Mapping the Buy Now, Pay Later Regulatory Landscape

How State Policymakers Are Responding to a Fast-Growing Industry

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The Buy Now, Pay Later (BNPL) market has grown rapidly in recent years. In 2025, total consumer spending across all types of BNPL products rose to $103 billion (Schneider and Tierno 2026). Amid an affordability crisis and cuts to public benefits, Urban research shows many consumers are turning to BNPL to cover everyday expenses, such as groceries (Martinchek et al. 2026). BNPL is purchase-linked credit that lets consumers obtain goods or services immediately and defer or divide the cost over time.

Though BNPL can help bridge expenses between paychecks, many BNPL products rely on underwriting models that have limited visibility into overall debt obligations and are not consistently incorporated into the credit reporting system. This can create challenges when consumers take on multiple BNPL loans across different providers simultaneously with combined payments that exceed their repayment ability. While some aspects of BNPL products are covered by existing lending and consumer-protection laws (Schneider and Tierno 2026), others fall outside of existing guidance, and therefore additional legislation or regulatory guidance may be needed to ensure adequate consumer safeguards, such as underwriting requirements and dispute resolution processes.

In this policy brief, we explore BNPL's potential benefits and risks to consumers through the lens of financial well-being. Our analysis draws on a review of academic and policy literature, a close examination of relevant state laws and regulations, and interviews with key stakeholders, including state policymakers and regulators, industry representatives, and consumer advocates. We offer six overarching objectives that state policymakers can pursue to ensure BNPL supports consumers' financial well-being. We also outline specific policies and regulatory approaches that states have used to

achieve each objective. Ultimately, this analysis can help state policymakers, agencies, and regulatory bodies develop policies and regulations that enable consumers to benefit from BNPL products while safeguarding their financial well-being.

Key Takeaways

1. **State regulators can pursue six objectives to ensure that BNPL supports consumers' financial well-being:** (1) require clear authorization, oversight, and accountability, (2) promote transparent terms and fair pricing, (3) facilitate responsible underwriting and reporting, (4) ensure affordable repayment practices, (5) provide effective dispute resolution processes, and (6) protect consumer data, privacy, and autonomy.
2. **States have adopted three primary approaches to regulating BNPL: Enact specific BNPL laws and rules, apply existing authority to BNPL, and gather BNPL market data.** Each of these approaches carries advantages and disadvantages. The best approach will depend on the problem the state is trying to solve, the legal authority they have available, the evidence the state has, and the institutional capacity of the relevant agency.
    a. **Enacting specific BNPL laws and rules can provide the broadest coverage within a single regulatory framework.** New York and Illinois have dedicated statutes establishing licensing and supervisory authority with rules governing the full BNPL lending process and associated risks, from origination, repayment, credit reporting to dispute resolution. These types of laws may be most useful where existing laws do not clearly reach the product, or where the state wants to seek comprehensive oversight. However, this approach may leave loopholes for regulatory arbitrage, bypass established oversight mechanisms, or create inconsistencies in governing similar forms of credit within the state.
    b. **Applying existing authority to BNPL can provide immediate and meaningful protections for users.** California and Maryland have demonstrated that states can affirmatively apply existing lending authority to short-term, pay-in-four BNPL products, as well as longer-term interest-bearing BNPL loans. This approach can avoid building an entirely new regulatory regime, but it may insufficiently address some risks related to BNPL and can produce rules that are fragmented across multiple statutes, agencies, and product classifications.
    c. **Gathering BNPL market data can help states understand emerging risks, evaluate practical tradeoffs, and identify policy gaps.** States can use attorneys general inquiries, requests for information, and subpoenas to gain insight into how BNPL products are operating, detect emerging trends, determine what additional evidence is needed to evaluate BNPL's impact on consumers, and assess whether new policies are improving consumers' financial well-being. These strategies are primarily information-gathering tools that can identify policy gaps and inform legislative action, rulemaking, supervision, or enforcement.

Background

Product Design

Pay-in-four, the most common form of BNPL, typically provides a short-term, zero-interest loan tied to a single purchase and repaid in four equal installments (Acree et al. 2026). These products are often integrated directly into a retailer's checkout process. Repayments are typically made through automatic withdrawals from a linked debit card, credit card, or bank account. If a borrower does not pay on time, providers may charge a late fee, a missed payment fee, a failed payment fee, or some combination of fees. Most providers do not provide a consumer with additional credit after they miss a payment.[1] Other BNPL products offer different repayment arrangements, including longer-term installment products under a purchase-linked credit umbrella. These products can more closely resemble traditional consumer loans: many charge interest and repayment periods can span from several months to years (Acree et al. 2026). Some BNPL providers have also started offering debit cards that give consumers the option to pay in four after they make a purchase,[2] digital wallet integrations,[3] subscription-based plans that offer premium features in exchange for a recurring fee,[4] and broader financial platforms that combine BNPL with other financial services.[5]

Product Economics

Consumer usage of pay-in-four BNPL products grew from approximately $2 billion in 2019 to an estimated $70 billion in 2025 (Wang 2026). The broader BNPL market is larger still: when long-term installment loan BNPL products are also included, the total spending was estimated to be approximately $103 billion in 2025 (Schneider and Tierno 2026). Most providers acquire users through the merchant-partner model, in which BNPL products are integrated directly into retailers' checkout flows. In 2021, these types of transactions accounted for 81 percent of overall BNPL gross merchandise volume (CFPB 2022). Increasingly, BNPL providers are directly engaging consumers through an app-based model (CFPB 2022). Consumers create an account on a provider's app and, once approved, can make purchases (up to a certain spending limit set by the provider) in installments across a network of participating merchants.

Revenue models vary across providers and products, but research provides insight into the typical pay-in-four BNPL product. Providers earn revenue primarily from merchant discount fees (CFPB 2022), which are fees merchants agree to pay providers because BNPL increases their sales and purchase size. These fees typically range from 4 to 6 percent of a transaction's cost.[6] BNPL providers that issue debit cards receive an interchange fee to process a loan when the transaction is made through the card's network, a cost that is ultimately borne by the merchants as part of accepting the payment. In 2022, interchange fees were the second largest source of revenue for BNPL providers (CFPB 2022). Other revenue sources include consumer-paid late fees, subscription fees, and service fees (CFPB 2022).

