



## **Season 1 Episode 5 – Buy Now, Pay Later: What Every Customer Should Know**

**March 24, 2023**

Speaker 1:

It's time for Alabama Money with Cynthia White and Portia Johnson. We'll have financial tips from financial experts from across the state, an extension specialist at Auburn University.

Cynthia White:

Hello and welcome to Alabama Money where we talk finance facts, fun and fast. We are your host, Cynthia White, extension agent, and Dr. Portia Johnson, Assistant Professor and Extension Specialist at Auburn University. Today we are discussing buy now and pay later companies and everything you need to know.

Portia Johnson:

That's right. So, I'm sure many of you are familiar with the buy now pay later concept, and there are a lot of these companies popping up online, companies like Affirm, After Pay, and Klarna that let you break up your payments in a fixed amount over a certain amount of time. And then those payments are due every two weeks or every month until it's paid off.

Cynthia White:

This is nothing new, remember layaway at Kmart? That's just one of the places that many people used it for Christmas time.

Portia Johnson:

That is so true. I can remember going to Kmart and seeing that long line in the back of the store with all those people making those payments on their monthly layaway plans in that long line there.

Cynthia White:

Now I'm sure there's some differences. What are those differences?

Portia Johnson:

So, there are a few differences between the Kmart layaway of the days of the past and this new online buy now pay later concept. A few of them is that this new concept is often referred to as the point of sale loan because when you're online and you're buying, you see that shiny new icon and it's right at the point of sale that they make the offer for you to take out this loan, because at the end of the day, it really is a loan. You get the goods right then, instead of waiting a year from now in a layaway scenario.

Cynthia White:

You'll see the logo on the website. It's so tempting. It's online, anytime you do online shopping, it can be Target, Walmart, ASOS, Fashion Nova, even furniture stores. I've even seen it on some of the new cosmetic stores, Sephora, where the little icon is down there. There's often zero interest. You just click on it. It's easy to get to and very straightforward.

Portia Johnson:

It sure is. Have you used it before?

Cynthia White:

Actually I have not. It's tempting.

Portia Johnson:

It is very tempting. So, I have a friend that has used it and she uses it often. And so, it made me think about it, which is why I thought it'd be a good thing for us to talk about today. What I found out that was really interesting is that some of these agencies actually do report to the credit agencies or bureaus like Equifax, Experian, TransUnion, and which ones report, which ones don't, how often they report, which ones they report to, we simply don't know.

Cynthia White:

So, what you're saying is we have to read the fine print before you quickly click that pretty little icon, and then go next, next, and agree, you want to read that agreement. It's actually a contract.

Portia Johnson:

Yes, check this out. Take Affirm for example, they only report some of their loans to some of the bureaus.

Cynthia White:

Right, that's confusing. They do not report loans with 0% APR, and with a biweekly payment.

Portia Johnson:

They also don't report loans that have that three month payment term preset, and with a 0% APR, really confusing.

Cynthia White:

But all their other loans are reported. The entire loan history amounts and length are all reported to Experian only.

Portia Johnson:

To Experian, not to Equifax or TransUnion. So, if the buy now pay later company does report to the bureaus, it could be a good thing because it could be helping you bill some credit.

Cynthia White:

But if you miss a payment, all the credit rules still apply. Late payments can hurt your credit score and it is a negative mark. The late payment will stay on your credit report for seven years just as with any other loan.

Portia Johnson:

Right. So, if you default because you made several late payments, that's really going to hurt your credit, if that company reports to that agency.

Cynthia White:

And that makes sense, but did you know that your score could be impacted even if you pay on time, all the time? And that's true for a few different reasons. One, every buy now pay later purchase is listed as a separate loan amount. They each get closed on your report once it's paid off. Because they are typically short term, they can lower your credit history average length.

Portia Johnson:

So, every single purchase on a buy now pay later is its own separate account. That can add up to a lot of separate accounts on your credit over time. And we know that the credit length makes up 15% of our credit score, our FICO credit scores.

Cynthia White:

Now, that just brought something to my attention, that also affects the amount of credit that you have. If each account say you have four different purchases and you've done buy now pay later for each, then that adds up as the amount of debt you have. Wow, that makes you think.

Portia Johnson:

It really does. Each buy now pay later company does credit checks differently too. So, you will run into some that will check your credit, and then others that won't check your credit, and some of them might be hard pulls while others might be soft pulls. And we know that the hard pulls go on our credit reports, so they do impact our credit scores negatively. New credit makes up 10% of our FICO score and it includes all those hard pulls. So, pulling your credit for buy now pay later, over and over again can hurt your credit score.

Cynthia White:

So, credit scores are also made up of 30% of the amount owed 35% of your payment history. Obviously both can be impacted if you use buy now pay later too often or you don't pay on time.

Portia Johnson:

Exactly. Like you were saying, that amount owed can go up really quickly. If you're using buy now pay later all the time when you're making purchases.

Cynthia White:

And it especially counts toward those pulls, those inquiries. So, the bottom line, buy now pay later seems easy and simple, but read the fine print before you commit. Know if that company will report to the credit bureau and manage to monitor your credit, so that nothing is negatively impacting that score.

Portia Johnson:

That is so important. I'm so glad we did the segment.

Cynthia White:

I am as well, this is very enlightening.

Portia Johnson:

I am Portia Johnson.

Cynthia White:

And I am Cynthia White.

Portia Johnson:

And this has been Alabama Money, where we talk finance facts, fun and fast.

Speaker 1:

This has been a production of Alabama Extension at Auburn University.