

MONEY MYTHS SERIES

Is Buy Now, Pay Later a Smart Budgeting Tool? What the Data Shows

Buy now, pay later is free only if every payment lands on time. CFPB and Fed data on late payments and loan stacking, California's rules, and who gets paid.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/buy-now-pay-later/

Part of our [money myths series](#), where we look at who gets paid when you follow money advice from social media.

The pitch: split every purchase into four interest-free payments. It's a budgeting tool, it beats a credit card, and it builds your credit. **The verdict:** pay in 4 is free only if every payment lands on time, and a quarter of users paid late in 2025, according to the Federal Reserve. Most BNPL activity doesn't help your credit score, the federal rule that would have treated these loans like credit cards was withdrawn in 2025, and the companies make their money from merchants who sell more when you split the bill.

26%

of BNPL users paid late in 2025 (Federal Reserve)

63%

of BNPL borrowers had several loans open at once (CFPB, 2022 data)

53%

of users wrongly believed on-time BNPL payments help their score (Federal Reserve, 2025)

44 million

BNPL loans made in California by state-licensed lenders in 2024 (DFPI)

\$7

typical late fee per missed payment (CFPB, 2022)

Who gets paid. Mostly the merchant pays, because you buy more. Affirm's merchant revenue was 2.3% of its \$50.2 billion in sales volume in fiscal 2026, and it says it generally earns higher merchant fees on 0% loans than on interest-bearing ones. The CFPB quoted one BNPL executive: "We are fundamentally a marketing device for merchants." Klarna earned \$190 million in 2025 from advertising, including an affiliate program merchants pay for, and gives more than 500,000 creators storefronts that earn them money when followers buy. Late fees are the other revenue stream, from the people who slip.

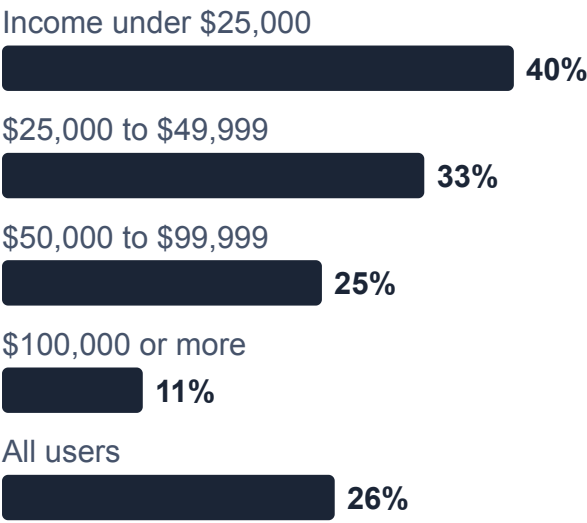
How does buy now, pay later work?

A pay-in-4 loan splits a purchase into four equal payments, usually one at checkout and three more every two weeks, with no interest. The CFPB describes traditional BNPL as closed-end loans payable in four or fewer installments without a finance charge (CFPB, 2024). The lender pays the merchant up front, minus a fee, and collects from you. The CFPB’s 2022 study of five lenders found they made 180 million loans worth \$24.2 billion in 2021, up 970% in number from 2019 (CFPB market report).

Is buy now, pay later interest-free?

Yes, on time. Late, no. Klarna’s Pay in 4 agreement allows a late fee of up to \$7 if a payment is unpaid after 10 days, with total late fees capped at 25% of the order, and Afterpay caps late fees at the same 25% (Klarna; Afterpay). The CFPB found 10.5% of borrowers paid at least one late fee in 2021, up from 7.8% a year earlier. Some products also aren’t interest-free at all: Afterpay’s own US page shows a 36% APR example.

Late payments are rising. The Federal Reserve’s household survey found nearly one-fourth of users paid late in 2024, up from 18% the year before, and 26% in 2025. Among users who paid late in 2025, 64% said they were charged extra, and 11% of all users had a BNPL payment trigger an overdraft or insufficient-funds fee at their bank (Federal Reserve, 2026).