Consumer Usage

In 2025, an estimated 1 in 6 Americans used BNPL (Federal Reserve Board 2026). These users were more likely to be young adults, women, Black, Hispanic, and people from low- to middle-income households (Federal Reserve Board 2026). Among users with incomes below $25,000, 40 percent said their primary reason for using BNPL was that it was the only way that they could afford the purchase. In the pay-in-four market, borrowers with subprime or deep subprime credit scores comprise the majority of originations (61 percent; CFPB 2025b). People with at least one BNPL loan in a given month were more likely to hold higher balances on other types of debts, though this pattern might largely reflect the characteristics of BNPL users rather than being caused directly by BNPL usage itself (CFPB 2025b). Only 4.1 percent of pay-in-four BNPL loans were assessed a late fee in 2023 (CFPB 2025b), and in many cases, consumers can petition providers to waive late fees. Still, many borrowers struggle to repay their BNPL loans. A quarter of BNPL users had made a late payment in the past year, with younger users and those earning less than $50,000 more likely to make late payments (Federal Reserve Board 2026). Sixty-four percent of BNPL users who made a late payment said the provider charged them extra for paying late (Federal Reserve Board 2026).

Financial Impact

The evidence about how using BNPL affects consumers' financial well-being is mixed. On the one hand, studies have shown that BNPL increases credit scores, reduces financial distress arising from late or missed debt payments, and broadens credit access among consumers who have been underserved by traditional credit providers (Papich 2022). Conversely, other studies have shown that BNPL creates new risks, especially among financially vulnerable consumers. One study finds that BNPL use leads to increases in overdraft charges, credit card interest, and delinquencies on other credit products (deHaan et al. 2024). This may be explained by the fact that many consumers simultaneously hold multiple BNPL loans (CFPB 2025b), often across different providers, which can present debt challenges beyond their ability to repay. Other studies suggest that BNPL may incentivize overconsumption by reducing the salience of a purchase's total cost, which increases both the likelihood of making a purchase, as well as the amount of a purchase (Maesen and Ang 2025). This is shown to increase the likelihood of negative outcomes such as overdraft or insufficient funds fees (Di Maggio, Katz, and Williams 2022).

Regulatory Environment

At the federal and state levels, how or whether existing lending and consumer-protection laws apply to a given BNPL product varies based on the entities involved, how payments are processed, the product's repayment terms, and whether it carries finance charges like interest. At the federal level, a range of existing laws may apply to BNPL products. These include the Consumer Financial Protection Act, including its prohibition on unfair, deceptive, or abusive acts or practices (UDAAPs);[7] the Electronic Fund Transfer Act and Regulation E;[8] and, in some cases, federal banking laws applicable to bank-originated or bank-partnered products. The Truth in Lending Act (TILA) and Regulation Z might also apply depending on the terms and structure of the BNPL product.[9] Products that require repayment in

more than four installments (excluding any down payment) or that impose finance charges (including interest) are generally covered. Typical no-interest pay-in-four BNPL products without a finance charge fall outside of TILA and Reg Z requirements.[10] At the state level, the regulatory treatment of pay-in-four products varies across jurisdictions, with the same product characteristics potentially determining whether a BNPL product falls within or is exempt from laws governing small-dollar loans, installment loans, retail or installment-sales, usury, licensing, or BNPL services.

In 2024, the Consumer Financial Protection Bureau (CFPB) issued an interpretive rule that signaled a move toward treating BNPL like credit cards under Regulation Z,[11] thereby extending certain requirements applicable to open-end credit to BNPL products. However, in 2025, the agency withdrew the rule.[12] In recent years, federal lawmakers have also introduced legislation with differing approaches to BNPL regulation (Schneider and Tierno 2026). Some bills seek to limit CFPB oversight of BNPL products. Others, like the Buy Now Pay Later Consumer Protection Act of 2026 (H.R. 9275), would apply existing credit card consumer protections to BNPL products through an amendment to TILA.[13] Several of the introduced bills call for further study of BNPL's risks and long-term impacts, reflecting the current lack of a central and official mechanism to collect data on the industry.

Amid federal regulatory uncertainty, some BNPL providers have adopted industry best practices and voluntarily committed to consumer-protection standards, such as clear and transparent terms and conditions, consumer-friendly returns and refund processes, and capped fees.[14] State oversight of BNPL has also expanded in recent years. A few states including California,[15] New Mexico (Creech 2025), and Maryland[16] have taken steps to regulate BNPL products, including pay-in-four products, under their existing lending laws. To date, two states have passed BNPL-specific legislation. In 2025, New York enacted the nation's first comprehensive BNPL law and published related proposed rules. Illinois then passed the Buy-Now-Pay-Later Loan Consumer Protection Act in 2026. Other states have launched efforts to gather information on the BNPL market. In 2025, Connecticut led a multistate coalition of attorneys general that investigated major BNPL providers' underwriting practices, fee structures, disclosures, and consumer protections. These efforts reflect states' growing interest in understanding BNPL and designing laws and regulations to ensure that BNPL supports consumers' financial well-being.

BNPL Policies to Support Financial Well-Being

We identified six key objectives that state policymakers, agencies, and regulatory bodies can pursue to ensure that BNPL products are designed to support consumers' financial well-being:

1. Require clear authorization, oversight, and accountability
2. Promote transparent terms and fair pricing
3. Facilitate responsible underwriting and reporting
4. Ensure affordable repayment practices
5. Provide effective dispute resolution processes
6. Protect consumer data, privacy, and autonomy

To identify these objectives, we reviewed academic and policy literature, as well as state laws and regulations in four states. We interviewed key stakeholders, including state policymakers and regulators, industry representatives, and consumer advocates about the current market landscape and regulatory frameworks, perceived impact on financial well-being, and future implications. We outline specific policies that states have used to achieve each objective in the tables below (tables 1–6, column 1). These policies address practices and risks associated with BNPL products. In some cases, these policies reflect existing or common industry practices. In other cases, they have not been widely adopted across the industry. Some are also relevant to other consumer-credit markets because the risks they address, such as opaque pricing, costly repayment and repeated borrowing, are not unique to BNPL products. Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

We present the rationale for each policy and summarize evidence where it exists—including from related credit markets and consumer-finance contexts—to provide insight into the potential benefits, risks, and tradeoffs of different policies (tables 1–6, column 2). To help policymakers assess how they could pursue these policies given their legal authority and institutional capacity, we include examples of how states have implemented a given policy through one or more regulatory approaches (tables 1–6, column 3):

1. **Enact specific BNPL laws and rules:** states create tailored requirements that directly regulate BNPL products, providers, and practices.
2. **Apply existing authority to BNPL:** states apply lending law, consumer protection law, licensing, supervision, examination, and enforcement to BNPL.
3. **Gather BNPL market data:** states issue attorneys general (AG) inquiries, requests for information (RFIs), subpoenas, questionnaires, and data calls regarding BNPL.

