



September 2023

Buy Now, Pay Later By Mark Costlow

If you have shopped online recently, you may have noticed the proliferation of Buy Now, Pay Later (BNPL) offers at checkout. They're ubiquitous, appearing at the final payment stage of most ecommerce sites.

What is behind this sudden flood of payment options? Is it safe for consumers? Or are there hidden agendas? They promise interest-free flexibility for shoppers, so what is the catch?

While there are a couple of catches, BNPL may not be as sinister as some of us cynics would assume. But when there are hidden terms to an agreement, it's useful to shine some light on them so you know what you're giving up in exchange, if anything.

The Benefits

The most common offer is the "**pay-in-four**". For example, if you want a \$100 jacket, the lender will pitch you a plan to pay in 4 monthly or bi-weekly installments of \$25 each.

The most obvious benefit is instant gratification. These are short-term low- or no-interest loans, that allow people to buy things they might not otherwise be able to afford at that moment. **Teens can be especially drawn** to these deals. As with all borrowing, it can be very helpful, but also dangerous if not handled carefully.

A hallmark of the BNPL schemes is their streamlined application process. A **Nerdwallet article** details the short application you fill out right on the checkout screen. It requests basic information like name, address, email, date of birth and Social Security number. You must provide a payment method, such as a credit or debit card, from which your BNPL payments will

be automatically drawn.

The eyebrow-raiser here is what's missing in this process: *there is no credit check*. The big credit reporting agencies that get involved in every other credit-related transaction in our lives are generally not consulted for BNPL loans. That makes BNPL especially attractive for those who might not have existing good credit.

If you keep up the payments, you won't pay any interest on this installment loan. The **BNPL companies make most of their money on service fees that the merchants pay** to them, usually 2-3% of the item price plus a transaction fee. That is a very tempting alternative to typical credit card interest rates. Interest and penalties only happen if you don't make all of the installment payments.

Some compare BNPL to the layaway plans that used to be very common, before plastic took over our wallets. The big difference is that you get the goods ahead of time, without having to wait until you've paid the whole bill.

The Risks

So, easy money, instant gratification, not-unreasonable fees, what's not to like? Ironically, these very things could pose the most danger to some people. The finance boffins' term for this is "potential over-extension".

Some of us need guardrails to keep things in check. People with impulsive personalities, either generally or while imbibing, may find their BNPL purchases snowballing into something unmanageable. Each purchase only requires a partial payment, so you could find yourself saying "yes" to several items in a short period, without realizing the full impact it will have on your bank account in a few weeks.

The lack of a credit check drives this fear. The BNPL companies not consult Experian or Equifax, and they also don't share data with each other. There are many BNPL companies, so it is not hard to make a few purchases from different providers all at once.

The missing credit check also means BNPL loans will not help credit scores. One strategy to build credit is to start small, perhaps even with a pre-paid credit card,

and build credit worthiness by demonstrating your ability and willingness to pay over time. Each on-time payment inches your credit score up. Not so with BNPL.

The preferred payment method of BNPL providers, auto-pay from your debit card, is a potential source of trouble. It lowers the lender's risk of the consumer missing a payment, which they argue is partly how they avoid charging interest. But if you overextend or miscalculate and an auto-payment fails, you have very little time to avoid penalties (usually \$7 or \$8) and possible interest charges. In fact, a single "bounced" payment may incur those fees right away.

Another concern is data collection and privacy. BNPL providers are paid by the merchants they serve, and have a symbiotic relationship with them when collecting consumer behavior data. Some lenders' loan payment apps are effectively online shopping malls, steering consumers to more merchants who also use that lender for BNPL purchases. You may consider these trade-offs harmless but it is wise to recognize they exist.

Money isn't free, so the fiction of 0% interest is just that, fictional. The merchant fees are included in the item prices, and your activity may generate data they can sell. If any of this concerns you, read the privacy policy for the provider before submitting an application.

Finally, returns are complicated by BNPL loans. The merchant gets paid completely by the BNPL provider after you check out, and the lender will instruct you to contact the merchant to handle the return. When you do, it may not be clear to all parties who is responsible for what. For example, there are reports of people returning products to the merchant, but the lender continuing to take installment payments.

The Future

The BNPL model has been around for a few years, growing very fast recently. The number of loans handled by one set of lenders ballooned from 17 Million to 180 Million from 2019 to 2021, with the dollar amount shooting up from \$2 Billion to over \$24 Billion. The **Consumer Financial Protection Bureau** released a **September 2022 study**

that examines the players, how they behave, and whether consumers are helped or harmed by them.

The impression from the report is that the industry is largely well behaved, with the caveat of the consumer risks mentioned here. There is **not** evidence of predatory behavior like there is in the "payday loan" industry. Some quirks might be addressed soon, such as sharing data about borrowers with credit agencies and between BNPL lenders.

There are interesting tidbits in the report, such as BNPL users skew younger. Apparently older folks are more likely to pay the full price up front, either by disposition or circumstance. Average order size is up from \$121 to \$135, and the portion of orders in the Apparel and Beauty categories has dropped from 80% to 58% in one year. 10.5% of borrowers were charged at least one late fee in 2021, and 3.8% of loans defaulted.

If you go in with eyes open about the real costs and who pays them, BNPL loans are a useful tool. The fee the merchant pays is not much different from what they pay to process a credit card transaction, so it is already factored in to the purchase price whether you use BNPL or not. Just be mindful of the risks and make it work for you.

This Month in Ideas & Coffee

In-person WordPress Workalongs have resumed in our co-working space. The next one is **September 19 6pm - 7:30pm**. The workalongs include informal talk about WordPress, questions answered by resident experts, and sharing of ideas among all the participants.

Southwest Cyberport
New Mexico's Expert Internet Service
Provider since 1994

505-232-7992 | swcp.com | Tech support:
help@swcp.com

5021 Indian School NE, Ste. 600, Albuquerque, NM 87110
Click on bold blue type in browser for links.