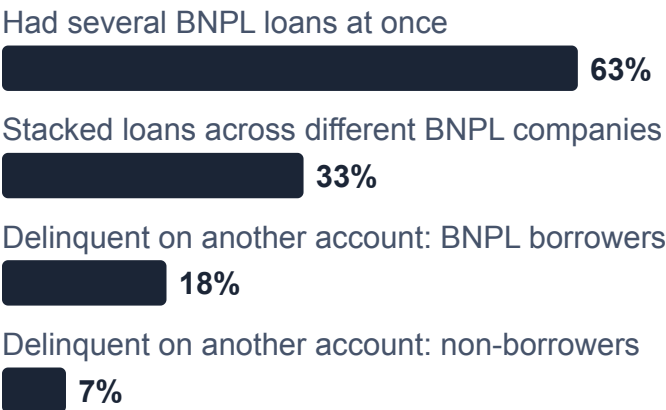
Federal Reserve, Economic Well-Being of U.S. Households in 2025, Table 41

Family income	Used BNPL (% of adults)	Paid late (% of users)
Less than \$25,000	18%	40%
\$25,000 to \$49,999	23%	33%
\$50,000 to \$99,999	18%	25%
\$100,000 or more	12%	11%
All adults	16%	26%

The pattern matters for the “budgeting tool” claim. The people the Fed found most likely to pay late are the ones with the least room in their budget. In 2024, 58% of users told the Fed BNPL was the only way they could afford the purchase.

What is BNPL loan stacking?

Stacking is having several BNPL loans open at once, often at different companies that can’t see each other. The CFPB found about 63% of borrowers had multiple loans at the same time in 2022, and 33% stacked across different firms. Borrowers averaged 9.5 BNPL loans a year (CFPB, 2025). The 2022 report explained the blind spot: BNPL lenders have no visibility into an applicant’s borrowing on other BNPL platforms.



CFPB, Consumer Use of Buy Now, Pay Later and Other Unsecured Debt, January 2025

Measure	Share
Had several BNPL loans at once	63%
Stacked loans across different BNPL companies	33%
Delinquent on another account: BNPL borrowers	18%
Delinquent on another account: non-borrowers	7%

The CFPB also found most of these loans never reached a credit report during the period it studied. That keeps stacking easy and invisible. The Bureau called it “data harvesting” when it described how lenders collect shopping data to maximize the value they can extract from each borrower.

Does buy now, pay later build credit?

Mostly no, but missing payments can still hurt. Affirm, the company most associated with reporting, says most BNPL activity doesn’t affect credit scores today, and that paying Affirm back on time or early doesn’t raise your score today, even though it reports all its loans to Experian and TransUnion (Affirm). Klarna said in 2024 that it doesn’t share Pay in 4 data with US bureaus, but its agreement lets it report default information (Klarna agreement).

FICO announced its first scores that include BNPL data in 2025, and says the treatment increases scores for some borrowers. Lenders choose which score to use, so don't count on it. Users are confused: in the Fed's 2025 survey, 38% agreed BNPL builds credit history and only 14% answered both credit questions correctly.

What are the federal rules for BNPL in 2026?

Thinner than in 2024. In May 2024 the CFPB issued an interpretive rule saying BNPL lenders meet the criteria for being "card issuers" under Regulation Z, which would have brought credit card dispute and refund rights to these loans ([89 FR 47068](#)). On May 12, 2025, the CFPB withdrew it along with other guidance and said it doesn't intend to prioritize enforcing withdrawn guidance ([90 FR 20084](#)). In the industry's lawsuit over the rule, the CFPB told the court it doesn't intend to reissue it ([FTA v. CFPB status report](#)).

States are filling some of the gap. New York's financial regulator has proposed a rule that would require a state license to make BNPL loans there and bar anyone acting on a lender's behalf from making false statements in its marketing. It's a proposal, not yet final ([NY DFS proposed 3 NYCRR Part 423](#)).

Is buy now, pay later regulated in California?

Yes. California treats BNPL as lending, and a company needs a California Financing Law license to make these loans (Fin. Code § 22100). The state's regulator, now the DFPI, has said BNPL products are loans and that the companies offering them must comply with California lending rules ([DFPI, 2022](#)). Afterpay's own terms say its fee-free Pay in 4 loans to Californians are made under a California Finance Lenders Law license.

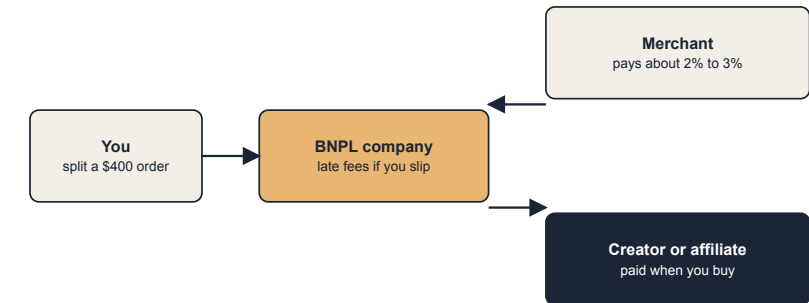
The enforcement record backs that up. In 2020, Afterpay agreed to refund \$905,000 in fees to more than 640,000 Californians after the regulator found it had been lending without a license; Afterpay neither admitted nor denied it ([DBO, 2020](#)). Sezzle agreed to refund \$282,000 to almost 17,000 Californians and pay a \$28,200 penalty ([DBO, 2020](#)). By 2024, licensed lenders made 44 million BNPL loans in California totaling \$4.7 billion, 98% of all consumer loans made by those licensees ([DFPI CFL annual report](#)).