By pairing six financial well-being objectives with potential policies, this brief can help state policymakers assess how BNPL might be affecting their constituents' economic stability, map what policies they have at their disposal to respond and fit their legal authority and institutional capacity and ensure that BNPL products can support their constituents' financial resilience.

BOX 1

Key State Examples of Each Regulatory Approach

Enact BNPL-specific laws and rules

N.Y. Banking Law Article 14-B[a] has been enacted, but implementation depends on Department of Financial Services (DFS)'s final adoption of regulations. DFS proposed Title 3 of the New York Codes, Rules and Regulations (NYCRR) Part 423 is not currently in effect. Citations to DFS's proposed Part 423 should be treated as proposed regulatory text unless and until the rule is adopted.

Illinois's Buy-Now-Pay-Later Loan Consumer Protection Act[b] states that no person is required to comply until January 1, 2028, or a later date established by rule.

Apply existing authority to BNPL

California and Maryland have publicly and affirmatively applied their existing lending laws (including Consumer Financing Law in California and Consumer Loan Law in Maryland) to short-term BNPL, including pay-in-four products, through enforcement actions.[c] They are illustrative rather than exhaustive examples and other states might also apply existing authority to some BNPL products in varying cases.

Gather BNPL market data

Connecticut's Attorney General inquiry[d] involved a multistate coalition that sent information requests to the six largest BNPL providers, seeking details on pricing, repayment structures, disclosures, underwriting practices, credit reporting, and consumer disputes.

New York Department of Financial Services's Request for Information[e] sought detailed input from BNPL providers and other stakeholders on business models, fee structures, underwriting practices, and the potential effects of regulatory requirements as the agency developed regulations pursuant to New York's BNPL Act.

[a] N.Y. Banking Law art. 14-B, §§ 735–749, https://newyork.public.law/laws/n.y._banking_law_article_14-b.
[b] Buy-Now-Pay-Later Loan Consumer Protection Act, Ill. Pub. Act 104-0475 (2026), https://my.ilga.gov/Documents/Legislation/PublicActs/104/PDF/104-0475.pdf.
[c] Four Technologies, Inc., Consent Order, California Department of Financial Protection and Innovation, August 3, 2022, https://dfpi.ca.gov/enforcement_action/four-technologies-inc/.
[d] "Attorney General Tong Launches Inquiry into Buy Now, Pay Later Lenders," Connecticut Office of the Attorney General, press release, December 1, 2025, https://portal.ct.gov/ag/press-releases/2025-press-releases/attorney-general-tong-launches-inquiry-into-buy-now-pay-later-lenders.
[e] "Request for Information Regarding 'Buy-Now-Pay-Later' Activities," industry letter, New York State Department of Financial Services, July 31, 2025, https://www.dfs.ny.gov/industry_guidance/industry_letters/il20250731-rfi-bnpl-activities.

Objective 1: Require Clear Authorization, Oversight, and Accountability

Given the complexities of the federal and state regulatory environment, it is often not clear which laws apply to a particular BNPL product, which regulator has oversight responsibility, or whether similar products are subject to consistent requirements. The BNPL market continues to evolve rapidly, with providers introducing new product structures, features, and forms of partnerships. States can benefit from building the institutional capacity to monitor the BNPL market and respond as it changes. Licensing, supervision, examinations, reporting requirements, enforcement authority, and clearly defined statutory coverage can help regulators identify which firms and products are subject to oversight, monitor market conduct, and collect evidence on consumer outcomes (table 1).

TABLE 1

Require Clear Authorization, Oversight, and Accountability: Policies and Regulatory Approaches

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Require BNPL providers to obtain a license or authorization before offering loans in the state and seek permission for the categories of BNPL loans they offer.	Creates or clarifies a basis for state oversight, allowing states to examine BNPL providers' underwriting practices, repayment structures, and product changes relevant to consumers' repayment capacity or cash-flow stability.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 737; ▪ DFS proposed 3 NYCRR Part 423 §§ 423.2-423.3; ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act §§ 4–5. **Apply existing authority to BNPL** ▪ Cal. Fin. Code § 22100(a); ▪ California DFPI and Four Technologies consent order; ▪ Md. Commercial Law Code Ann., §§ 12-302, 12-303, 12-314; ▪ Maryland OFR and Four Technologies order.
Define the BNPL products and businesses subject to state laws to ensure that substantially similar products are covered even when offered through different contractual or business structures.	Creates a clear regulatory perimeter while reducing gaps that can arise when substantially similar BNPL products use different contractual or business structures.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.1(d), (f); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act §§ 2, 5.
Require BNPL providers to submit periodic reports to regulators and where authorized, publish aggregate market data.	Creates an ongoing evidence base on BNPL market practices and performance that regulators can use to identify emerging risks, target supervision, and assess how the market changes after protections are adopted. Aggregate publication strengthens market transparency and public accountability.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 743(2); ▪ DFS proposed 3 NYCRR Part 423 § 423.7; ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 30. **Apply existing authority to BNPL** ▪ Cal. Fin. Code §§ 22159–22160; ▪ California DFPI and Four Technologies consent order.

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.

Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

Objective 2: Promote Transparent Terms and Fair Pricing

Many BNPL products provide consumers with access to credit at zero or low borrowing costs. A consumer who finances a purchase with a typical pay-in-four BNPL product may pay $0 interest and fees, whereas credit cards can incur interest at rates exceeding an annual percentage rate (APR) of 20 percent[17] and a payday loan can carry APRs of three digits.[18] However, some BNPL products carry fees or finance charges. While pay-in-four products do not carry traditional interest charges, some providers charge one or more types of fees that can produce non-zero and sometimes high APRs. These fees include installment origination fees,[19] service fees,[20] and contingent charges such as late fees,[21] failed-payment fees,[22] or reschedule fees.[23] Under New York DFS's proposed rules, any amount charged as a condition of making or originating a BNPL loan or for making an installment would be treated as interest regardless of how it is labeled. Fees for payment-delay transactions (such as reschedule fees) would likewise count as interest, while qualifying penalty fees are treated separately. For example, one of the major BNPL providers states that a $400 purchase repaid through four biweekly installments would incur an $8 origination fee, which results in an APR of 34.75 percent,[24] compared with the average 25.2 percent APR for credit cards in 2024 (CFPB 2025a). BNPL providers who offer subscription plans often charge subscription fees[25] that are separate from the extension of credit and in many cases are not captured in the loan's APR disclosure. Meanwhile, longer-term installment BNPL products might charge interest in addition to the fees detailed above.

