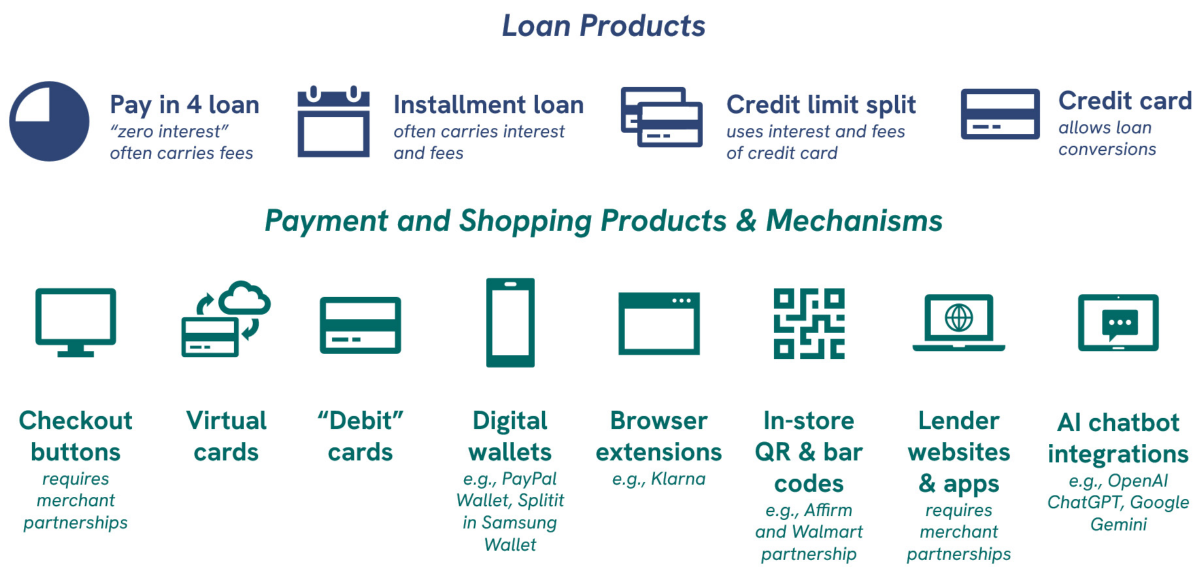
Finally, at least one major BNPL lender, Klarna, is also a **credit card** issuer. The Klarna credit card allows transactions to be paid off at the end of the month (without accruing interest during the month, similar to a typical credit card), *or* to be converted into pay-in-four or longer-term installment loans. However, users who opt for pay-in-four or installment loans in connection with a purchase made on a Klarna credit card may face worse terms than if they applied directly for a Klarna BNPL loan. Klarna discloses that for credit card purchases, "a 28.99% APR applies to all moved or split transactions."[43] A previous version of Klarna's credit card webpage available in April 2026 disclosed that credit card transactions converted to pay-in-four loans would be interest free, but as of June 2026 that provision has been removed.[44] Pay-in-four loans issued in connection with the Klarna credit card carry an origination fee of $1.29 to $5.99 depending on the amount of the loan, whereas no such fees are widely disclosed for a typical Klarna pay-in-four loan.[45] Klarna also discloses an APR of up to 35.99 percent for installment loans issued through its credit card.[46]

> *"… users who opt for pay-in-four or installment loans in connection with a purchase made on a Klarna credit card may face worse terms than if they applied directly for a Klarna BNPL loan."*

Debt by Convenience

BNPL lenders offer a growing variety of payment methods for their products, including both virtual and physical cards, and can essentially mirror the consumer experience of using a credit card or more traditional payment product. Certain payment methods, such as online checkout buttons or in-store quick response (QR) codes, have typically required BNPL lenders to partner with specific merchants who pay them with the expectation that their loan offers will increase sales. **However, the prevalence of BNPL virtual cards, physical cards, digital wallet integrations, and countless other payment methods mean that users can take out a loan for practically any kind of purchase, even at merchants without BNPL partnerships** (see Figure 7).

Figure 7: BNPL lenders offer a variety of loan products and an even broader variety of pathways into debt.



Payment and shopping mechanisms offered at BNPL lenders in our study include but are not limited to:

- **Checkout buttons**: Many BNPL lenders partner with specific merchants to offer their loans to customers in online checkout pages.[47] These buttons typically open new webpages or portals that allow users to set up an online account with the lender, provide their personal information for an underwriting decision, and calculate their anticipated payments. Borrowers connect a bank account or debit card to their BNPL account to make the payments. Many larger merchants partner with multiple or all leading BNPL lenders to maximize their reach among users.
- **Virtual cards**: Affirm and Klarna users can apply for a specific loan amount for a transaction, and then receive a "one-time card" consisting of an automatically generated card number, expiration date, and CVV. These cards can be accepted by any merchant on the Visa network.[48] The free version of Klarna's hybrid "debit" card (see below) is a virtual card.[49] Afterpay offers a multi-use virtual card that can be added to digital wallets, which allows users to charge transactions up to a specified "available to spend" amount.[50]
- **"Debit" cards**: Affirm and Klarna both offer physical, hybrid "debit" cards that are linked to a user's bank account (or, in Klarna's case, a "Klarna balance" account). These cards can toggle between a "pay-in-full" mode which draws directly from their linked account, and a credit mode which issues a pay-in-four or longer-term, interest-bearing installment loan for transactions depending on what

the user selects in the connected app.[51] The cards also allow these selections to be made *after* the user makes a purchase. Affirm specifically allows users to retroactively opt into a loan payment plan for purchases over $50, up to 24 hours *after* swiping the card.[52] Klarna's debit card allows users to retroactively switch from "debit to Pay later, or from Pay later back to debit" within "12 hours from the time of the transaction."[53]

Klarna's debit cards come in four tiers, some of which mirror the cash back, airline mile and hotel redemption, travel insurance, and paired subscription perks of major credit cards, with effective annual fees of between $59.88 to $539.88 (which it brands as a monthly "subscription fee").[54] To incentivize card use and deposits, the debit cards offer "interest" on a user's "Klarna balance" (of 2.3 to 3.28 percent APY as of writing), "cash back" on purchases (of 0.5 to 2 percent), 30 days of price drop protection, airport lounge access, and built-in subscriptions to *The New York Times,* ClassPass, *The New Yorker, Vogue, Vanity Fair,* and more, depending on the tier of the card.[55] However, in the terms of service, Klarna states: "We may close or suspend your Kb [Klarna balance] account and/or Klarna Card at any time and for any reason at our sole discretion."[56]

"We may close or suspend your Kb [Klarna balance] account and/or Klarna Card at any time and for any reason at our sole discretion."

