



Learn How 'Buy Now, Pay Later' Works

Description

Buy now, Pay later sounds so spicy. Offers sound to be the flavor of the season.

default watermark



As you know, many e-commerce banks have recently lined up such interesting schemes for upcoming festive seasons. So by taking benefits of buying now and paying later, many borrowers can now enjoy things they want to purchase without having a credit history. Thanks to the covid-19 pandemic, many middle-class people like us have had to tighten up their purse strings, and now this scheme looks even more attractive.

What buy now, pay later means

Buy now, pay later, is a type of installment loan. It divides the amount of purchase you have made into multiple equal payments. The first is due at checkout, and the remaining payments are billed to your

debit or credit card you offer until your purchase is paid in full. Point-of-sale credits are also known; some schemes give you 30 days to pay after buying, while others offer 12 months.

How buy now pay later works

All Buy now, pay later schemes or plans are not the same. Each company has its own rules, terms, and conditions, but generally, their point of sale installment loans are operating along the following lines:

- You make a purchase at a participating distributor and select for Buy now, pay later at checkout.
- If approved (they will tell you in seconds), you will make a very small down payment, which could be 25% of the overall purchasing amount.
- You then pay off the remaining amount due in a series of interest-free installments monthly or weekly.
- You can pay your amount via debit card credit or by bank transfer; payment can also be automatically deducted from your debit card, bank account, or credit card.

Do not miss a payment.

Because of the rules and conditions of how Buy Now, Pay Later work, the outstanding balance can immediately become expensive if you miss any payment or don't make the repayments on time. If you will not clear your repayments or debt before the delayed period is up. Some providers will ask for a settlement fee, or a lump sum of interest may be added to the amount you have to pay. On top of that, you could be charged late payment fees too. Missed payments, late payments could also be recorded on your credit or debit report and affect your credit or debit score. So, make sure you set calendar reminders or alarms on your phone and alerts to make sure you clear the debt on time before interest is added or your score gets affected.

Does buy now, pay later affect your credit score

Everyone knows that buy now pay later is the form of credit. So, how you use it will affect your overall score. If you delay your payments regularly, it will negatively impact your credit score. Still, if you are financially educated and use buy now pay later sensibly, it will not affect your credit score. In any case, if you miss a payment or not be able to repay when the time comes because of financial issues, then you can be listed on a defaulters' list and your credit report. This mark is dangerous. It could stay for almost six years on your credit card by lowering your credit score. This means that when you apply for a loan, credit card, or mortgage in the future, the lender will check your score, and how you used to buy now pay later could affect whether your application is approved or rejected depending upon how you use it.

Advantages of Buy Now, Pay Later

- Can split up your payments into parts. This might make an expensive item more affordable because you do not have to pay a huge amount together.
- There is no hard credit or debit pull. Unlike applying for a new credit card, buy now, pay later are much easier to qualify for. This means that someone who is applying and is new to credit or does not have a strong credit profile might find it more convincing to make a purchase this way.
- Simple to do, the process is quite easy. Online shoppers, in particular, may find the instant

satisfaction of buying what they want to get in easy-to-understand terms, and it is a preferable way to shop.

- Can help manage cash flow. Buy now pay later can help someone buy what they need at a payment plan that fits their budget.

Disadvantages of Buy Now, Pay Later

- There are some potential dangers to be aware of with this type of financing offer or online shopping.
- Their terms and conditions may vary. Before committing to a BNPL loan, knowing the deal's terms, rules, and conditions is important. For example, 0% interest may not last the length of the loan, leaving you with expensive finance charges down the line, and there could be sky-high penalties if you skip or miss any of the payments.
- Some of them come with fixed prices. These schemes add a fixed fee to your monthly payments or could deduct from credit automatically, which can cost you extra over the life of the loan compared to just buying the item outright.
- They do not help build credit. If you are a sensible person and pay on time, it will not help your credit. However, if you make late payments or miss any payments, it may be reported and hurt your credit score.
- This scheme may encourage you to overspend. The ability to pay off an item over time can make a purchase seem more comfortable and affordable.

Buy now, pay later sometimes gives you good deals only if you make repayments on time and have a good credit score. As it says, things with benefits also have disbenefits, so there is also danger in BNPL you should be aware of. The best way to make payments for your purchases is to pay them upfront. Nevertheless, if you want to shop online, then BNPL is a good option.

Category

1. Finance

Date Created

September 2021

Author

tcanoah