

People are getting loans to pay for their vacations

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Denise Phillips, a military veteran and mom who has three sons in the service, wanted to book a trip to Hawaii to spend Thanksgiving with one of her children.

But she didn't want to pay for the trip all at once. So she started searching online for installment plans and found one through the lending company Affirm.

"I started looking into it, and it said 'No hidden fees,'" she said. "I tried it, and it was actually true."

The experience was convenient, she said, and since that trip she's used Affirm to book more trips: One for a fishing trip to Alaska next month and she has plans to use it in January for a trip to Bermuda.

Affirm charges interest, but presents that total as a flat fee at the beginning of the payment process, which was more comforting than putting the big purchases on a credit card, she said.

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The fee varies depending on the customer's creditworthiness and the time period during which they plan to pay.

Phillips isn't alone. In recent years, companies have increasingly allowed travelers to book

airfare, hotels and amusement-park tickets, with the promise they'll pay later.

The airline JetBlue JBLU, -1.09% announced in 2017 a partnership with the payments company UpLift, that allows customers to pay for flights in 12 monthly installments, with APRs starting at 8.99%.

Similar companies, including Airfordable and BookIt.com's PayDelay, specialize in travel installment loans.

And lenders that typically offer personal loans, including Affirm and Marcus by Goldman Sachs, also advertise "travel" or "vacation" loans.

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The risks

But financial experts say taking out a loan for a vacation can be a bad idea. If someone absolutely has to book a trip, there might even be cheaper ways to do it, said Nick Clements, the co-founder of personal finance company MagnifyMoney.

One possibility: Credit cards with a 0% interest-rate introductory period, he said. That is, of course, if consumers can pay the full amount they put on the card before the introductory period is over.

What's more, not all installment plans work out as well as they did for Denise Phillips, said Rachel Podnos, an attorney and financial adviser based in Washington, D.C.

Interest rates advertised as "low" still cost consumers more than they should be paying on a discretionary purchase like a vacation, she said.

At Affirm, the interest rate can be up to 30% — significantly higher than on a credit card, which has an average interest rate of 17%, according to personal-finance website Bankrate. Although there is a key difference: Affirm gives the total amount people will pay up front, and charges

simple interest rather than compound interest.

Still, financing a vacation is “a terrible idea all around,” Podnos said. “It’s one thing to finance your education or home purchase, or even a car purchase in some situations ... but to finance a vacation is to me just insane. If you can’t afford to pay for your vacation out of cash on hand, don’t take a vacation.”

The benefits

There are some times when splitting up payments for a vacation can pay off.

Ryan Anderson, a 25-year-old living in Champaign, Ill., prides himself on his “travel hacking” skills and decided to take advantage when a Carnival Cruise Line [CCL, -1.52%](#) vacation gave him the option of paying in installments.

He paid no fees to do that.



Courtesy of Ryan Anderson

Ryan Anderson (right) split up a trip in order to use travel credits, but said he would never pay interest on a vacation.

He had the cash on hand. But he decided to split the cost up so that he could use a \$300 travel credit he gets with his Chase Sapphire Reserve [JPM, -0.58%](#) credit card twice: Once in late 2016 and once in late 2017. He made his remaining payment on a Capital One [COF, -1.12%](#) Venture card, to meet a minimum spending threshold.

“If I had to pay interest to go on a vacation, I just wouldn’t go on a vacation,” he said.

There’s another key way installments can pay off: If travelers can afford to book their flights or hotels earlier, they may be able to get better prices, said Tom Botts, the chief commercial officer at UpLift.

And it gives consumers an option when they have to take an immediate trip, he said, such as visiting a sick family member.

“We’re not out there pushing people to take trips they shouldn’t take,” he said. “We believe altruistically that allowing people to do that on their own terms is a greatly unserved need.”

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