- **Digital wallets**: Many BNPL lenders' Visa-based virtual and physical cards can be added to digital wallets like Apple Pay, Google Pay, and Samsung Pay. PayPal, the only BNPL lender that also operates a quasi-digital wallet service, offers BNPL loans to its users as a specific method of payment that is listed in its app alongside other payment methods like virtual cash balances or bank accounts.[57] Samsung Wallet partners with Splitit to show users a "pay in installments" button under added credit cards, which initiates a credit split loan plan with Splitit.[58] Samsung and Splitit now advertise this payment option in grocery store checkout aisles.[59]

- **Browser extensions**: Klarna offers a browser extension that purports to find and apply coupons at checkout and earn users up to 10 percent cash back on their purchases, in addition to allowing users to select Klarna as a payment method.[60] Affirm also offers a browser extension that streamlines the checkout process, albeit without a cash back incentive.[61] Both lenders use the additional data collection capabilities of browser extensions to surveil users and gather information including the domains of the websites they visit.[62]

- **In-store QR and bar codes**: Affirm and Klarna allow merchants to place dynamic or static QR codes in their physical stores and checkout terminals, which link to a merchant-specific lender webpage to initiate a borrower login or loan application.[63] As early as 2019, Affirm and Walmart partnered to create an integrated barcode system that customers can wave at a checkout scanner as a method of payment.[64]

- **Lender websites and apps**: Many BNPL lenders run shopping sites of their own, listing partnered merchants where users can take out loans to make purchases. Some merchants integrate their digital inventories so that users can shop at the merchant *in* the lender's app. For example, Klarna users can shop at Amazon, Walmart, Target, Temu, Apple, and more in the Klarna app (though they can also use Klarna at the checkouts of these merchants).[65] Merchants typically pay merchant and referral/affiliate fees to lenders for this service.[66]

- **Artificial intelligence (AI)-chatbot integrations**: Some BNPL lenders now work with providers of AI-powered chatbots to integrate their product inventories and financing options directly into conversations. These integrations can allow users to send a message to the chatbot describing what they are interested in, and browse products sold by BNPL-partnered merchants before being directed to the merchant to complete the purchase.[67] As of the time of writing, both Affirm and Klarna have partnerships with OpenAI (ChatGPT) and Google (Gemini).[68] PayPal has partnerships with OpenAI (ChatGPT), Google (Gemini), and Perplexity.[69]

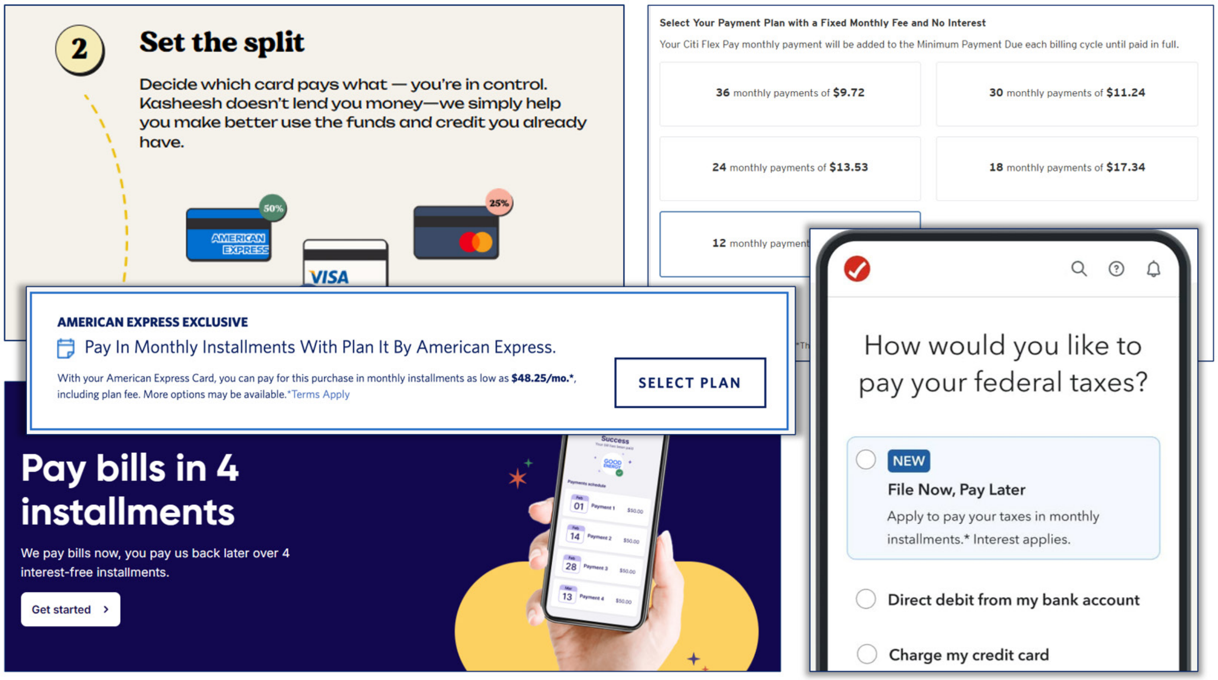
  This is part of a broader shift across the financial services industry to further integrate AI across commerce: as AI chatbots increasingly displace traditional search engines—or get forcibly integrated into them—retailers are racing to place their products in front of potential customers using these tools. This creates significant risks given the privacy concerns chatbots already raise. Millions of Americans disclose deeply personal and sensitive information to these tools, using them to search the web, seek advice, and talk through topics ranging from comparison-shopping to mental health advice.[70] Embedding financing options into this interface both invites users to disclose their financial information to the chatbot, and could allow chatbots to link users' financial information to a treasure trove of personal data collected across conversations, which could then be used to induce the user to take on debt—or could be accessed, sold, or used in other ways that are not transparent.[71] On top of this, AI chatbots are known to "hallucinate" or generate false information, misconstrue information, and make mistakes.[72] This can mislead borrowers into taking out debt with interest rates, fees, or other terms that were misstated or misrepresented to them.

Beyond this wide variety of payment methods, BNPL lenders are also offering monetary incentives for borrowers to use their services. For example, Instacart offers customers "$25 off your first order" if they use Klarna to pay for their purchase, and the clothing retailer Uniqlo offers "$15 off $150+ when you pay later with Klarna."[73] Similar discounts are available at many other merchants. These incentives, the countless ways one can pay with BNPL, and rapidly proliferating partnerships with both online and brick-and-mortar retailers, underscore that **BNPL lenders appear to be racing to make it as easy as possible to enter debt, for any purchase, across the economy**. Judging by their explosive growth over the last half-decade, that strategy is working.

