

Steve Wershing ([00:05](#)):

It's a great way to buy stuff if you don't have the money handy, and it's a great way to blow up your cash flow and screw up your credit report.

I'm Steve Wershing from Focus Wealth Advisors. Welcome back to 30 Minute Money.

It's called buy now pay later, and it's all over the socials. You may have seen some of the influencers on there showing all this great stuff that they were able to acquire, and they didn't need the money right now. They could spread the payments over several months and not have to pay any interest or any fees. In fact, Forbes Advisor found that 43% of survey respondents last month saw ads on Facebook, Instagram, or TikTok. 42% were offered buy now pay later on checkout when they were buying something, and 59% said that they were somewhat or very likely to use that option.

The offer goes something like this. If you want to buy something, spread out your payments over several months, maybe without even having to put something down upfront with no interest charges and no fees. Even better, the payments, the debt that you owe to finish off that payment schedule, will not show up on your credit report. And it's getting to be big business. Fortune Business Insights found that it was a 15.9 billion dollar business in 2021, projected to be over 90 billion dollars by 2029. In 2020 in California, 91% of all new consumer loans issued were buy now pay later arrangements. It's almost too good to be true. And because of that, it's probably worth avoiding. Let's discuss why.

One of the important financial principles that we teach people on how to accumulate wealth is to make sure that you have thoughtful spending. That when you spend your money, you're doing it in a thoughtful way. That doesn't necessarily mean cutting back on anything. It doesn't mean restricting anything. It just means thinking it through and reflecting on what you want to actually divert your hard-earned dollars to. It's not about sticking strictly to a budget. Impulse buying is okay. I buy stuff on impulse every once in a while, ideally, an impulse buy would affect you that month.

If you buy something on impulse, you generally, you want to pay for it that month. You want to restrict the effect that it has on anything longer term than just that one month. By giving you the opportunity to buy something now without thinking about it, encourages impulse buying, and it leads you away from being thoughtful about where your money goes. It started as a way to buy big-ticket items, and in that situation, it can make some sense. Let's say that you've thought about buying something that's relatively large, but you don't have all the money right upfront. And it would help you a lot to spread that money over a few months. Let's say that you're doing what we preach and looking at your cash flow every month, all the expenses, where the money goes every month, and you've determined that couldn't work that into one month, but you could work it into four or five months.

Okay. That's being thoughtful, and in that situation, it can work. But, where buy now pay later started as a way to buy big-ticket items, it's now working its way into smaller and smaller and smaller transactions. 49%, according to Forbes Advisor, of buy now pay later arrangements now go to buy clothing, shoes, accessories, those kinds of things. Not surprisingly, CNBC reports that 22% of people who've gotten into those arrangements now regret using it. And 30% of them are struggling to keep up with those payments. Probably for multiple purchases bought on buy now pay later idea.

Forbes Advisor found that 56% of people who used it missed at least one of their payments. Now, the pitch is that you can buy something, and there won't be fees, interest, or affect your credit. And that's a little oversimplified and often is not exactly true. It is certainly not true if you miss a payment because whatever promises they're making are contingent on you paying all of your payments and paying them on time. If you miss one, all kinds of bad things begin to happen. Let's look at PayPal, for example. One of the bigger providers of buy now pay later loans. Their buy now pay later arrangements are done through Synchrony Bank, and if you read the fine print, what it says is if you miss

a payment, they charge you up to 23.99% on the entire purchase. That's worse than using a credit card because the credit card will only pay you 23.99% on an annual basis on the outstanding balance.

That means that if you put money down and you put some money on a credit card, you're only paying 1/12 of that 23.99% or whatever the rate is every month. If you miss a payment on the buy now pay later arrangement through Synchrony, you're going to owe 23.99% of the entire purchase, even if you don't take a full year to do it. Late fees on some of these arrangements can run as high as 30%, according to a report by USPIRG. That's more than credit cards are allowed to charge. So, they have all of these landmines built in to help them make a lot of money if they persuade you to spend thoughtlessly and you miss a payment. What's an insult on top of injury, unlike credit cards, using buy now pay later arrangements will not help you build a better credit rating. If you put something on a credit card and you pay it off on time, at least it will help you drive your credit score up. Buy now pay later loans will not.

It's like the worst of both possible worlds. It will not help you build a stronger credit rating, but it will hurt your credit rating if you are late on a payment or miss one. Here's what you can do. Pay for impulse purchases right away, and right away means pay it at the end of the month if you put it on a credit card. There's nothing wrong with using a credit card for something like that. And if you pay by the end of the month, you generally will not be charged any interest on that. And so, pay it within the month that you buy it. It's better to save and pay cash for things if you're thinking about spending money on something. If you know that you're going to be spending a certain amount per year on clothing, work it into your cash flow, and spend that much, or accumulate money for larger things before you pay them.

Rather than being in buy now pay later, if you have a larger purchase that you need to make and you will not be able to pay for it over a month or so, consider getting a credit card that has a 0% introductory rate. That way, you'll be able to first spread those payments probably over a longer period than a buy now pay later arrangement would permit, and still pay no interest and be building your credit rating at the same time.

Listen, most of those social influencers that are showing you all this great stuff that they're buying and putting on buy now pay later, they don't even pay for that. It's provided by the people who are selling that stuff. Those social influencers are not looking out for your financial wellbeing. They're being paid to promote that stuff. They're being paid to help those purveyors of the merchandise to get you to spend thoughtlessly. Because if you thought about it, you probably wouldn't buy a lot of it. Listen, rich people get rich because they think about their spending before they do it. If you want to be rich, be thoughtful about your spending too.

Here is your 30-minute action list. First, check on your emergency reserve. Make sure that you have three months or so of expenses put away so that if the washer, for example, breaks down, you have some money that you can dip into to get a new one. Make a list of the things you're likely to want to buy over the coming year that you won't be able to pay for right away, and figure out how much you would want to spend per month to acquire that. Even better, open up a savings account and start putting that anticipated monthly amount into that account.

First, that will demonstrate that you can absorb that into your monthly cash flow without causing you any problems. You'll also be putting that money away that you can use for a down payment, so those monthly payments will actually be smaller. That will tell you whether or not you can purchase that larger item without causing a problem in your overall cash flow.

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