The differences in how fees and finance charges are structured and disclosed can make it difficult for consumers to understand the true cost of using a BNPL product. This is especially true when interest-bearing BNPL loans are presented alongside pay-in-four products. State policymakers can help ensure consumers can make informed financial decisions by ensuring BNPL products have transparent pricing and terms through policies listed below (table 2).

TABLE 2

Promote Transparent Terms and Fair Pricing: Policies and Regulatory Approaches

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Require BNPL providers to make clear disclosures of loan terms and costs before a transaction and, where required, provide post-transaction confirmation.	Evidence from use of financial products show that clear terminology and standardized disclosure formats has been shown to significantly improve consumers' understanding and comparison of credit products.[a]	**Enact BNPL-specific laws and rules** ■ N.Y. Banking Law § 746(1); ■ DFS proposed 3 NYCRR Part 423 § 423.12(a)(2) and (3); ■ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act §§ 27(a), 27.5. **Apply existing authority to BNPL** ■ California Retail Installment Sales Act (Unruh Act), Civ. Code §§ 1806.2, 1810.1, 1810.3, 1810.11

Policy	Rationale	Regulatory approaches
Require advance notice of payment due dates and periodic statements that clearly identify outstanding balances, upcoming due dates, and applicable fees.	Research shows that timely reminders and ongoing information about outstanding obligations and repayment terms on credit cards improve repayment behaviors and reduce delinquency.[b]	**Enact BNPL-specific laws and rules** ▪ DFS 3 NYCRR proposed Part 423 §§ 423.12(a)(4)(ii)-(v), 423.9(b)(2)(iv).
Prohibit false or misleading BNPL advertising, including ads that emphasize periodic payment amounts without equally prominent disclosure of the total payments and repayment period, or that advertise "no interest" while obscuring material fees or finance charges.	Evidence on retail markets suggests that requiring firms to present an all-inclusive price upfront and preventing firms from competing primarily on low headline prices while imposing additional charges later can improve consumer welfare by helping consumers understand the full cost and commitment.[c]	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 744(2)(a)–(b); ▪ DFS proposed 3 NYCRR Part 423 § 423.8(d)–(e); **Apply existing authority to BNPL** ▪ Cal. Business & Professions Code §§ 17200, 17500; ▪ Md. Commercial Law Code Ann., Consumer Protection Act § 13-301;
Apply existing state rate caps to interest-bearing BNPL products and prevent fees from being structured to evade those limits.	Empirical research on payday and small-dollar lending finds that limiting finance charges including interest reduces borrowing costs,[d] though studies reach mixed conclusions on broader welfare effects of enforcing rate caps because they may also reduce credit access.[e]	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 745(1); ▪ DFS proposed 3 NYCRR Part 423 § 423.9(a); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 28. **Apply existing authority to BNPL** ▪ Md. Commercial Law Code Ann., §§ 12-101, 12-103, 12-306; ▪ California Constitution Article XV Usury.

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.

Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

[a] Jeanne M. Hogarth and Ellen A. Merry, "Designing Disclosures to Inform Consumer Financial Decisionmaking: Lessons Learned from Consumer Testing," *Federal Reserve Bulletin* 97, no. 3 (2011), https://www.federalreserve.gov/pubs/bulletin/2011/articles/designingdisclosures/.

[b] Daniel Campbell, Andrew Grant, and Susan Thorp, "Reducing Credit Card Delinquency Using Repayment Reminders," *Journal of Banking & Finance* 142 (2022): 106549, https://doi.org/10.1016/j.jbankfin.2022.106549.

[c] Alexander Rasch, Miriam Thöne, and Tobias Wenzel, "Drip Pricing and Its Regulation: Experimental Evidence," *Journal of Economic Behavior & Organization* 176 (2020): 353–70, https://doi.org/10.1016/j.jebo.2020.04.007.

[d] Qi Zhang and Amity Quinn, "Demand and Consumer Surplus in the Payday-Loan Market: Evidence from British Columbia," *Applied Economics Letters* (2025): 1–5, https://doi.org/10.1080/13504851.2025.2606933.

[e] Brian T. Melzer, "The Real Costs of Credit Access: Evidence from the Payday Lending Market," *Quarterly Journal of Economics* 126, no. 1 (2011): 517–55, https://doi.org/10.1093/qje/qjq009; and Jonathan Zinman, "Restricting Consumer Credit Access: Household Survey Evidence on Effects around the Oregon Rate Cap," *Journal of Banking & Finance* 34, no. 3 (2010): 546–56, https://doi.org/10.1016/j.jbankfin.2009.08.024.

Objective 3: Facilitate Responsible Underwriting and Reporting

Many pay-in-four BNPL providers conduct risk-based underwriting using proprietary risk models that differ from those required for traditional loans, placing less emphasis on traditional credit scores and relying on more streamlined processes based on alternative data sources such as soft credit checks, transaction data, and prior repayment histories. They generally do not fully consider whether consumers can reasonably afford a new debt obligation given their income, existing obligations, and overall financial circumstances like monthly expenses.

One key advantage of the current BNPL underwriting approach is that it could expand credit access. Research shows that consumers dislike hard credit checks and are more willing to seek financing because they do not have to worry about harming their credit profile (Aidala et al. 2025). From the provider's perspective, this streamlined process lowers origination and servicing costs relative to traditional lending, making it more feasible to offer small-dollar credit products to a broader group of consumers.[26] Together, these practices allow consumers with limited credit histories or lower credit scores to obtain financing that would otherwise be unavailable or more expensive (Larrimore et al. 2025).

However, the same features may also introduce risks. Underwriting that relies mostly on soft credit checks and internal proprietary risk models means that providers may have less complete information about a consumer's outstanding obligations and repayment capacity, particularly when consumers hold BNPL loans across multiple providers, which could create a higher risk of overextension of credit.

In addition, though BNPL could provide consumers with a path for credit building, this has faced many obstacles in reality. Currently, BNPL providers have inconsistent reporting practices, especially regarding pay-in-four products (Wang 2026). Traditional credit-reporting systems were designed primarily around longer-term products such as mortgages, auto loans, and credit cards. Credit-scoring models are beginning to incorporate BNPL data, but furnishing remains inconsistent.[27] For BNPL to become a credit-building pathway, these reporting frameworks and scoring models would need to better account for short-term BNPL borrowing.