Major banks, traditional lenders, and other financial technology (fintech) companies are now following the BNPL lead (see Figure 8). Almost every major credit card company now offers retroactive pay-in-four or "pay over time" services that split large transactions into multiple smaller payments. These include JPMorgan Chase (Chase Pay Over Time), Citibank (Citi Flex Pay), American Express (Pay It/Plan It and Pay Over Time), Capital One (Pay Over Time), Wells Fargo (Flex Loan), and U.S. Bank (ExtendPay).[74] Some card issuers waive interest on the balance of a transaction-specific installment loan so long as appropriate monthly payments are still made on the rest of the credit card bill, while others charge interest.[75]

Other fintechs now offer specific loan products that are integrated into their own checkouts, advertised as a means of paying off other bills and loans, or stretch borrowers' existing credit limits (see Figure 8). In 2025, TurboTax, a leading tax preparation company, successfully lobbied the Trump Administration to end the IRS Direct File program, a ground-breaking service which would have allowed Americans to file their federal tax returns for free.[76] Later that same year, TurboTax launched a high-cost "File Now, Pay Later" loan available to customers with a tax obligation between $200 to $6,000, with variable APRs between 15 to 33 percent.[77] Flex and Livble, both venture capital (VC)-affiliated fintechs, partner with landlords to offer two-part installment loans for monthly rent bills, in exchange for financing charges that cost about as much as a 130 to 180 percent APR loan.[78] Deferit, another VC-backed fintech, allows users to pay bills for utilities, insurance, student loans, healthcare, and more through a pay-in-four loan.[79] And yet another VC-backed fintech, Kasheesh, allows users to make a transaction with a Kasheesh-branded digital or multi-use card and split the cost across multiple credit cards on the backend—effectively letting users pool separate credit limits—for a financing fee of 2 percent of the transaction.[80]

Figure 8: Banks and fintechs are racing to emulate the BNPL model.[81]



BNPL lenders are capitalizing upon shortages of both *financial resources* and *time* among working families to push seemingly low-cost micro-loans onto borrowers in the middle of deciding whether they can afford groceries that feed everyone in the house, fixing a broken muffler, or filling a cavity instead of letting it degrade. But the loans do not come without costs. Many BNPL products are riddled with late fees, junk fees, and hidden interest charges, while the broader costs borne by merchants who partner with BNPL lenders are ultimately passed onto all Americans.

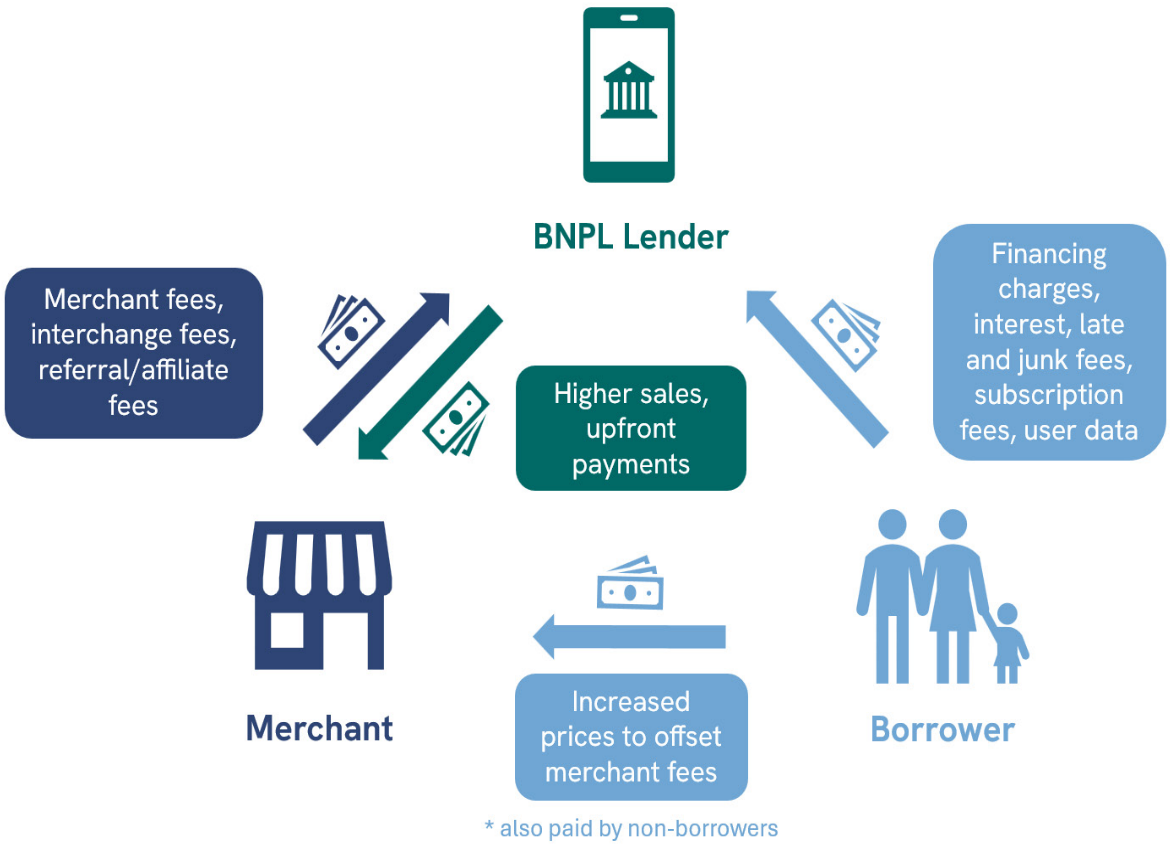
BNPL is Expensive and Raises Costs for Everyone

BNPL lenders have two primary revenue sources (see Figure 9). First, they charge financing fees, interest, late fees, and junk fees like “subscription” fees, payment rescheduling fees, “late saver fees,” and more to borrowers. Some lenders, such as Sezzle and Klarna, may reserve certain “cash back” perks and more favorable loan terms only for borrowers who make recurring “subscription” payments.[82] Since pay-in-four loans have payments due every two weeks and a very short repayment term of just six weeks, late fees and other junk fees that cascade from a single lapse in funds can cost about as much as high-APR products like carrying a credit card balance or taking out a payday loan. This is significantly more likely to occur when borrowers take out multiple BNPL loans with overlapping repayment schedules, which is in turn more likely when borrowers use BNPL to finance recurring purchases of everyday essentials.

