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# Buy Now, Pay Later: A Credit Alternative

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> "There is no such thing as a new idea. We simply take a lot of old ideas and put them into a sort of mental kaleidoscope."
> —Mark Twain

Think of all the things that people buy: Gifts, clothing, groceries, furniture, electronics, appliances, airline tickets… But how do people pay for their purchases? Do they use cash, a check, a **debit card,** or a **credit card**? Or maybe they try out the alternative credit option known as "buy now, pay later" (BNPL)?

BNPL is an **installment loan** that provides short-term financing. It is a fast-growing credit product that allows consumers to purchase and use a good or service now, but pay the full price over time with scheduled payments: In this way, it's like a loan or a credit card transaction. But a major difference is that, unlike a loan, BNPL usually charges no **interest**. The payments are often made in four installments—a down payment of 25% at the time of purchase and then three more payments of 25% over the next six weeks.

## The BNPL Evolution

Over the past decade, BNPL has gained popularity as a "new" alternative credit product for both online and in-person purchases. How did this idea evolve? Perhaps, old-fashioned credit ideas gave rise to the creation of a new modernized credit plan.

Back in the 1800s, installment loans made expensive goods such as furniture affordable to consumers. This model required a down payment with the balance paid in scheduled installments. For example, in the mid-1800s the Singer Sewing Machine Company began selling its machines on installment plans (PDF). Sewing machines were expensive relative to income in those days, but installment plans made it possible for more people to own a machine. In 1919, General Motors Acceptance Corporation became the first to make installment loans available to middle-income car buyers to make it easier to buy a car.

Another twentieth-century payment plan known as layaway allowed consumers to reserve an item until it was paid off in full. A major disadvantage was having to wait until the item was completely paid for before taking possession. Layaway became less popular in the 1980s partly because of competition from credit cards.

Credit cards came in the mid-1900s. They're designed as **unsecured loans** with **revolving credit**, **interest rates,** and identified credit limits. The number of credit card accounts continues to increase. The New York Fed reports there were 636 million open credit card accounts as of Q2 2025, and the number increased to 642 million at the end of Q3 2025. That's 6 million more credit card accounts in only three months! Using credit cards responsibly has advantages, such as earning rewards and building credit; and, if you completely pay the balance each month, there's no interest charged. But cardholders who don't completely pay their monthly balance and carry a **credit card balance** are charged interest. Credit card debt reached an all-time high after exceeding $1 trillion in Q2 2023, which moved credit card debt and usage into the spotlight. This led some consumers to search for alternative credit options.

In recent years, e-commerce and advanced technology companies have brought about the new installment plan—BNPL—after borrowing ideas from earlier payment plans. This fast-growing alternative to credit cards also allows for financing of everyday purchases. Online shopping and consumer demand have expanded BNPL worldwide.

## Who Uses BNPL?

Although BNPL is relatively new in the retail marketplace, it is widely offered. In a June 2023 survey, the Board of Governors of the Federal Reserve System reports that "nearly two-thirds of consumers had been offered a BNPL product in the past year"—and many people are using BNPL. The Board's 2024 Survey of Household Economics and Decisionmaking reports 15% of those surveyed used BNPL in the prior 12 months, up 5 percentage points from 2021.

Although BNPL products are popular across ages, races, and income levels, the Board's June 2023 survey shows lower-income individuals are more likely to use BNPL. BNPL is also attractive to younger consumers, as shown by Statista research. Statista has tagged Millennials, or those born between 1980 and 1994, as the "Buy Now, Pay Later" Generation: Of those it surveyed in 2022, 56% of Millennials use BNPL, compared with 26% of Baby Boomers (1946-1964), 36% of Gen X (1965-1979), and 49% of Gen Z (1995-2012).

