



Buy now, pay later: Convenience and constraints

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Buying products and services through short-term installment payments is easy, but consumers should be aware of potential risks.

Here's the scenario: You finally find that one item that you've been hunting. Maybe it's a trendy electronic device, maybe it's a stylish addition to your wardrobe, or maybe it's a pair of tickets to see your favorite band. But you don't qualify for a credit card, and you don't have the cash to buy it outright. What do you do?

Increasingly over the last several years, the solution has been a "Buy Now, Pay Later" (BNPL) service, which allows a shopper to buy and receive products and services by agreeing to pay in installments drawn from a bank account or debit card. Surveys estimate that in 2023 two-thirds of U.S. consumers received BNPL offers, and 14% to 25% used BNPL services to make purchases. Studies show that these services have been particularly popular among millennial and Gen Z consumers as well as among members of ethnic minorities and consumers who are financially vulnerable or those hoping to improve their credit.

In one example of how BNPL usage has surged, payment processing company Worldpay reports that in 2021 BNPL accounted for 4% of e-commerce purchase value in North America and 1% percent of in-person purchase value. Those percentages are projected to reach 9% and 2%, respectively, in 2025.

As a recent Kansas City Fed study explains, the rise in BNPL usage—while increasing the buying capability of liquidity-challenged individuals—can bring problems for consumers who fall behind on payments. That analysis of financial constraints and repayment behavior of BNPL users is detailed in a May 2025 [Economic Review](#) article by Economic Research Vice President Fumiko Hayashi and Economist Aditi Routh.

How BNPL works

BNPL arrangements, offered by providers such as Affirm, AfterPay, Klarna, PayPal, Zip and others, essentially are short-term loans. The most common structures allow consumers to purchase goods or services and agree to “four in six” or “pay in four” arrangements, in which a purchase is paid in four equal, interest-free installments. The first installment is paid at the time of purchase, and the remaining installments usually are paid in three two-week increments. Some BNPL providers offer variations that spread payments over a longer period, such as six months, but with interest charged. In either arrangement, the consumer receives the merchandise or service when the first payment is made; they don’t have to wait for the installment cycle to play out.

That aspect of BNPL—the ease with which individuals can make purchases and potentially have multiple loans at the same time—raises concerns for financial education professionals like Tina Herndon, a longtime credit counselor and former chair of the Oklahoma Jump\$tart Coalition, an organization focused on helping consumers improve their financial literacy. For several years Herndon worked with economically vulnerable populations in Oklahoma and led sessions about establishing credit, avoiding predatory lending and related topics.

“We all know that if you don’t have good credit, the price of your entire life goes up,” said Herndon, who now is senior financial educator at Tinker Federal Credit Union in Oklahoma City. “You’re promising your future dollars (with BNPL). If you don’t make the payments, then your life just got more expensive, and the people who can least afford it are the people paying the highest prices.”

About the research

The Kansas City Fed study found that the vast majority of BNPL users who made late payments for BNPL loans (96%) are at least mildly financially constrained compared with BNPL users who did not make late payments (86%).

“We got drawn to this because of the other articles out there that looked at BNPL users and their characteristics, and they have found that BNPL users are more likely to be financially vulnerable and financially fragile,” Routh said. “We wanted to do a deeper dive on that by looking at the financial constraints that BNPL users face. So we zeroed in particularly on BNPL users who made late payments or not.”

The study found that 15% of BNPL users with late payments are severely financially constrained compared with only 2% percent of BNPL users without late payments.

“Our results suggest a high correlation between BNPL users’ late payments and their financial vulnerability or distress, potentially implying that BNPL users with late payments may have overspent or overextended their debt through BNPL,” Hayashi and Routh wrote. “Some of these users may even have a heightened default risk.”

The Reserve Bank's research also points out that in some situations BNPL can help improve a consumer's financial situation by providing access to interest-free credit to those who might not qualify for traditional credit products but can fulfill the payment requirements of the purchase agreements.

However, the lure of smaller, interest-free installments might lead some consumers to view purchases as more affordable than they really are, and that could increase the risks of becoming over-extended.

"As a consumer, you want to be careful when you use this product (BNPL)," Hayashi said. "You don't want to overspend or be over-indebted. It looks cheap, it looks easy, it looks convenient, but it may not be."

Evolution, expansion of BNPL

Developments in the BNPL space have been rapid in recent years, with an increasing number of providers offering services and more corporate entities tapping into the trend. For example:

- In July 2025, the credit scoring company FICO announced that it will add data from BNPL loans to some of its measures of creditworthiness. Similarly, in April 2025, Affirm began sharing consumers' loan data with the Experian credit bureau. Those moves are notable because part of the appeal of some early BNPL services was that a shopper's loan data wasn't reported to credit bureaus, and no hard credit checks were required.
- Synchrony Financial, the largest issuer of private-label credit cards in the United States, in July 2025 agreed to expand its relationship with e-commerce retailer Amazon by offering installment loans to approved customers on carts exceeding \$50.
- Billboard reported that about 60% of general admission ticket buyers for the Coachella music festival in April 2025 used the California event's BNPL payment plan. BNPL's appeal with younger consumers and the rising prices of concerts were cited as reasons for the high volume of BNPL usage.

Caution and awareness

A 2023 report by the Consumer Financial Protection Bureau (CFPB) included survey results showing that Black, Hispanic and female consumers and those with household income between \$20,001 and \$50,000 were "significantly more likely to borrow using BNPL compared with white, non-Hispanic and male consumers, or those with household incomes below \$20,000."

Meanwhile, consumers with at most a high school diploma were less likely than those with at least a bachelor's degree to use BNPL. Further, the CFPB report said that consumers with super-prime credit scores were less likely than those with deep subprime scores to use BNPL loans for purchases.

Jennifer Wallis, a licensed financial advisor in Oklahoma, has been observing the rise of BNPL for several years. During 17 years in the nonprofit sector, Wallis taught classes on getting out of debt, recognizing scams and other topics. She said that financial awareness and discipline are essential for anyone using BNPL services.

“My first inclination was ‘What’s the catch?’” Wallis recalled regarding her earliest awareness of BNPL services. “I always want to make sure that I understand the fine print. Loans in and of themselves are not bad, but you just want to make sure that you’re making a conscious decision instead of an impulse decision. Just make sure that you’ve planned for it.”

Another point of advice from Wallis concerns consumers using BNPL in hopes of improving their credit scores. In those situations, it’s important to understand the terms and conditions for each specific loan and know whether one’s on-time payments will be reported to credit bureaus. In many cases, those on-time payments are not reported, but late payments or defaults are likely to be reported and would hurt efforts to build credit, Wallis said. In general, consumers should take time to think through such purchases before committing.

“Easy money still is something to really think about, because it so easy that all you have to do is click a button,” Wallis said.

“And you may not consider that you might be over-extending yourself by signing up for a loan, and especially if you sign up for more than one. It can be really hard to keep track of.”

Media



Financial educator Tina Herndon advises caution for those considering using Buy Now, Pay Later services.



Kansas City Fed Economist Aditi Routh (left) and Economic Research Vice President Fumiko Hayashi.



Financial advisor Jennifer Wallis says that it is important for consumers to fully understand the terms and conditions of installment-loan agreements.