Second, lenders charge hefty fees to merchants.[83] Merchants who have a BNPL integration on their checkout page, or have their storefront listed in BNPL lenders’ apps and webpages, pay “merchant discount” fees on each transaction where a customer uses BNPL. For merchant purchases originated on a BNPL app or website, the merchant may also pay “referral,” “affiliate,” or “lead generation” fees to the lender. The fees charged by BNPL lenders for specific merchant partnerships are two to three times the cost of accepting credit cards, and can be nearly 10 times the cost of accepting debit cards.[84] Merchants pay these fees in exchange for increased sales and full, upfront purchase payments from the lender. However, BNPL lenders also generate revenue from merchants who do not enter such partnerships but accept payment methods like one-time and virtual Visa cards and/or BNPL-issued debit or credit cards. Lenders take a cut of the interchange fees paid by such merchants (though they also split the total fee revenue with the issuer processor, payment network, and partnered issuing bank).[85] These costs to merchants are ultimately passed onto all Americans, whether or not they use BNPL, in the form of increased prices.

> *“The fees charged by BNPL lenders for specific merchant partnerships are two to three times the cost of accepting credit cards, and can be nearly 10 times the cost of accepting debit cards.”*

Figure 9: The BNPL ecosystem.



"Free" Means Fees

BNPL lenders generally claim to charge zero percent interest on their pay-in-four loans. Structurally, these products allow the borrower to split one purchase (which must be above some minimum threshold amount, usually at least $30) across four equally sized payments. The first payment is due upon loan origination or at checkout, while the remaining three payments are paid every two weeks, across a term of six weeks. While these pay-in-four loans are widely advertised as "interest-free," BNPL lenders routinely obscure or bury the actual costs that borrowers would pay in the fine print.

Some BNPL lenders routinely charge late fees of $7 to $8, with an aggregate cap of up to 25 percent of the total transaction (see Figure 10). One lender, Sezzle, charges late fees of up to $16.95 per missed payment, with the aforementioned 25 percent cap.[86] Borrowers who experience a lapse in funds or anticipate being late on a payment, and proactively try to reschedule an upcoming due date or change their payment method, can also be slapped with junk fees at lenders like Sezzle and Zip.[87]

Figure 10: Fee disclosures for pay-in-four loans.[88]

LENDER	DISCLOSED LATE FEES	DISCLOSED FINANCING OR ORIGINATION COSTS	ADDITIONAL DISCLOSED FEES
Affirm	$0	Down payment may apply; would be disclosed prior to payment	N/A
Afterpay	$8 per single late payment, up to a maximum of 25 percent of order value for all late payments	N/A	N/A
Klarna	$7 per single late payment, up to a maximum of 25 percent of order value for all late payments	Up to $1.29 to $5.99 origination fee depending on amount and type of loan at time of application, and if loan was issued via Klarna credit card	N/A
PayPal	$0	N/A	$0 application fee, $0 non-sufficient funds fee by PayPal, $0 prepayment penalty
Sezzle	Up to $16.95 or a maximum of 25 percent of order value for all late payments	Up to $7.49 pre-paid finance charge or service fee	$1.99 late saver fee (if a bank account is not set as the default method of payment and a one-time payment is not made by the due date), up to $7.50 payment rescheduling fee (to reschedule payment for up to two weeks later), up to $6.95 or 25 percent of order value failed payment fee (charged when payment is returned for insufficient funds)
Synchrony	N/A	N/A	Single missed payment may lead to default
Zip	$7 per late payment, or amount set forth in TILA disclosure if operating in a state with a lower limit	Up to $124 depending on merchant, order total, and method of transaction	$2 payment rescheduling after first free payment reschedule

The two leading lenders that do not charge late fees, PayPal and Affirm, have key distinctions that set them apart from other BNPL companies. PayPal is a longstanding digital payment processor that generates billions of dollars annually through transaction fees, separate from its BNPL business.[89] On top of this, PayPal has the highest *minimum* interest rate on longer-term installment loans out of all BNPL lenders observed, of 9.99 percent (as opposed to zero), which may offset revenue lost from forgoing late fees.[90] Meanwhile, Affirm heavily relies upon interest-bearing installment loans to generate much of its revenue, which also reduces its dependence upon late fees. In 2024, nearly three-quarters of Affirm's loans (by gross merchandise value) were interest-bearing and over half the company's revenue came from interest.[91]

As previously noted, every lender of a pay-in-four loan that we observed in our study also offers longer-term, interest-bearing installment loans (see Figure 11), and interest-bearing loans now account for over a third of annual loan originations.[92] Generally, installment loans carry the same junk fees as pay-in-four loans, plus a possible interest rate that runs right up against the Military Lending Act (MLA) cap on loan costs of 36 percent.

Figure 11: Interest rates and fee disclosures for installment loans.[93]

LENDER	DISCLOSED INTEREST RATE RANGE	DISCLOSED LATE FEES	DISCLOSED FINANCING OR ORIGINATION COSTS	ADDITIONAL DISCLOSED FEES
Affirm	0 percent to 36 percent	$0	Down payment may apply; would be disclosed prior to payment	N/A
Afterpay	0 percent to 35.99 percent	$8 per single late payment, up to a maximum of 25 percent of order value for all late payments	N/A	N/A
Klarna	0 percent to 35.99 percent	$7 per single late payment, up to a maximum of 25 percent of order value for all late payments	N/A	N/A
PayPal	9.99 percent to 35.99 percent	$0	N/A	$0 application fee, $0 non-sufficient funds fee by PayPal, $0 prepayment penalty

LENDER	DISCLOSED INTEREST RATE RANGE	DISCLOSED LATE FEES	DISCLOSED FINANCING OR ORIGINATION COSTS	ADDITIONAL DISCLOSED FEES
Sezzle	0 percent to 34.99 percent	Up to $16.95 or a maximum of 25 percent of order value for all late payments	Up to $7.49 pre-paid finance charge or service fee	$1.99 late saver fee (if a bank account is not set as the default method of payment and a one-time payment is not made by the due date), up to $7.50 payment rescheduling fee (to reschedule payment for up to two weeks later), up to $6.95 or 25 percent of order value failed payment fee (charged when payment is returned for insufficient funds)
Splitit	0 percent to 35.99 percent depending on merchant	N/A	N/A	N/A
Synchrony	0 percent to 34.99 percent	$25 or amount of scheduled payment, whichever is less	N/A	Single missed payment may lead to default
Zip	Not disclosed	$7 per late payment, or amount set forth in TILA disclosure if operating in a state with a lower limit	$0 to $124 depending on payment plan and loan amount	$2 payment rescheduling after first free payment reschedule

The MLA specifically caps the maximum costs that can be charged to military servicemembers at a "military annual percentage rate" (MAPR) of 36 percent.[94] The MAPR is a highly accurate calculation of loan costs that requires total interest, fees, credit insurance charges, and other add-on charges to be expressed as a single percentage of the loan principal—in contrast to the Truth In Lending Act (TILA) APR, which does not require the inclusion of mandatory fees.[95] The 36 percent MLA cap often operates like a nationwide usury cap because lenders seeking to charge financing rates above this must individually check if each borrower is a military servicemember, and be liable for any violations.[96] This means that BNPL lenders' installment loan interest rates overlap with the interest rate ranges of many other, more conventional credit products including credit cards and personal loans.