## Why Use BNPL?

The 2024 Survey of Household Economics and Decisionmaking identifies several reasons people use BNPL, as shown in the table. The survey of more than 12,000 adults shows the top two reasons for using BNPL were the desire to spread out payments (87%) and convenience of using BNPL (82%). Additionally, avoiding interest charges (58%) as well as not wanting to use a credit card (53%) were identified. Two reasons suggest income constraints: 58% of respondents said using BNPL was the only way they could afford a purchase, while 22% said BNPL was the only accepted payment method they had.

**Reasons for Using Buy Now, Pay Later (BNPL)**

| Reason | Percent |
|---|---|
| Wanted to spread out payments | 87 |
| Convenience | 82 |
| Avoid interest charges | 58 |
| Only way I could afford it | 58 |
| Did not want to use a credit card | 53 |
| Wanted a fixed number of payments | 49 |
| Only accepted payment method I had | 22 |

NOTE: Among adults who have used BNPL in the past year. Respondents could select multiple answers.

SOURCE: "Economic Well-Being of U.S. Households in 2024 (PDF)." Board of Governors of the Federal Reserve System, May 2025, p. 58.

## How BNPL Works

Unlike installment plans of earlier times, the BNPL model starts with lenders (providers) who finance the loans. BNPL loans are typically between $50 and $1,000 and are offered through retailers. Earlier installment loans were made between the retailer and the customer. For example, Singer and General Motors both designed and implemented their individual plans with customers.

Today, lenders are mostly fintech firms, such as PayPal, Afterpay, Affirm, Klarna, Zip, and Sezzle. Their revenue for providing BNPL services comes primarily from the fees they charge retailers for using BNPL services. The fees are often higher than those charged by credit card companies, but retailers are willing to pay these fees to increase sales.

Unlike credit cards with revolving credit, BNPL loans are tied to one specific purchase. BNPL requires an initial down payment, and the remaining balance is paid in installments. A 2025 report (PDF) issued by the Consumer Financial Protection Bureau states most BNPL services require customers to set up automatic payments through their debit card, credit card, or checking account. However, the BNPL lender company pays the retailer upfront for the total amount of the purchase minus fees charged to retailer. The following shows the progression of steps involved in BNPL:

**01** A lender (often a fintech firm) offers BNPL loan services to a retailer.

**02** The retailer pays the lender a fee to participate in the BNPL service.

**03** A customer applies for BNPL installments from the retailer, gets approval, and makes a purchase. They make a down payment on the purchase and agree to installment terms.

**04** The lender pays the retailer the total amount of the purchase.

## Advantages of Using BNPL for Retailers

- Boosts sales: Retailers make sales to customers who may not otherwise make a purchase. Consumers often choose to spend more when using BNPL.
- Connects retailers with younger consumers, who tend to find this service attractive.

## Advantages of Using BNPL for Consumers

- Interest-free (usually)
- Easy to access

- Increasingly packaged in an app-driven format
- Quick approval with a high credit approval rate
- A straightforward repayment structure
- Usually not reported to **credit bureaus**
- Requires only a soft credit pull, which limits verification to factors such as credit history, age, and salary and does not impact **credit scores**

## Disadvantages of Using BNPL for Consumers

Findings from the New York Fed released in February 2024 show about 72% of financially stable users and 89% of financially fragile users had made multiple BNPL purchases in a 12-month period. Overspending and repeat BNPL usage may cause hardships in paying other essential obligations, such as rent and utilities. Consumers may be at risk of overextending their budgets.

The Federal Trade Commission recommends checking the details of a BNPL plan before making an agreement. For example, although BNPL advertises no interest payments, most plans *do* charge some fees. There can be fees for each payment, for paying late, or for changing the payment date.

## Consumer Rights and Legal Protections with BNPL

The Consumer Financial Protection Bureau states BNPL has similarities with credit cards, so BNPL lenders "must provide consumers with some key legal protections and rights that apply to conventional credit cards." Under the Truth in Lending Act, the rule states that BNPL lenders must provide the following protections and rights:

- Lenders must investigate disputes that consumers initiate. Lenders must also pause payment requirements during the investigation and sometimes must issue credits.
- When consumers return products or cancel services for a refund, BNPL lenders must credit the refunds to consumers' accounts.
- Consumers must receive periodic billing statements.