Thus, underwriting practices and credit reporting frameworks together shape how effectively lenders can assess repayment risk and whether BNPL could help consumers build credit through responsible use. States can promote responsible underwriting and more accurate credit reporting through the policies discussed below (table 3).

TABLE 3

Facilitate Responsible Underwriting and Reporting: Policies and Regulatory Approaches

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Require risk-based underwriting including considering a consumer's income and indebtedness.	Research in mortgage markets and consumer credit finds that underwriting quality strongly predicts delinquency and default outcomes. Requiring strong and standardized risk-based underwriting appropriate for BNPL products can reduce risks of overextension while preserving access to credit.[a]	**Enact BNPL-specific laws and rules** ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 26 (loans payable in four or fewer installments or with terms of 120 days or less); ▪ N.Y. Banking Law § 746(2); ▪ DFS proposed 3 NYCRR Part 423 § 423.12(b). **Gather BNPL market data** ▪ CT-led AG inquiry letters on repayment capacity; ▪ NY DFS BNPL RFI on underwriting.
Require clear disclosure of whether BNPL activity will or will not be reported to consumer reporting agencies.	Survey evidence suggests many BNPL consumers mistakenly believe that BNPL will help them build credit history.[b] Clear disclosures could potentially help consumers understand whether on-time repayment builds credit and whether missed payments can harm their future credit access.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 737; ▪ DFS proposed 3 NYCRR Part 423 §§ 423.2; ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act §§ 4–5. **Gather BNPL market data** ▪ NY DFS BNPL RFI.
Where providers furnish BNPL data to consumer reporting agencies, apply and enforce applicable accuracy and dispute requirements.	Research shows that accuracy and dispute requirements for credit reporting help protect consumers from errors that can affect their access to credit and the terms they receive.[c]	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 744(2)(d), 746(3); **Apply existing authority to BNPL** ▪ California Consumer Credit Reporting Agencies Act, Cal. Civ. Code §§ 1785.25; ▪ Md. Commercial Law Code Ann., Consumer Credit Reporting Agencies § 14-1205 (b).

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.

Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

[a] Atif Mian and Amir Sufi, "The Consequences of Mortgage Credit Expansion: Evidence from the US Mortgage Default Crisis," *Quarterly Journal of Economics* 124, no. 4 (2009): 1449–96, https://doi.org/10.1162/qjec.2009.124.4.1449.

[b] *Economic Well-Being of US Households in 2025* (Board of Governors of the Federal Reserve System, 2026), https://www.federalreserve.gov/publications/files/2025-report-economic-well-being-us-households-202605.pdf.
[c] *Section 319 of the Fair and Accurate Credit Transactions Act of 2003: Fifth Interim Federal Trade Commission Report to Congress Concerning the Accuracy of Information in Credit Reports* (Federal Trade Commission, 2012), https://search.ftc.gov/sites/default/files/documents/reports/section-319-fair-and-accurate-credit-transactions-act-2003-fifth-interim-federal-trade-commission/130211factareport.pdf.

Objective 4: Ensure Affordable Repayment Practices

For some consumers, BNPL's installment repayment structure and defined end date can be easier to budget around than open-ended revolving credit. Research has shown that BNPL checkout integrations reduced the amount and frequency of delinquencies and increased consumers' credit scores (Papich 2022). Research has also found that default rates for pay-in-four BNPL loans are substantially lower than those for credit cards, albeit this might also be a result of the automatic repayment setup for most BNPL products (CFPB 2025b).

BNPL poses several repayment risks. First, BNPL's purchase-linked design and emphasis on small installment amounts prompt consumers to increase purchase frequency and purchase amount (Kumar, Salo, and Bezawada 2024). Most BNPL borrowers have more than one active pay-in-four BNPL loan at any given time (CFPB 2025b), producing cumulative debt loads that could exceed a consumer's capacity especially when consumers hold these loans across different providers who lack visibility into obligations incurred elsewhere. Though most providers limit a consumer from borrowing more after a missed payment,[28] these safeguards don't capture obligations held with other BNPL providers. Second, provider-charged repayment-related fees can exacerbate debt burdens once borrowers encounter repayment difficulties. While pay-in-four products are often marketed as interest free, some providers charge late fees, failed-payment fees, or other penalties after a missed payment. Cumulatively, even relatively small fees can meaningfully deepen repayment challenges. Third, repayment burdens can increase when borrowers lack sufficient funds to cover scheduled payments, a concern that is especially relevant given the widespread use of automatic debits in BNPL. Research has shown that 11 percent of adults who used BNPL had a BNPL payment trigger an overdraft or nonsufficient funds (NSF) fee from their bank in 2025 (Federal Reserve Board 2026). Another study provides causal evidence that first-time use of BNPL leads to rapid increases in bank overdraft fees (4 percent higher), credit card interest rates (1 percent) and credit card late charges (2.3 percent; deHaan et al. 2024). States can protect consumers from repayment risks by establishing safeguards around repayment terms, fees, and servicing practices that support transparent and manageable repayment (table 4).

TABLE 4

Ensure Affordable Repayment Practices: Policies and Regulatory Approaches

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Where late fees are permitted, establish or apply a minimum grace period before a BNPL provider may charge the fee.	Grace periods could provide consumers time to resolve a short-term payment disruption before an additional charge increases the cost of the loan and deepens repayment difficulty.	**Apply existing authority to BNPL** ▪ Cal. Fin. Code § 22320.5; ▪ California DFPI and Four Technologies consent order.
Require interest-bearing installment BNPL providers to permit prepayment at any time and without a prepayment penalty.	Research on mortgage markets show that prepayment penalties restrict borrower flexibility without improving repayment performance. Free and flexible prepayment gives consumers flexibility to retire debt sooner and with less interest, potentially freeing future cash flow for savings.[a]	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.9(c)(2); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(i). **Apply existing authority to BNPL** ▪ Md. Commercial Law Code Ann., Credit Regulations § 12-1009. ▪ California Retail Installment Sales Act (Unruh Act), Civ. Code § 1806.3
Limit or prohibit fees charged to consumers for making BNPL payments, including fees based on payment method or expedited processing of a repayment.	Limiting payment-related fees could prevent consumers from incurring extra charges that make repayment more expensive.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.9(c)(1); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(j).
When a consumer pays more than the amount due, require BNPL providers to apply the excess first to the consumer's highest-interest BNPL balance.	Research on credit card repayment shows that consumers often spread payments across balances rather than directing excess payments to the highest-interest debt, resulting in higher interest costs.[b] A reasonable excess-payment allocation rule could therefore help reduce borrowing costs for consumers with multiple interest-bearing loans.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.9(c)(2)-(3)(i)-(ii).