BNPL lenders collect and leverage vast quantities of user data, which can include a borrower's location, cursor-tracking data, browser and device information, internet or mobile service provider, websites visited, social media information, spending patterns, income, payment history, and inferred characteristics that may include borrowers' age, gender, hobbies, shopping behaviors, and more.[97] Customers give BNPL lenders permission to use this information to underwrite, price, and set interest rates for loans, as well as for other purposes, and such consent is often required in order to use the service.[98] BNPL borrowers deserve robust protections that minimize the collection of excessive personal information and safely stewards the data that must be collected for loan underwriting. BNPL users' surrender of this data constitutes yet another cost of using the service, as lenders can then leverage, share, and/or sell such information to deliver targeted advertising to users and further maximize profits.

> *"BNPL lenders collect and leverage vast quantities of user data, which can include a borrower's location, cursor-tracking data, browser and device information, internet or mobile service provider, websites visited, social media information, spending patterns, income, payment history, and inferred characteristics that may include borrowers' age, gender, hobbies, shopping behaviors, and more."*

Late Fees as APRs

The BNPL business model depends upon churning late fees. Nearly half of BNPL users have been late on a payment in the last year.[99] This is practically by design. Pay-in-four loans, in particular, compress repayment into a short horizon—typically three installments over six weeks—rather than the single monthly payment associated with credit cards, personal loans, and more traditional types of credit. Every payment due date creates an opportunity to assess late fees, allowing even small loan principals to generate enormous profits (as a percentage) for lenders. These opportunities only multiply when borrowers stack loans, which the BNPL model inherently encourages by issuing a loan for every transaction a borrower makes—unlike personal loans or other financing products that extend a lump sum of cash the borrower can then distribute across any number of purchases.

When late fees are calculated as effective APRs, the costs pile up quickly. **In many cases, BNPL late fees can cost about as much as a payday loan**. Consider Afterpay's model, which charges a late fee of $8 per missed payment, up to an aggregate cap of 25 percent of the original order value (see Figure 12). Depending on the size of the loan and number of missed payments, a borrower could pay an APR of between 23.2 percent—which is on par with carrying high-cost credit card debt—to *over 217 percent*—which is practically a payday loan.

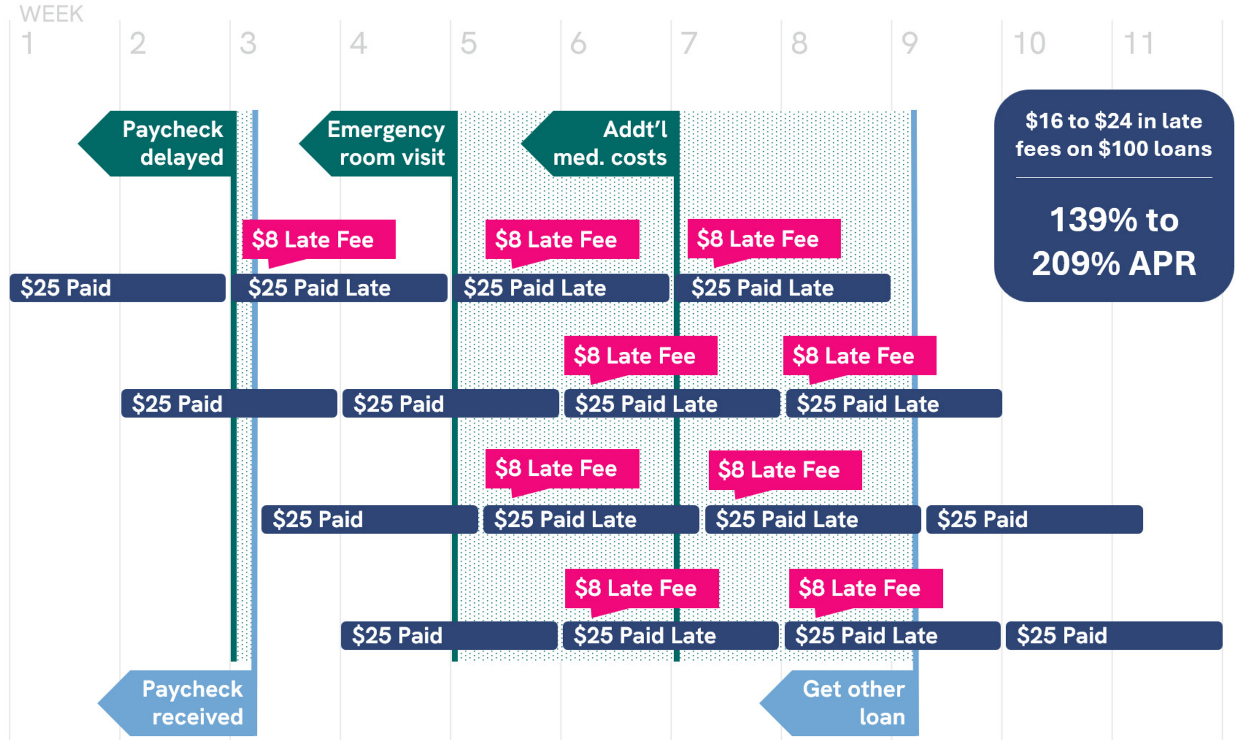
Figure 12: Late fees as effective APRs: pay-in-four, $8 per missed payment, up to a 25% aggregate cap, various principals.[100]

LOAN AMOUNT	NUMBER OF LATE PAYMENTS	TOTAL LATE FEES	LATE FEES AS EFFECTIVE APR
$50	1	$8.00	**139.0%**
$50	2	$12.50	**217.3%**
$50	3	$12.50	**217.3%**
$100	1	$8.00	**69.5%**
$100	2	$16.00	**139.0%**
$100	3	$24.00	**208.6%**
$200	1	$8.00	**34.8%**
$200	2	$16.00	**69.5%**
$200	3	$24.00	**104.3%**
$300	1	$8.00	**23.2%**
$300	2	$16.00	**46.3%**
$300	3	$24.00	**69.5%**

The consequences can be particularly dire when a borrower is forced to stack loans because they are relying upon BNPL for recurring basic necessities, like groceries and gas. This describes an increasing share of Americans who are being squeezed by high prices, stagnant wages, and shrinking savings, and turning to BNPL loans to make ends meet. In 2022, nearly 2 in 3 BNPL users had multiple, stacked loans with overlapping due dates.[101] This means that **a significant majority of BNPL borrowers are at risk of being charged multiple late fees for a single lapse in funds.**

As an example, consider Kate: a hypothetical BNPL borrower who lives between paychecks from her job as a cashier, is a single parent to a young child, is among the two-thirds of BNPL users who stack BNPL loans and the nearly half of users who use BNPL to cover grocery costs, and experiences income shocks that many low-income Americans often face.[102] Suppose that she takes out $100 each week to help cover part of her grocery bill, from a BNPL lender that charges a late fee of $8 per payment, up to a maximum of 25 percent of the original purchase value (see Figure 13).

