

## Record Consumer Credit Card and Phantom Debt Help Welcome the New Year

By: Victoria Hudson

The year 2023 ended with Vermont being recognized as the top global domicile for captive insurance, several US Senators urging the Consumer Financial Protection Bureau to monitor the risks associated with “buy now, pay later” (BNPL) products, the Federal Reserve reporting U.S. [consumer debt surpassing the \\$5 trillion mark](#) in November, and the Office of the Comptroller of the Currency issuing [OCC Bulletin 2023-37 in December](#) specifically to provide guidance to banks and others on the effective management of risks associated with BNPL lending.

Increasing consumer debt – led by mortgage, credit card and student loan balances – already presents [growing concerns among economists](#) and others. The popularity of BNPL is only increasing their worry. Despite the lessons learned from the 2008 financial crisis, household debt as a proportion of gross domestic product has grown significantly in numerous countries. Recent studies show household debt levels in the U.S. as a fraction of GDP are high. BNPL's popularity and its ability to be spread across various retailers sans the typical regulatory safeguards easily can lead to excessive debt accumulation and over-extension by consumers, thereby exacerbating an already pressing issue.

BNPL was expected to and did reach record use levels over the holidays, starting with cyber week, based on [Adobe Holiday Shopping Trends data](#). Consumers used BNPL to finance \$16.6 billion between November 1 and December 31, 2023. Overall, vigorous holiday spending helped push consumer debt to \$23.8 billion above October levels and led to the third straight month of increases. Making matters worse is the trend of ["doom spending"](#) by Americans.

According to a 2021 survey by Credit Karma, 42% of American consumers have used BNPL at least once. With the explosive popularity of BNPL since 2019, [its ability to operate in a somewhat stealth mode due](#) to a lack of regulatory safeguards applicable to credit cards has led to significant scrutiny from federal and state regulators. Although [users span the gamut of demographics](#), troubling trends among certain users have politicians, state regulators and others seeking safeguards. U.S. Sens. Sherrod Brown (D-OH), Raphael Warnock (D-GA), and John Fetterman (D-PA) [implored CFPB Director Rohit Chopra](#) to monitor the risks posed by BNPL products. While acknowledging the benefits of BNPL - no interest and no fees and more easily accessible than regular credit - they noted that the BNPL structure can lead consumers to buy more and take on more debt. "BNPL usually incurs no interest and no fees," they wrote in their letter to Chopra. "However, BNPL may be structured to encourage consumers to purchase more and take on more debt. Unfortunately, consumers can overextend their finances in a short period of time, making the BNPL debt unmanageable." Noting the surge in BNPL this holiday season, the Senators implored the CFPB to ensure BNPL products do not become a method to take advantage of struggling consumers, especially amid reports

indicating that American households savings are down and many of them are struggling to repay elevated credit card, auto and other debts. Most importantly, one study shows 42% of BNPL borrowers made late payments toward those loans.

Meanwhile, the Department continues to monitor the BNPL market and products as part of its overall [consumer protection efforts](#). "The more DFR can educate Vermont consumers, the more we can all protect ourselves," DFR Director of Regulatory and Consumer Affairs Director Kelley M. Reed said. Reed recently attended, as part of DFR outreach purposes, the second of a four-part CFPB webinar series titled Your Money, Your Goals Training Series. "DFR is trying to educate consumers as much as we can through social media and our website to assist their understanding about the pros and cons of BNPL."

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