

The Philadelphia Inquirer

Some Philly consumers love "buy now, pay later" for holiday shopping. But experts have concerns.

Buy now, pay later services let users break up big payments into smaller chunks, but some think that could be a bad thing for shoppers.

Erin McCarthy December 11, 2023

Timothy L. Hudson's clients were skeptical two years ago when he first started offering "buy now, pay later" for his photography services.

Now, he said about 60% of customers pay for shoots using Afterpay, one of several popular services that allow consumers to split the cost of, say, a \$500 event shoot into four payments of \$125.

Hudson, 34, of Chester, understands the allure: He uses Afterpay himself, spacing out payments for expensive camera and studio equipment, clothing, gifts, and even airfare.

"I like the option of not having to pay it all," especially this time of year, said Hudson, who works full-time as a paraprofessional at an area school and photographs weddings, sports, and other events part-time. "You know how the holidays can be, with everyone going crazy and figuring out how they're going to make ends meet for their kids."

Last Christmas, he used Afterpay to buy an iPad for his daughter. Knowing he doesn't have to drop hundreds of dollars at one time reduces some of the "mental anguish" that accompanies this season of spending.

With buy now, pay later, "Christmas is taken care of," he said, "and I'll take care of Christmas after."

A growing number of consumers are buying now and paying later with methods such as Afterpay, Klarna, and Affirm. The services fueled a record Cyber Monday, with online shoppers spending \$940 million via these installment-loan services— a jump of more than 42% over the prior year. That exceeded what analysts had projected ahead of the holiday shopping season.

The short-term loans, which are especially popular among consumers under 35 and those with lower credit scores, typically involve a soft credit check that doesn't affect your credit score and require the first installment to be paid upfront. Usually, between four and six payments are automatically charged every two weeks, with little to no interest, though late fees and other penalties can be imposed if a customer doesn't pay on time.

Business owners who offer buy-now, pay-later options, often referred to by the acronym BNPL, pay a fee, one that is often well worth it. Data, including from the Federal Reserve Bank of New York, has shown that customers spend more when BNPL is an option.

Why some love buy now, pay later

At a time when consumers are saddled with the rising cost of groceries and resumed student loan payments, fans of buy now, pay later say the services allow them to better control their cash flow without having to worry about the high-interest rates on credit cards.

Carl Vetter, 60, of Hamilton, N.J., said he has used Klarna for everything from gifts to sneakers to trips to Florida to visit family.

“One of the beautiful things about it is there is no interest,” said Vetter, a maintenance supervisor at a nursing home. “For somebody with bad credit, this thing is dynamite.”

Merlana Lourdes, 30, of Abington Township, doesn’t like to take large sums of money out of her checking account. But she said she likes that buy-now, pay-later services give her a hard deadline for paying off her purchases, unlike a credit card.

“I feel better knowing it’ll automatically take out money, and it’ll only take out \$25, \$50 every couple weeks, which is doable,” said Lourdes, who works in IT.

Taylor Urian, 25, a receptionist who lives in Ridley, said she primarily uses Afterpay for holiday spending. When searching for gifts, she will look for websites and businesses that offer it, in order to take some of the stress out of paying for presents for a long list of friends and relatives, including several nieces and nephew.

“Instead of paying \$80 to \$90, I’m paying \$14 to \$15” at a time, said Urian, who tries to keep her installments below \$20.

Compared to using credit cards, “it has just been a lot easier to control how much I’m spending at a time,” Urian said. “I write it down in my calendar, what’s coming out when.”

Why some experts are worried

Financial experts have concerns, especially as pandemic savings dwindles, and America’s collective credit-card debt sits at a record \$1 trillion.

“We’re creating a society of indebtedness,” said Marc Kalan, an associate professor of marketing at Rutgers Business School.

He looks at buy now, pay later as a much smaller-scale version of mortgaging a home, but for a secondary product, one that won't gain value over time. Today's consumer, however, often isn't thinking long-term. If they were, he added, they would save up for these smaller purchases in advance.

"We are being trained for quick and instant gratification," he said. Buy now, pay later "can make for short-term excitement. ... I'm not sure how the feeling will be in the first quarter of '24 when the first payments are coming due."