Policy	Rationale	Regulatory approaches
Require BNPL providers to issue standardized periodic consumer statements showing active BNPL loans, finance charges and rates, and repayment schedules with that provider.	A standardized statement makes total repayment obligations visible instead of scattering them across apps, emails, and merchant receipts. Experimental evidence on payday lending shows that making all loan obligations and cumulative costs more salient in one place reduces subsequent borrowing and improves decision-making.[c]	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.12(a)(4). **Apply existing authority to BNPL** ▪ California Retail Installment Sales Act (Unruh Act), Civ. Code § 1810.3
Limit BNPL providers to two attempts to collect any one installment or other amount due through the same payment method.	Research shows that repeated debit attempts after an initial failed payment are unlikely to succeed and can increase consumer harm by triggering additional NSF or overdraft fees.[d]	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.11(b); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(g). **Gather BNPL market data** ▪ CT-led multistate AG BNPL inquiry letters
Ensure consumers have a reasonable payment option that does not require automatic payment, and prohibit fees to cancel automatic payments.	Evidence on automatic payments is mixed. Research from credit card markets shows automatic repayment can reduce delinquency and missed payments, but can also worsen liquidity stress and overdraft exposure.[e] Prohibiting auto payments could preserve consumer control over repayment if paycheck timing changes or account balances are volatile.	**Enact BNPL-specific laws and rules** ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(e).
Limit penalty fees for late payment, default, or other violations of BNPL loan terms, and prohibit multiple penalty fees based on a single event or transaction.	Evidence from credit cards shows that limits on penalty fees substantially reduced borrowing costs for consumers, particularly those with lower credit scores, without leading to increases in interest rates or reductions in credit access.[f]	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 745; ▪ DFS proposed 3 NYCRR Part 423 § 423.9(b); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(j) **Apply existing authority to BNPL** ▪ Md. Commercial Law Code Ann., §§ 12-306, 12-307, 12-314; ▪ Md. Commercial Law Code Ann., Credit Regulations § 12-1008. **Gather BNPL market data** ▪ NY DFS BNPL RFI

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.

Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

[a] Andrea Beltratti, Matteo Benetton, and Alessandro Gavazza, "The Role of Prepayment Penalties in Mortgage Loans," *Journal of Banking & Finance* 82 (2017): 165–79, https://doi.org/10.1016/j.jbankfin.2017.06.004.

[b] John Gathergood, Neale Mahoney, Neil Stewart, and Jörg Weber, "How Do Individuals Repay Their Debt? The Balance-Matching Heuristic," *American Economic Review* 109, no. 3 (2019): 844–75, https://doi.org/10.1257/aer.20180288.

[c] Marianne Bertrand and Adair Morse, "Information Disclosure, Cognitive Biases, and Payday Borrowing," *Journal of Finance* 66, no. 6 (2011): 1865–93, https://www.jstor.org/stable/41305179.

[d] *Online Payday Loan Payments* (Consumer Financial Protection Bureau, 2016), https://files.consumerfinance.gov/f/201604_cfpb_online-payday-loan-payments.pdf.

[e] *Data Point: Frequent Overdrafters* (Consumer Financial Protection Bureau, 2017), https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_frequent-overdrafters.pdf; and Benedict Guttman-Kenney, Paul Adams, Stefan Hunt, David Laibson, Neil Stewart, and Jesse Leary, "The Semblance of Success in Nudging Consumers to Pay Down Credit Card Debt," *American Economic Journal: Economic Policy* 17, no. 4 (2025): 72–105, https://doi.org/10.1257/pol.20230568.

[f] Sumit Agarwal, Souphala Chomsisengphet, Neale Mahoney, and Johannes Stroebel, "Regulating Consumer Financial Products: Evidence from Credit Cards," *Quarterly Journal of Economics* 130, no. 1 (2015): 111–64, https://doi.org/10.1093/qje/qju037.

Objective 5: Provide Effective Dispute Resolution Processes

Consumers' financial well-being depends not only on the cost of credit when things go right, but also on what happens when things go wrong. Pay-in-four products generally have a relatively strong repayment performance. They have a low default rate and a low charge-off rate compared with traditional consumer credit products.[29] However, these metrics for repayment performance do not necessarily mean consumers have adequate remedies when purchases are disputed, returned, or unauthorized.

Dispute processes vary widely across BNPL providers, and consumers often face significant challenges to resolving disputes (Mierzwinski and Litt 2022). For example, to make a return or request a refund, consumers have to navigate both the merchant and the BNPL provider and may have to continue making payments on disputed or returned items. Consumers also do not have strong protections such as credit card chargeback rights[30] under Regulation Z, except in cases where the providers offer it voluntarily. State policymakers can help mitigate risks to consumers by establishing clear and effective dispute-resolution processes through the following policy options (table 5).

TABLE 5

Policies and Regulatory Approaches States Have Used to Advance Objective 5

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Require clear protections for billing disputes and unauthorized uses of BNPL, including investigation procedures and appropriate limits on consumer liability.	Standardized dispute and investigation procedures could give consumers a usable remedy when a merchant, platform, or provider dispute leaves them paying for goods not received, returned, or unauthorized.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 746(5); ▪ DFS proposed 3 NYCRR Part 423 § 423.12(d); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(c).