Figure 13: Example late fees for stacked BNPL grocery loans, with income shocks.[103]



During her first weekend grocery trip of the month, Kate pays $25 at the checkout (to cover the first of four equal payments totaling $100). The following weekend, she takes out a second BNPL loan for $100, making the same $25 initial payment at checkout plus the second payment on her first loan, totaling $50. However, before her next shopping trip the following week (week 3 in Figure 13), her paycheck is delayed, preventing her from buying groceries and making her late on her first loan. Her account is hit with a late fee of $8, and her lender suspends her account and her ability to take out new loans. When her paycheck does finally arrive, she pays off the late fee and missed payment (totaling $33), calls her BNPL lender to explain the situation, and has her account access restored. She does some more shopping after work during the week and takes out a third $100 BNPL loan for groceries. The following weekend (week 4 in Figure 13), with her pay schedule back on-track, she takes out a fourth $100 BNPL loan for groceries.

Kate's total BNPL balance hits $400, but with the additional money she was able to set aside from stretching her wallet using BNPL loans with “zero interest,” she plans to pay for the next month’s groceries without any loans. However, the loans she has already taken out each carry a six-week term, with payments due every two weeks, which linger well into and past the following month. A few days later (at the start of week 5), her child sprains their ankle and needs to go to the emergency room, where the bill wipes out the rest of Kate’s paycheck because she can only afford a high-deductible health plan. Kate is then late on payments for all four

BNPL loans and owes $32 in extra late fees. The following pay period (start of week 7), her entire paycheck goes to paying off medical costs for her child, making her late again on three of her four loans after having already been late on the final payment of her first loan. She now owes an additional $32 in late fees, has lost access to her BNPL lender for future grocery expenses, and needs to dip further into her savings or consider other options such as taking on credit card debt or a payday loan. If she does get a loan from another lender to pay off her outstanding BNPL balances and get back on track for her last two payments, she will have paid a total of $72 in late fees.

While the BNPL products Kate used are marketed and often understood to be "interest-free," the costs of financing her purchases, on BNPL with income shocks, approach that of using high-APR personal loans and even some payday loans. And Kate was not even using one of the most expensive or highest-late-fee lenders. In this scenario, Kate paid between $16 to $24 in late fees on loans for $100 each across terms of six weeks, which is compliant with a lender policy of capping total late fees at 25 percent of the transaction value. **This costs as much as taking out loans with APRs of approximately 139 or 209 percent, respectively.** These effective APRs are **six to nearly 10 times the average credit card interest rate** (which stood at 21 percent in the first quarter of 2026) and even approach the rates charged by some payday lenders.[104] It's worth noting that the above late fee APR projections are only modeled for pay-in-four loans with zero interest. Borrowers of interest-bearing installment loans may only have due dates once a month, but could face even higher net costs after accounting for interest.

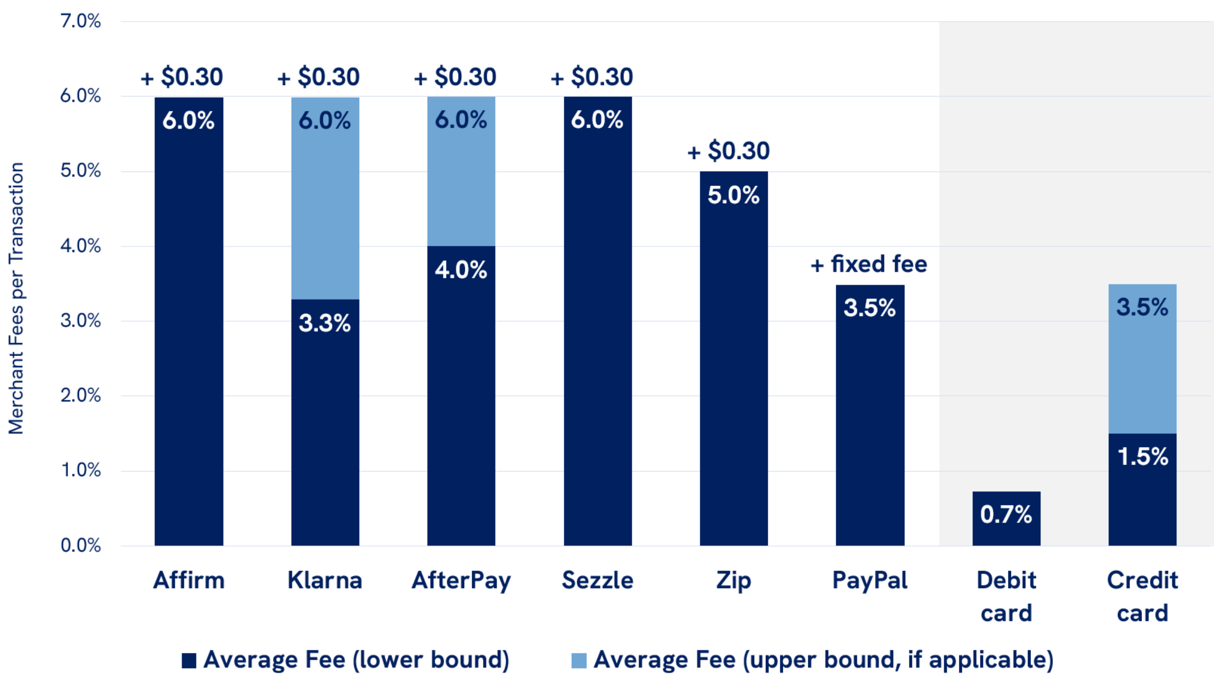
Kate's scenario, while hypothetical, is not far off from the stories of real BNPL borrowers. In 2022, one consumer, Josh Roberts, reportedly turned to Klarna to pay for groceries while struggling with a low-paying job during the pandemic and shouldering $11,000 of student loan debt and $2,000 in unpaid medical bills. He eventually owed more than $1,000 to Klarna, of which an estimated $100 were late fees.[105] One Reddit user reported losing their job in 2025 and falling behind on 27 payments to Affirm and Klarna—which, assuming just half were with Klarna, would total $91 in late fees.[106] In fact, researchers at Stanford and UC Irvine found that BNPL users owe an extra $176 more per year in BNPL late fees, overdraft fees, and credit card interest on average after starting to use the service.[107]

