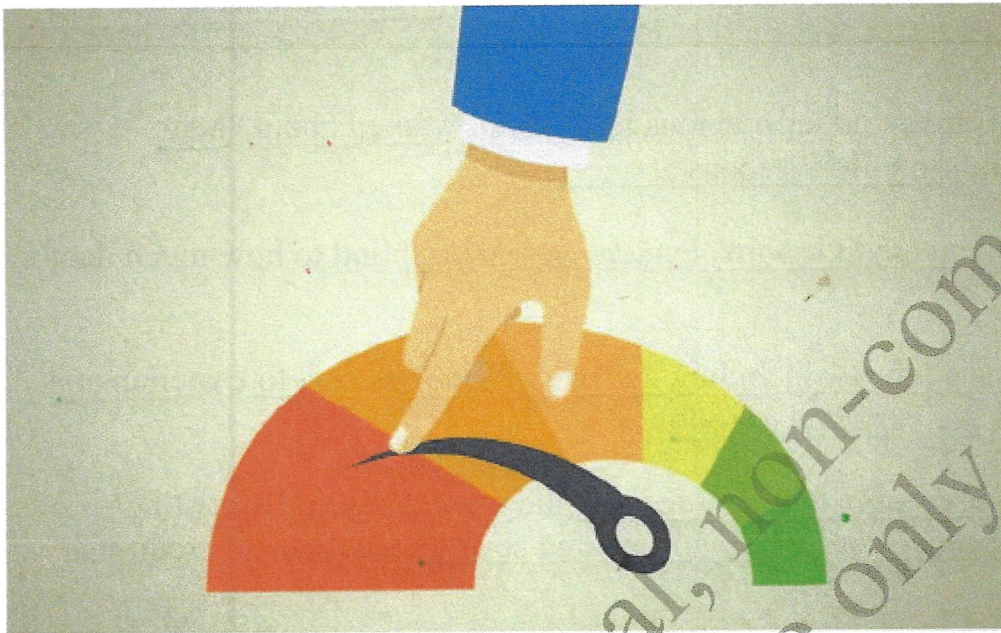


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LENDOR/ WSJ

‘Buy Now, Pay Later’ at Checkout Can Now Factor Into Credit Score

BY IMANI MOISE

Credit scores will start to take into account the hundreds of millions of loans tied to the “pay later” option at checkout.

Fair Isaac Corp., the company behind the most widely used U.S. credit score, said Monday that it would roll out a new model that factors into its scores the “buy now, pay later” loans used to finance everything from Gucci belts to groceries.

It is the first time FICO has ever introduced a score to account for a type of loan, according to Ethan Dornhelm, vice president of scores and predictive analytics at FICO.

The credit-scoring industry has long puzzled over how to evaluate these loans because they are so different than, say, a credit-card loan or auto loan.

These short-term plans, in which a customer often pays for their purchase in four installments over six weeks, are among the fastest-growing types of consumer credit over the past few years.

The value of BNPL transactions in the U.S. is expected to reach \$108 billion this year, up from \$94 billion in 2024, according to market-research firm Emarketer.

Some industry observers have said the growing reliance on BNPL loans might mask economic stress among American consumers.

The Consumer Financial Protection Bureau, under previous leadership, warned about "loan stacking," where consumers juggle multiple BNPL loans at once.

Because these loans haven't appeared on credit reports, lenders were often blind to how much debt a borrower had already taken on.

In April, Affirm began reporting all new loans—including its "pay in four" plans—to Experian and Trans-Union, a move other providers are expected to follow.

Factoring BNPL data into scores requires more than just feeding the numbers into the existing algorithm. Current scoring models penalize consumers for opening several new lines of credit in a short period.

That would mean opening four BNPL loans in a three-month period would cause a credit score to drop as much as it would if opening four credit cards in the same time frame—even though the BNPL loans aren't as risky as the credit cards.

So FICO is rolling out the new credit-scoring model and offering it --to alongside its current one, starting this fall.

Banks and credit card-companies will evaluate the new data but don't have to rely on it. Though the scores will be available to lenders, it is up to credit-reporting bureaus such as Experian, Equifax and TransUnion to decide when to make them visible to borrowers and lenders. So far, bureaus have decided to make BNPL data available to consumers, but they are waiting on more data before sharing them with lenders. The new scores were trained on a sample of more than 500,000 BNPL users in a joint study with Affirm. The model groups together multiple BNPL loans when evaluating creditworthiness. According to FICO, consumers with five or more Affirm loans typically saw their scores increase or remain stable under the new model during early testing. Still, more open lines of credit offer more chances for a borrower to fall behind.

Missing payments on a BNPL loan will be more likely to penalize your credit score.

Many younger consumers and new immigrants turn to BNPL before they apply for credit cards, meaning having the loans could help them build credit histories. However, it is ultimately up to lenders to decide how to evaluate potential borrowers who rely heavily on short-term financing.

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