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Buy now/pay later could help young consumers build credit histories

By Liz Pagel, Senior Vice President of Consumer Lending at TransUnion | March 09, 2022

Decades ago, my parents, then newlyweds, made the decision to finance their mattress — rather than buy it outright — to help establish their credit. Millions of people employ this financing strategy every year in the United States to begin building their credit, one loan at a time.

The popularity of buy now/pay later financing has spiked over the past few years, especially during the COVID-19 pandemic. Because BNPL transactions tend to have frequent payments and mature very quickly, they present a valuable and unique way for consumers to demonstrate their creditworthiness. The proliferation of BNPL lending could usher in a sea change in the credit and lending industries, with just over one-third of U.S. adults — disproportionately young and subprime borrowers — using these innovative credit products to finance everyday purchases.

Importantly, BNPL loan data could be the key to one of the most important financial inclusion opportunities in a generation, helping the **60 million** people in the U.S. who have slim or nonexistent credit files build credit responsibly. But how the credit reporting industry collects and treats this data may matter more than the data itself.

Though BNPL loans are transactional, like a credit card swipe, they are underwritten as individual unsecured installment loans. Because of this, a consumer with normal shopping patterns could take out several new loans a year, which most existing credit models view as risky behavior. The credit reporting industry plays a unique role in driving credit inclusion, which is why the industry needs to help these young and often subprime consumers build and enhance their credit

through BNPL reporting, while ensuring credit scores are not destabilized in the process.

In order to maximize financial inclusion opportunities for the millions of consumers who responsibly pay their BNPL loans as agreed, the industry must mainstream this data and include it on the core credit reporting file over time. This transformation will require transparency, a careful and deliberate evolution, and time, so that scoring and lending decisioning models can correctly capture the true predictive value of BNPL data.

With plenty of time to plan, the industry can avoid adverse impacts to credit scores as we make this transition, and we can realize the industry's shared goal of opening the doors of financial inclusion to more Americans.

The inclusion of BNPL data on credit files could drive a generational shift toward a more inclusive and predictive consumer lending ecosystem. In order for this opportunity to be fully realized, our industry needs to be aligned as we begin to incorporate BNPL data into the core reporting data system. As an industry, we have an obligation to consumers to work together to get it right.

While we wait for the industry and traditional models to properly adjust, the industry can make BNPL data available to augment current underwriting strategies. Used in addition to existing models, this data can begin helping consumers access more credit products in the near term.

There is still much to learn about the behaviors and risks associated with BNPL transactions, but we do know that the popularity of this lending product is growing exponentially and deserves to be incorporated properly into the credit ecosystem.