> *"He eventually owed more than $1,000 to Klarna, of which an estimated $100 were late fees."*

Everyone Pays for BNPL

Almost every major retailer has adopted a partnership with at least one BNPL lender, offering and accepting their loans as a payment method at both in-store and online checkouts. Industry groups estimate that 58 percent of small businesses and over 40 percent of online retailers accept BNPL as a payment method.[108] BNPL lenders tout increased sales conversion rates, higher average order values, and fewer "abandoned carts" as key selling points for merchants.[109] But the benefits cost a premium: **BNPL merchant fees are roughly two to three times the per-transaction costs of the next most expensive payment method to process, credit cards, and nearly 10 times more expensive than debit cards** (see Figure 14). Merchant fees are a primary to significant source of revenue for many major lenders. In 2024, merchant fees comprised 57 percent of revenue for Klarna, 32 percent for Sezzle, and 36 percent for Affirm.[110] BNPL lenders also collect interchange fee revenue from merchants that don't pay for partnerships but accept their virtual, one-time, or multi-use Visa cards.[111]

Figure 14: BNPL merchant fees dwarf the costs of other payment methods.[112]



Note: BNPL lenders typically structure their merchant fees as both a flat, per-transaction fee (most commonly 30 cents) plus a percentage-based fee. Fees are rounded to the nearest tenth of a percent.

The costs borne by merchants for BNPL partnerships are ultimately passed onto all Americans, regardless of whether or not they use BNPL, through higher prices. These costs may only increase as BNPL adoption becomes more widespread among sellers and more deeply ingrained in the payments ecosystem.

Recommendations

The recent explosion of BNPL lending is the capstone to an increasingly unstable, high-debt, high-stress economy that has put survival out of reach for millions of working families while capitalizing upon their financial desperation. Major BNPL lenders like Affirm, Klarna, Afterpay, PayPal, and more can be accepted at practically any merchant, while new venture capital-backed fintechs are sprouting up by the day, offering embedded financing options to Americans struggling to pay their rent, taxes, medical bills, utilities, car mechanic, childcare provider, and more, including bills for other debts. Everywhere you turn, there seems to be another lender with a strange looking name and another "___ Now, Pay Later" product that promises to help—but only if they first have a shot at extracting a few hundred APR points in financing fees, late fees, Netflix-like "subscription" fees, and more.

Americans need help. In the absence of meaningful federal regulatory oversight, BNPL lenders and their fintech partners have deployed an array of predatory to likely unlawful practices that are pushing working families deeper into debt and distress.

Federal and state policymakers must act to ban harmful practices and regulate the industry. Between Congress's authority to ban arbitration and regulate bank conduct, and states' historic role governing nonbank activities, coordinated federal and state action can provide meaningful protections for BNPL users. We recommend the following:

I. Congress should enact a BNPL Borrower Bill of Rights.

A BNPL Borrower Bill of Rights should include sweeping protections that end deceptive pricing and bring down the cost of BNPL debt, ban predatory practices that harm consumers, and empower Americans to enforce their own rights.

End deceptive pricing and bring down the cost of BNPL debt.

- **Ban junk fees that obscure or add to the true cost of financing**, including "subscription" fees, tips, payment method fees, per-transaction fees, "late saver" fees, non-sufficient funds (NSF) fees, expedite fees, and prepayment fees, as well as the practice of stacking more than one fee for single missed payments or transactions.

- **Cap all late or penalty fees at $5 per missed payment, up to an aggregate of 15 percent of the original order price.** While some leading BNPL lenders have already capped their late fees at $7 to $8 per missed payment up to a maximum of 25 percent of the order value, these fees can still cost the borrower about as much as taking out a payday loan (see Figure 12). Moreover, BNPL loans are structurally designed to create a cascade of late fees when borrowers have a lapse in funds, so lowering and capping late fees reduces the risk that a single lapse will create financial havoc for borrowers.

- **Cap interest at the state usury cap or 10 percent, whichever is lower**. This is aligned with the growing legislative push to cap credit card interest rates at 10 percent, which has attracted significant bipartisan and public support.[113] Additionally, all permitted fees, such as “origination fees” or payment rescheduling fees, should be included in the cap, excluding late/penalty fees. New York state’s proposed BNPL regulations would cap total interest charged (including origination fees, payment delay transaction fees, and other charges made as a condition of offering the loan) at 6 percent.[114]

Ban predatory practices.

- **Prohibit predatory and potentially discriminatory lending practices, and require clear disclosure of underwriting factors.** BNPL lenders should be required to underwrite loans based solely on a borrower's ability to repay their debts. Lenders should not utilize other data outside of a borrowers’ credit profile and income to market, price, and underwrite BNPL products. This includes any measures of group-based or “social network” creditworthiness, location-based data, and/or other factors that may correlate with protected characteristics. Moreover, lenders should disclose to borrowers the specific categories of information used to determine their creditworthiness.

- **Protect Americans’ personal data and create real opt-out rights from data collection, processing, and sale.** BNPL lenders should be required to obtain affirmative, revocable, itemized consent before a lender uses, sells, or shares a borrower’s data for any purpose beyond making the loan itself, such as advertising, cross-selling, and individualized pricing of unsolicited products. Consent should be sought separately for each use case, should not be bundled or pre-selected by the lender, and should expire after one year, requiring active renewal and agreement. Lenders should be prohibited from making consent to collection of data beyond that required for risk-based underwriting a prerequisite for accessing a loan. Additionally, lenders and third-party data recipients should be required to delete user data within 30 days whenever a borrower withdraws or declines to renew consent.[115]

- **Ban BNPL lenders from deceptively marketing BNPL loans as credit building products and prohibit credit bureaus and consumer reporting agencies from negatively treating the appearance of BNPL debt.** Some BNPL lenders have begun to report users to credit bureaus, while others have not. There is evidence that some credit scoring models penalize BNPL users regardless of whether they are paying on-time.[116] This poses a substantial risk to the majority of BNPL users with subprime credit scores,[117] who may face higher interest rates and denials on other loans even when they are current on all their BNPL payments. Additionally, BNPL lenders have also been found making statements implying that BNPL products may have a positive impact on a borrower's credit score or credit history.[118] Policymakers should expressly prohibit lenders from making these potentially misleading statements.

Empower Americans to enforce their own rights.

