Buy Now, Pay Later Credit User Characteristics and Effects on Spending Patterns

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Firms offering “buy now, pay later” (BNPL) point-of-sale installment loans with minimal underwriting and low interest have captured a growing fraction of the market for short-term unsecured consumer credit. We provide a detailed look into the US BNPL market by constructing a large panel of BNPL users from transaction-level data. We document characteristics of users and usage patterns, and use BNPL roll-out to provide new insights into consumer responses to unsecured credit access. BNPL access increases both total spending levels and the retail share in total spending, with magnitudes too large for standard intertemporal and static substitution effects to explain. These findings hold for consumers with and without inferred liquidity constraints. Our findings are more consistent with a “liquidity flypaper effect” where additional retail liquidity through BNPL “sticks where it hits”, than a standard lifecycle model with liquidity constraints.