

BNPL providers are approving more loan applications—here's why

Article



The news: Buy now, pay later (BNPL) providers approved 79% of applications in 2022, a jump from 56% in 2019, per a CFPB report.

The number of originated loans totaled an estimated 277.3 million that year. We estimate 69.2 million US consumers used BNPL users in 2022, per our forecast.

Here's how approval rates got so high:

- Providers offered more counteroffers. Instead of declining applications outright, they would condition approval on things like down payments above the typical 25%.
- Approving loans to consumers with subprime (between 580-619) and deep subprime (below 580) FICO scores also boosted approvals. Between 2021 and 2022, these groups **accounted for more than 60% of all originated BNPL loans**. Borrowers without a FICO score made up 4% of loans during this time period.
- And as the industry matured, a larger share of applications came from returning customers—letting providers use past repayment history to supplement their underwriting strategies.

Is this an issue? Despite approving riskier consumers, defaults on BNPL loans remain limited.

- **The average default rate on a BNPL loan was 1.9%** between 2021 and 2022. Comparatively, the credit card default rate was 8.7%.
- Consumers with no FICO scores had a default rate of 4.1%, while 3.5% of deep subprime consumers defaulted.

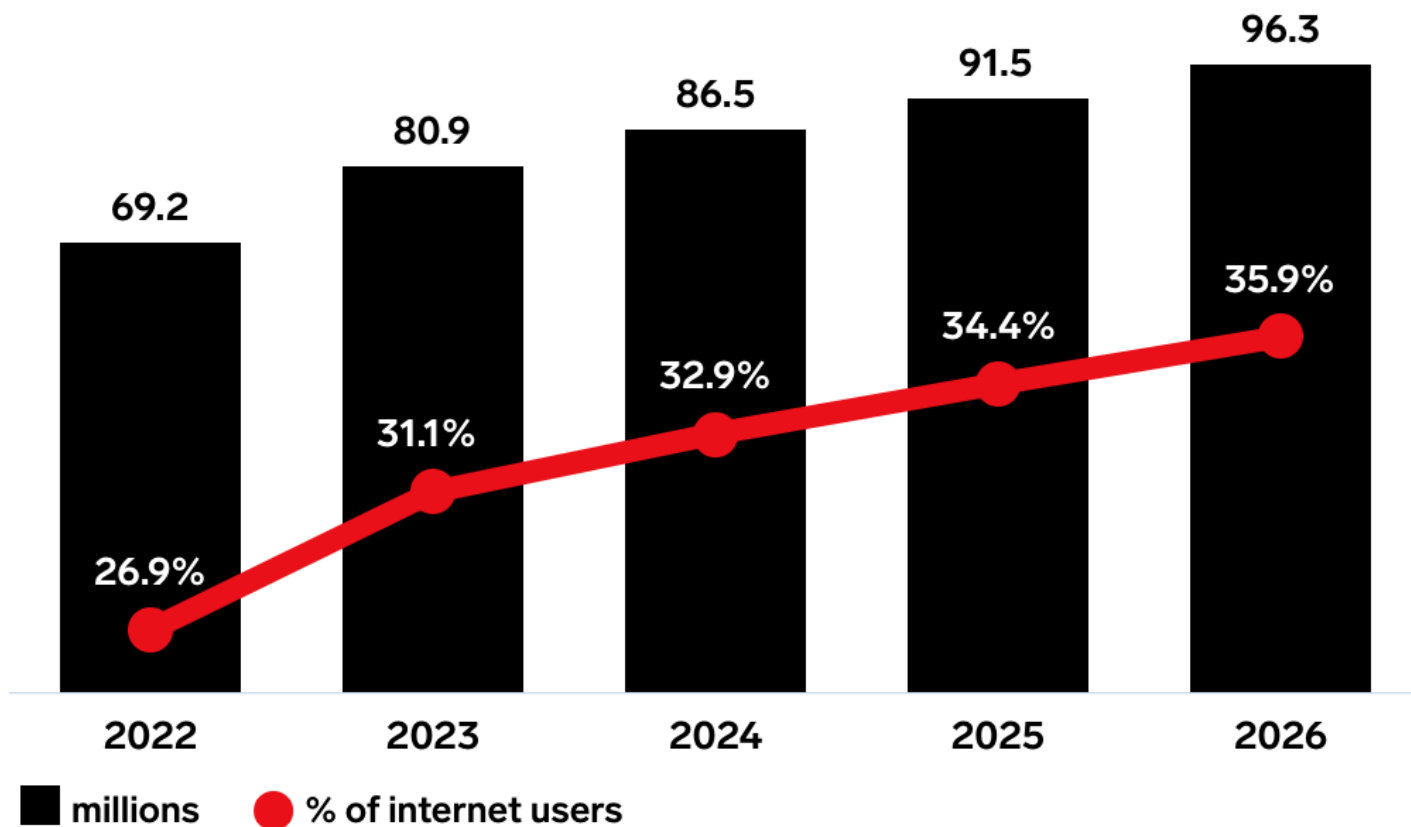
The CFPB attributes the stark divide between BNPL and credit cards' default rates to structural repayment differences. Most BNPL providers require automatic repayments. Consumers may also be paying down their BNPL obligations first because they're smaller and more manageable.

Our take: There are worrying signs that BNPL users may be overextending themselves, leaving them unable to pay back other debt obligations.

- Consumers who have used at least one BNPL loan in a given month are also more likely to hold higher balances on other types of unsecured consumer credit, per the CFPB.
- They're also [using BNPL for everyday expenses](#), possibly signaling they don't have the cash flow to get by.

Buy Now, Pay Later Service Users

US, 2022-2026



Note: ages 14+; internet users who have accessed a buy now, pay later account digitally and have made a payment toward a purchase at least once during the calendar year; includes purchases of goods and services

Source: EMARKETER Forecast, August 2024

EM EMARKETER

This article is part of EMARKETER's client-only subscription Briefings—daily newsletters authored by industry analysts who are experts in marketing, advertising, media, and tech trends. To help you finish 2024 strong, and start 2025 off on the right foot, articles like this one—delivering the latest news and insights—are completely free through January 31, 2025. If you want to learn how to get insights like these delivered to your inbox every day, and get

access to our data-driven forecasts, reports, and industry benchmarks, [schedule a demo with our sales team.](#)