- **Ban arbitration clauses, class action participation waivers, jury trial waivers, and other predatory contract clauses.** Practically all BNPL lenders include such clauses in their terms of use or other consumer contracts, with highly cumbersome opt-out processes that require significant effort to complete. These clauses insulate lenders from being held accountable for violations of federal and state laws.

- **Create a private right of action for borrowers to enforce the BNPL Borrower Bill of Rights.** Every BNPL borrower should be able to hold financial companies accountable for not following the law or respecting their rights, including BNPL lenders, their bank partners, and other service providers. Individual, private rights of action enable borrowers to defend themselves when state enforcement resources are stretched thin, and can help establish enforcement records and public evidence that can aid in state investigations and litigation.

II. Congress should compel the Consumer Financial Protection Bureau to do its job.

The CFPB is the only federal financial regulator with direct supervisory authority over non-bank financial institutions like BNPL lenders and fintech firms. Under the Trump Administration, the CFPB has abandoned its obligation to protect Americans from harmful financial practices. In April 2025, CFPB leadership issued an internal memorandum to staff noting that it would deprioritize supervision and enforcement against non-bank financial institutions, and in 2026, the CFPB is projected to conduct a fraction of the typical number of annual exams, if any at all.[119] On top of this, as a result of the One Big Beautiful Bill, the CFPB's annual funding was halved from 12 percent to 6.5 percent of the total operating expenses of the Federal Reserve.[120]

Congress should compel the CFPB to use its research, regulation, supervision, and enforcement tools to regulate the BNPL industry and protect borrowers from predation by such lenders, and fully restore the CFPB's funding.

III. States should also enact BNPL Borrower Bill of Rights laws, and regulate BNPL lenders the way they regulate other lenders: through licensure, supervision, and enforcement.

States are the primary regulator for nonbank financial companies, and generally require companies to obtain a license before they engage in lending or other financial services activities within their jurisdictions. BNPL should be no different. Licensing regimes usually set industry standards, establish consumer protections, and empower the state regulator to regularly request information and examine the licensees' conduct for compliance with state and federal laws.

States should pass their own BNPL Borrower Bill of Rights laws to require BNPL lenders and their fintech partners to obtain licenses before engaging in BNPL lending to their residents. The licensure should incorporate the same protections and prohibitions included in the federal BNPL Borrower Bill of Rights discussed above, and should also delegate to the state's financial regulator the authority to review, ban, and stipulate price caps for any other fees that licensees wish to assess, and require licensees to seek prior approval when they wish to assess new fees. BNPL loans issued by unlicensed lenders or that are not compliant with the state licensing laws should be void and unenforceable.

States should also include granular annual reporting requirements for BNPL licensees, such as total loan originations, payments, and outstanding balances; total revenue from interest, fees, merchant partnerships, and other sources; loan approval and denial rates; real interest rates and APRs charged to consumers and the distribution of consumers across each rate; delinquency and default rates; credit reporting practices; and factors used in underwriting.

Although states are preempted from directly regulating national banks, and to some extent, other states' state-chartered banks, state policymakers can cover the BNPL market by requiring both BNPL lenders (to the extent not preempted by federal law) *and* any company facilitating or arranging credit for those lenders to obtain a license. This would directly address rent-a-bank practices and ensure that non-bank companies are regulated without having to conduct individualized true lender analyses.[121] And although the state licensing regimes do not necessarily need to require licensure by merchants where BNPL is offered, states can make clear that merchants cannot make representations to customers about the BNPL loans, and that if they do, they would be engaging in financial services activity requiring a license.

Using the information that it obtains through supervision and consumer complaints, states must meaningfully enforce these protections. It can do this through its licensing authority, but also through the Consumer Financial Protection Act (CFPA), which allows states to enforce against unfair, deceptive, and abusive practices, as well as against violations of "any provision of federal consumer financial protection law."[122] Effectively, states can enforce this provision against any covered entities for violations of the CFPA as well as any of the 18 enumerated consumer laws, which include the Electronic Funds Transfer Act (EFTA), Truth In Lending Act (TILA), Fair Credit Reporting Act (FCRA), and more.

Still, as with the federal BNPL Borrower Bill of Rights, it is critical that the state licensing laws include private rights of action, so that individual consumers who are harmed by BNPL misconduct can enforce their own rights.

IV. States should guarantee BNPL borrowers a place to turn for help.

More and more Americans are being forced to rely upon BNPL loans to cover basic necessities, while the Trump Administration refuses to properly regulate and oversee BNPL lenders. State policymakers should guarantee families a place to turn for help by establishing a dedicated Borrower Advocate position with the authority to help borrowers struggling with BNPL debt and other products offered by BNPL lenders. The Borrower Advocate should help borrowers receive timely complaint resolutions from BNPL lenders, review information submitted by lenders in annual reports, and draft periodic public reports on the state of the BNPL industry. Policymakers could model these state-level positions on the "student loan ombudsman" roles currently established in 16 states, and Congress could establish a BNPL Borrower Advocate at the CFPB.[123]

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118 For example, Sezzle provides a service, "Sezzle Up," where the company reports users' payment history to credit bureaus. In app stores, Sezzle prominently describes this feature as follows: "Build Credit History[:] Opt in to Sezzle Up to report your payments to credit bureaus, so every purchase helps build your credit history," but in a fine print disclaimer states, "Increases or specific changes to your credit score are not guaranteed," *see* Google Play Store, *Sezzle: Buy Now, Pay Later,* (accessed Jun. 26, 2026), archived at https://perma.cc/T9BZ-AFYM.

119 Twitter, *Post by @schwartzbWSJ,* (Apr. 16, 2025), https://x.com/schwartzbWSJ/status/1912633869255188512; Bloomberg Law, *CFPB to Slash Examinations, Switch to All-Virtual Reviews,* (Jan. 29, 2026), https://news.bloomberglaw.com/banking-law/cfpb-to-slash-bank-examinations-switch-to-all-virtual-reviews.

120 Congressional Research Service, *The Consumer Financial Protection Bureau Budget: Background, Trends, and Policy Options,* (Jun. 8, 2026), https://www.congress.gov/crs-product/R48295.

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122 Consumer Financial Protection Bureau, *CFPB Bolsters Enforcement Efforts by States,* (May 19, 2022), archived at https://cfpb.website/about-us/newsroom/cfpb-bolsters-enforcement-efforts-by-states/; Consumer Financial Protection Bureau, *Circular re: Authority of States to Enforce the Consumer Financial Protection Act of 2010, https://s3.us-east-1.amazonaws.com/files.consumerfinance.gov-mirror/f/documents/cfpb_section-1042_interpretive-rule_2022-05.pdf.*

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