Do influencers have to disclose they're paid?

Yes. The FTC's Endorsement Guides say that when there's a connection between the endorser and the seller that might affect how much weight you give the endorsement, and you wouldn't expect it, it must be disclosed clearly and conspicuously (16 C.F.R. § 255.5). An affiliate link or a commission is that kind of connection. If a creator recommending BNPL doesn't say so, assume the recommendation is an ad.

What does stacking cost? A worked example

Take a hypothetical shopper who puts five \$400 orders on pay in 4 over a month, at different apps. Each plan is \$100 every two weeks, so she owes \$500 every two weeks across the five. If one payment on each plan goes 10 days late, Klarna-style fees of up to \$7 each add \$35. The 25% caps limit late fees to \$500 across the five orders.



Due every two weeks across five \$400 plans

\$500

Late fees if each plan misses one payment

\$35

Most late fees allowed, five plans at the 25% cap

\$500

Hypothetical stacked pay-in-4 plans

Item	Amount	Basis
Purchases	5 x \$400 = \$2,000	Hypothetical
Each installment	\$100	Pay in 4: four equal payments
Due every two weeks, all plans	\$500	Arithmetic
One late payment on each plan	up to \$35	Klarna: up to \$7 per late payment
Maximum total late fees	\$500	Klarna and Afterpay cap late fees at 25% of the order

No single plan looks scary. Together they take \$1,000 a month from her paycheck for two months, and none of the apps knows about the others.

When is buy now, pay later fine?

When you'd pay cash anyway, use one plan at a time, and have autopay set to an account that will cover it. For people who manage it that way, it's cheaper than revolving a credit card. The CFPB found BNPL borrowers defaulted on 2% of their BNPL loans between 2019 and 2022, compared with 10% of the credit cards they held, and Affirm says it has never charged a late fee.

Buy now, pay later compared with a credit card and with saving first

Question	Pay in 4	Credit card	Save, then buy
Interest if paid on time	None	None if paid in full each month	None
Cost if late	Up to \$7 per payment at some lenders, capped at 25% of the order	Interest at about 22% plus late fees	None
Builds credit	Mostly no	Yes	No
Federal card protections	2024 rule withdrawn in 2025	Yes	Not needed
Who sees your other loans	Often no one	Credit report	Not applicable

What should you do instead?

- ✓ Use one BNPL plan at a time, and only for something you could pay for today.
- ✓ Write down every plan’s due dates in one place, since the apps don’t talk to each other.
- ✓ Turn on autopay from an account with a cushion, to avoid both the late fee and a bank overdraft.
- ✓ Don’t use BNPL for groceries or bills. One in five users did in 2025, a sign the budget is already short.
- ✓ If you want to build credit, use a secured card or a credit builder loan that reports every payment.

Other credit-building shortcuts sold online have their own problems: see [renting tradelines](#) and [609 letters and CPNs](#).

Frequently asked questions

Is buy now, pay later bad for you?

Not if you pay every installment on time and keep it to one plan. The trouble is late payments and stacking: a quarter of users paid late in 2025, and most borrowers had several loans at once.

Does buy now, pay later affect your credit score?

Usually it doesn’t help, and missed payments can hurt. Affirm says on-time payments don’t raise your score today, and Klarna can report defaults.

What happens if you miss a buy now, pay later payment?

Depending on the lender, you may owe a late fee of up to \$7, capped at 25% of the order, and the payment can bounce in your bank account. Repeated misses can go to collections or be reported as a default.

Is BNPL regulated in California?

Yes. BNPL lenders need a California Financing Law license, and the state made Afterpay and Sezzle refund fees in 2020 for lending without one.

Why do influencers push buy now, pay later?

Many earn commissions when followers buy through their links, and BNPL companies sell advertising and affiliate programs to merchants. The FTC requires creators to disclose paid connections clearly.

Related reading: [debt settlement and balance transfer traps](#). Teaching a young adult about money? See [the Bank of Mom and Dad](#), or [talk to Ridley Law](#).

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More in the [money myths](#) series.

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Questions about your own plan?

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