## Conclusion

Buy now, pay later illustrates the evolution of consumer credit and offers proof that innovation can grow from old ideas. Both old and new plans are designed to increase sales and make it easier for consumers to spend. By looking back at the early models of installment loans, layaways, and credit cards, we can see the incentive to benefit both consumers and businesses remains the same. BNPL reflects how traditional credit concepts can adapt to meet the demands of a changing world.

## Glossary

**Credit bureau:** An organization that compiles credit information on individuals and businesses and makes it available to businesses for a fee.

**Credit card:** Cards that represent an agreement between a lender (the institution issuing the card) and the cardholder. Credit cards may be used repeatedly to buy products or services or to borrow money on credit. Credit cards are issued by banks, savings and loan associations, retail stores, and other businesses.

**Credit card balance:** The amount of outstanding debt on a credit card.

**Credit score:** A number based on information in a credit report, which indicates a person's credit risk.

**Debit card:** A plastic card similar to a credit card that allows money to be withdrawn, or payments made directly from the holder's bank account.

**Installment loan:** A loan given in a lump sum for a specific purchase or investment. The loan is paid back with regularly scheduled payments, which include interest. Examples include home loans, car loans, or business loans.

**Interest:** The price of using someone else's money. When people place their money in a bank, the bank uses the money to make loans to others. In return, the bank pays interest to the account holder. Those who borrow from banks or other organizations pay interest for the use of the money borrowed.

**Interest rate:** The percentage of the amount of a loan that is charged for a loan.

**Revolving credit:** A line of available credit that is usually designed to be used repeatedly, with a preapproved credit limit. The amount of available credit decreases and increases as funds are borrowed and then repaid with interest.

**Unsecured loan:** A loan not backed with collateral.

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**Name**______________________________________ **Period**________

## Reading Q&A

# Buy Now, Pay Later: A Credit Alternative

**After reading the article, complete the following:**

1. What did General Motors Acceptance Corporation (GMAC) introduce in 1919?
   a. Credit cards with rewards
   b. The first layaway plan
   c. Installment loans for car buyers
   d. Interest-free loans for car buyers

2. According to surveys, what is the top reason people use BNPL?
   a. To build credit
   b. To spread out payments
   c. To earn points and rewards
   d. To avoid taxes

3. How do BNPL providers earn most of their revenue?
   a. From interest charges to users
   b. From annual membership fees
   c. From late payment fees by users
   d. From fees paid by retailers

4. How do BNPL loans differ from credit cards?
   a. BNPL loans are tied to one specific purchase.
   b. BNPL has higher interest rates for users.
   c. BNPL is a type of revolving loan with rewards.
   d. BNPL loans are not subject to the Truth in Lending Act.

5. What is a common risk for BNPL users?
   a. Declining credit card rewards
   b. Overspending and having multiple loans
   c. Higher credit limits
   d. Fewer payment options

6. What is one major advantage of BNPL for retailers?
   a. It reduces sales volume
   b. It decreases customer spending
   c. It attracts younger consumers
   d. It eliminates transaction fees

7. What type of loan is BNPL?
   a. Mortgage
   b. Revolving
   c. Installment
   d. Credit card

8. What action did the Consumer Financial Protection Bureau require BNPL lenders to take in 2024?
   a. Eliminate all retailer fees
   b. Provide consumer dispute investigations
   c. Stop automatic payments
   d. Offer only paper-based contracts

9. BNPL loans are usually set up for users to pay
   a. with cash and in-person every month.
   b. using a debit card, credit card, or checking account.
   c. with a money order or cashier's check.
   d. using cash or cashier's check on a weekly basis.

10. The Federal Trade Commission recommends checking the details of a BNPL plan
    a. after making the final payment.
    b. before making an agreement.
    c. after securing three or more loans.
    d. when the first installment is due.