MARKET TRENDS AND CONSUMER IMPACTS, CONSUMER FINANCIAL PROTECTION BUREAU

On September 15, 2022, the U.S .Consumer Financial Protection Bureau ("CFPB" or "Bureau") issued its long-anticipated report on the Buy Now Pay Later ("BNPL") industry (the "Report"). The Report describes the state of the BNPL market, including its recent growth, the impacts of BNPL on consumers, and potential legal issues. What follows is the Executive Summary, The complete Report may be found at:
https://files.consumerfinance.gov/f/documents/cfpb_buy-now-pay-later-market-trends-consumer-impacts_report_2022-09.pdf

1. Executive Summary
Consumers have long used credit instruments to purchase goods and services. In recent years, a fast-growing alternative to credit cards has emerged in a number of developed economies around the world, including in the United States. This alternative is marketed as "Buy Now, Pay Later" (BNPL). BNPL is a form of credit that allows a consumer to split a retail transaction into smaller, interest-free installments and repay over time.

The typical BNPL structure divides a $50 to $1,000 purchase into four equal installments, with the first installment paid as a down payment due at checkout, and the next three due in two-week intervals over six weeks. When a borrower does not make these payments, many BNPL lenders charge late fees, often around $7 per missed payment on an average loan size of $135.

In December 2021, the Consumer Financial Protection Bureau (CFPB) issued market monitoring orders to five lenders to provide data on their BNPL loans. This market report summarizes that data, individual and organizational submissions to the CFPB, and publicly available sources to provide a review of BNPL's marketplace importance and consumer impacts in the United States.

Important metrics from the report include:

- The BNPL industry is in the midst of rapid growth. From 2019 to 2021, the number of BNPL loans originated in the U.S. by the five lenders surveyed grew by 970 percent, from 16.8 to 180 million, while the dollar volume of those originations (commonly referred to as Gross Merchandise Volume, or GMV) grew by 1,092 percent, from $2 billion to $24.2 billion.

- The industry mix of BNPL usage is diversifying. Apparel and beauty merchants, who had combined to account for 80.1 percent of originations in 2019, only accounted for 58.6 percent in 2021.

- 73 percent of applicants were approved for credit in 2021, up from 69 percent in 2020.

- The average individual order value (i.e., average purchase amount financed by a BNPL loan) in 2021 was $135, up from $121 in 2020.

- 10.5 percent of borrowers were charged at least one late fee in 2021, up from 7.8 percent in 2020.

- 13.7 percent of individual loans in 2021 had at least some portion of the order that was returned, up from 12.2 percent in 2020.

- 3.8 percent of borrowers had a loan that was charged off in 2021, up from 2.9 percent in 2020.

The report identifies several competitive benefits of BNPL loans over legacy credit products. These benefits are both financial (i.e., no interest and sometimes no late fees) and operational (i.e., ubiquitous, easy to access, simple repayment structure).

The report also identifies several potential consumer risks, which fit into the three broad areas of concern noted in the CFPB's December 2021 market monitoring orders:

- **Discrete consumer harms.** The BNPL product is often structured in ways that may present borrowers with undesirable operational hurdles, including the lack of clear disclosures of loan terms, challenges in filing and resolving disputes, and a requirement to use autopay for all loan payments.

- **Data harvesting.** Similar to many other large tech platforms, BNPL lenders often collect consumer data—and deploy models, product features, and marketing campaigns based on that data—to increase the likelihood of incremental sales and maximize the lifetime value it can extract from each current, past, or potential borrower. These practices (which may become even more prevalent and profitable as third-party data tracking becomes more difficult on iOS6 and Android7 operating systems) may 4 Each lender has a slightly different definition of charge off, but at a high level this metric should be thought of as the percent of borrowers who had a portion of their loan balance that was considered "uncollectable" after significant time and collection efforts. 5 CFPB Opens Inquiry into 'Buy Now, Pay Later' Credit 6 National Public Radio, Apple Rolls Out Major New Privacy Protections For iPhones And iPads (April 26, 2021), available at https://www.npr.org/2021/04/26/990943261/apple-rolls-out-major-new-privacy-protections-foriphones-and-ipads 7 Google, Introducing the Privacy Sandbox on Android (February 16, 2022), available at https://blog.google/products/android/introducing-privacy-sandbox-android/ 5 compromise consumers' privacy and autonomy and contribute to the overextension risks described below.

- **Overextension.** The BNPL business model may encourage overextension, and in doing so present a pair of risks: loan stacking, which can cause borrowers to take out several loans within a short time frame at simultaneous lenders; and sustained usage, in which frequent BNPL consumption over a period of months and years may affect consumers' ability to meet non-BNPL obligations.