Policy	Rationale	Regulatory approaches
Require BNPL providers to establish fair, transparent, and not unduly burdensome refund and credit procedures.	Clear refund procedures could prevent consumers from being trapped between merchant and lender when goods are returned or services are not provided.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 746(4); ▪ DFS proposed 3 NYCRR Part 423 § 423.12(c); ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(d). **Gather BNPL market data** ▪ NY DFS BNPL RFI.
Require BNPL providers to pause collection and adverse credit reporting while a billing dispute is pending.	Pausing collection and credit reporting could protect consumers from escalation while the lender investigates whether the charge is valid.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.12(d)(4). **Apply existing authority to BNPL** ▪ California Consumer Credit Reporting Agencies Act (CCRAA), Civ. Code § 1785.16.
Require BNPL providers to establish clear complaint channels, policies, and customer service access.	Clear complaint channels could allow consumers to have an accessible method to raise billing errors, unauthorized use, refund problems, or hardship requests.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 §§ 423.12(f)(2), 423.13; ▪ Illinois Buy-Now-Pay-Later Loan Consumer Protection Act § 27(a)(1), (c). **Gather BNPL market data** ▪ CT-led multistate AG BNPL inquiry letters.
Require BNPL providers to respond to billing errors, unauthorized use reports, and payment-relief requests in the same language they use to advertise.	Research on financial products finds that language barriers can interfere with managing financial products, resolving problems, and accessing financial education.[a]	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.12(f)(1). **Gather BNPL market data** ▪ CT-led multistate AG BNPL inquiry letters.
Require BNPL providers to share information on dispute processes and servicing outcomes, including disputed charges, refund practices, and customer-service barriers.	Helps states identify recurring consumer problems and determine whether targeted legislation, rules, enforcement priorities, or supervisory guidance may be warranted.	**Gather BNPL market data** ▪ CT-led multistate AG BNPL inquiry letters; ▪ NY DFS BNPL RFI.

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.

Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

[a] *Spotlight on Serving Limited English Proficient Consumers: Language Access in the Consumer Financial Marketplace* (Consumer Financial Protection Bureau, 2017), https://www.consumerfinance.gov/data-research/research-reports/spotlight-serving-limited-english-proficient-consumers/.

Objective 6: Protect Consumer Data, Privacy, and Autonomy

Like other emerging digital financial services, BNPL raises broad concerns regarding consumer privacy and autonomy. BNPL providers can access detailed purchase and repayment information, as well as shopping, merchant, and account data. This information can support underwriting and product functionality. For example, BNPL lending models use transaction data in underwriting processes that increase access to credit without increasing default rates, serving as a potentially better alternative to traditional credit scores (Nukala 2025).

But providers can also use these data for purposes beyond servicing the requested credit. Though most BNPL providers do not sell personal data to third parties (CFPB 2022), they allow extensive third-party sharing that can lead to indirect monetization,[31] such as targeted advertising that can encourage overspending. Without clear policies, BNPL providers could repurpose consumers' detailed transaction data in ways that are not fully visible or controllable by consumers. Some BNPL providers use manipulative marketing and design techniques. For example, retailers or providers sometimes set BNPL pay-in-four as the preselected option at checkout or give visual prominence over the alternative payment options (Johannesson 2021). This may encourage impulsive spending, especially among young and lower-income customers (Kumar, Salo, and Bezawada 2024). Some providers also design interfaces that prompt consumers to share personal data by making opting out difficult or impossible (Consumer Reports 2023). State policymakers can ensure consumers can make informed choices and have control over how and when their personal information is used (table 6).

TABLE 6

Protect Consumer Data, Privacy, and Autonomy: Policies and Regulatory Approaches

Policies and regulatory approaches that states have adopted for BNPL products

Policy	Rationale	Regulatory approaches
Apply state privacy protections to BNPL data and, where state law provides, limit uses or sharing of data beyond what is necessary to provide and service the requested credit without consumer consent.	Separates access to BNPL credit from data monetization or other unrelated uses and gives consumers greater control over how their information is used.	**Enact BNPL-specific laws and rules** ▪ N.Y. Banking Law § 746(6); ▪ DFS proposed 3 NYCRR Part 423 § 423.12(e); **Apply existing authority to BNPL** ▪ California Financial Information Privacy Act, Cal. Fin. Code §§ 4052.5, 4053, 4056. **Gather BNPL market data** ▪ NY DFS BNPL RFI.
Require clear and accessible privacy choices, including allowing consumers to withdraw consent or opt out of data sharing.	Makes consumer privacy choices meaningful by requiring a practical way to exercise, and later change, those choices.	**Enact BNPL-specific laws and rules** ▪ DFS proposed 3 NYCRR Part 423 § 423.12(e)(3), (5)

Policy	Rationale	Regulatory approaches
		Apply existing authority to BNPL ■ California Financial Information Privacy Act, Cal. Fin. Code § 4053
Prohibit manipulative consent design, including preselected consent, unequal prominence between consent and refusal, and bundling acceptance of multiple data uses.	Helps ensure that consent reflects an affirmative consumer choice rather than interface design that steers consumers toward broader data use.	**Enact BNPL-specific laws and rules** ■ DFS proposed 3 NYCRR Part 423 § 423.12(e)(3)(ii)(d)
Collect data on and assess how BNPL providers collect, use, share, and disclose consumer data, including emerging uses not addressed by existing privacy protections.	Helps states identify evolving data practices and determine whether existing protections remain adequate.	**Gather BNPL market data** ■ NY DFS BNPL RFI.

Source: Authors' analysis of New York, Illinois, California, Maryland, and Connecticut laws, regulations, enforcement actions, attorney general inquiries, requests for information, and other relevant materials.
Note: Because evidence on the effectiveness of these policies remains limited, we present the policies as options states have adopted or could consider, rather than as recommendations that every state should pursue.

What Policymakers Can Consider When Regulating BNPL

The preceding analysis identifies six overarching objectives, the policies states have used or could consider using to advance each objective, and three regulatory approaches through which the states can enact these policies. Taken together, the analysis highlights several broader considerations and tradeoffs for state policymakers.

Policies

The six objectives summarized address both regulatory infrastructure needed to oversee BNPL and product practices most directly tied to consumers' financial well-being. The policies used to advance those objectives serve different but complementary functions and may advance more than one objective.

Some policies are cross-cutting regulatory infrastructure, such as licensing, supervision, examination, reporting, complaint review, enforcement and penalties. These tools create the oversight structure that allows a state to authorize firms, monitor conduct, collect evidence, respond to complaints, and update law or regulation as the BNPL market evolves. Other policies pertain to product features or risks particularly salient to BNPL that shape consumers' financial well-being, such as compressed repayment schedules, multiple purchase-linked obligations, merchant-linked refunds and disputes, inconsistent credit reporting, automatic payment practices, and the use of detailed transaction data without meaningful consumer consent. Still other policies apply more broadly across consumer-

credit markets rather than uniquely to BNPL. Measures such as interest-rate and fee limits, disclosure requirements, underwriting standards, and general consumer-protection rules can be applied to BNPL products alongside other forms of credit and lending.

The inclusion of a policy in this report does not necessarily constitute an endorsement of that policy. Rather, the policies identified in this brief reflect ways that various states have adopted or proposed for BNPL products. In many cases, BNPL-specific regulation remains relatively new, and limited evidence exists on the effectiveness of particular interventions. Research from adjacent credit markets can therefore provide policymakers with an important empirical basis for evaluating similar interventions. While some measures may offer important consumer protections with relatively limited effects on product design or availability, others may involve tradeoffs related to credit access, costs, or compliance burdens.

Policymakers should therefore view these policies as options rather than prescriptions. The appropriate policies to adopt will depend on the challenges a state seeks to address, the benefits it wishes to preserve, the authority already available under existing law, and the evidence regarding how BNPL affects consumers' financial well-being. Taken together, the policies described in this brief provide a starting point for understanding the range of available policies and how they might help mitigate risks or advance financial well-being objectives. As more evidence becomes available, states may be better positioned to evaluate which tools are most effective and whether additional interventions are warranted.

Regulatory Approaches

The analysis also shows that states are using three regulatory approaches: enacting specific BNPL laws, applying existing authority to BNPL, or gathering BNPL market data. Each approach offers different advantages and limitations, and states may use them independently or in combination. The appropriate approach depends on the problem a state is seeking to address, its existing legal authority, the available evidence, and institutional capacity. Enacting specific BNPL laws and rules can provide the broadest coverage within a single regulatory framework. New York and Illinois have dedicated statutes establishing licensing and supervisory authority while addressing conduct across multiple stages of the BNPL product lifecycle, spanning from how loans are offered, underwritten, disclosed, priced, repaid, reported to credit bureaus, and resolved when disputes or refunds arise.

These frameworks may be particularly useful where existing authority does not clearly reach the product or where policymakers seek comprehensive oversight across the BNPL lending process rather than relying on separate authorities that address only particular issues, such as licensing, rate caps, disclosures, or enforcement. However, dedicated BNPL statutes also carry potential drawbacks. Statutory coverage based on product-specific definitions may create opportunities for regulatory arbitrage if providers can modify loan terms to fall outside the law's scope, while a separate BNPL framework may unintentionally reduce transparency or oversight if products are removed from comprehensive and well-functioning reporting systems established in existing lending laws. For example, consumer advocates argue that Illinois's 120-day definition and existing lending framework

and loan database could weaken regulators' and advocates' ability to monitor lending patterns and consumer outcomes.[32] Finally, industry groups have argued that BNPL-specific frameworks, such as New York's, may regulate BNPL differently from other economically similar forms of credit.[33]

Applying existing authority to BNPL offers a practical and flexible alternative to dedicated BNPL legislation, while providing meaningful protections for BNPL users. California and Maryland have demonstrated that states can affirmatively apply existing lending authority to short-term, pay-in-four BNPL products, while other related laws may supply additional policies and protections. Where existing authority clearly applies, it can provide immediate protections without waiting for new legislation or creating an entirely new regulatory framework. However, existing authority may not fully address risks that are particularly salient to BNPL, such as its underwriting standards and lack of visibility into multiple concurrent BNPL obligations across providers, automatic repayment mechanisms, merchant-lender dispute resolution, and complicated fee structures. As a result, consumer-protection gaps and uncertainty about which laws apply may persist even where existing authority clearly applies. A further limitation is that relevant authority may be distributed across statutes, agencies, and product classifications rather than consolidated in a single BNPL framework. This fragmentation can create uncertainty for providers, regulators, researchers, and consumers alike regarding which laws apply, how they are enforced, and what rights and obligations attach to different BNPL products.

Gathering BNPL market data can help states identify evidence gaps and inform future action such as drafting specific BNPL legislation. States can use attorneys general inquiries, requests for information, and subpoenas to determine what additional evidence is needed, gain insight into how BNPL products are operating, detect emerging harms, and assess whether new rules or enforcement actions are improving consumers' financial well-being. These information-gathering tools can help states identify emerging practices and risks, determine what evidence is missing, and evaluate whether existing policies are working as intended. Their effectiveness depends on how the resulting information is ultimately used and is thus best viewed as a bridge to future legislative, regulatory, supervisory, or enforcement action. Ultimately, the regulatory pathway state leaders pursue should follow the problem the state is trying to solve, the legal authority they have available, the evidence the state has, and the institutional capacity of the relevant agency.

Conclusion

BNPL presents both opportunities and risks for consumers' financial well-being. This brief identifies a range of objectives, policies, and regulatory approaches that states can use to ensure that BNPL products promote consumer well-being. Rather than advocating for a single policy or regulatory approach, it highlights how states can draw on these tools depending on their policy goals, legal authority, and market conditions.

More broadly, this approach could serve as a starting point for policymakers seeking to develop guardrails for other new financial products and services, such as Earned Wage Access and AI-enabled financial tools. Evaluating these emerging products requires asking how they could affect consumers'

financial well-being, what data is needed to understand how they operate, what authority exists, and what additional policies may be necessary to support financial well-being while preserving potential benefits of these innovative products.

Notes

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[2] "Affirm Card," Affirm, accessed October 4, 2026, https://www.affirm.com/card. The Affirm Card allows consumers to make purchases as ordinary debit transactions and, for eligible purchases, convert those purchases into BNPL plans through the Affirm app.

[3] Patrick Cooley, "Google Pay Adds Afterpay BNPL Services," *Payments Dive*, November 19, 2024, https://www.paymentsdive.com/news/google-pay-adds-afterpay-bnpl-services/733339/. The integration allows consumers to access BNPL financing through digital wallets and payment platforms they already use, including selecting installment payments at checkout and managing repayment through those interfaces.

[4] Caitlin Mullen, "Klarna Adds Subscription Plan," *Payments Dive*, January 24, 2024, https://www.paymentsdive.com/news/klarna-plus-subscription-plan-buy-now-pay-later-bnpl-ipo/705447/. Klarna's subscription offering illustrates how some BNPL providers charge recurring monthly fees in exchange for benefits such as rewards, discounts, higher spending limits, or other premium features.

[5] "Klarna App: Pay Flexibly, Compare Prices & Earn Cashback," Klarna, accessed October 4, 2026, https://www.klarna.com/us/klarna-app/. The Klarna app combines BNPL financing with a broader ecosystem of services, including shopping tools, rewards programs, savings features, payment services, and digital-wallet functionality.

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[9] Truth in Lending (Regulation Z), 12 C.F.R. pt. 1026.

[10] Truth in Lending (Regulation Z), 12 C.F.R. § 1026.2.

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