



“Buy Now - Pay Later Programs” are known in the credit and financing world as deferred payment programs or deferred payment accounts. Essentially the consumer takes possession of the goods or services now, but the first payment won’t be due for a period of time, usually a year but often longer. As well, for the most part, during that time there are usually no interest charges in effect.

If we’re not already, pretty soon we’ll be inundated with invitations from retailers to get anything we want “for Christmas 2006” but not paying for it till 2008. In fact in some cases even later. The prospective list of options is endless, furniture, appliances, home improvements, jewelry, technology and other equipment. We can ski doo now but pay in the summer or cruise now and pay next fall. It’s the “why wait for spring- do it now” philosophy on steroids. But “Buy Now – Pay Later” is not all it’s cracked up to be.

The reality is, that contrary to the very best of intentions, most people just can’t find a way to pay in full when “later” comes round and boom – you’ve got a new monthly payment. Because you do, your ability to put money aside for future needs. And because you can’t save, when another purchase is warranted you’ll be forced into- you guessed it – another “Buy Now – Pay Later Program” and on and on you go.

It’s important to remember a whole “bunch” of things about consuming this way. After you’ve considered my “bunch” of cautions, if Buy Now-Pay Later is still for you, it’s okay. But consider some of the flaws.

- While frequently they are, prices on Buy Now – Pay Later are not always sale prices. Customers are sold on the idea of not having to pay for a year or more and as a result lose sight of the fact that there’s no value or only limited value in the actual item they’re purchasing. People who are under pressure to replace now are particularly vulnerable to be hooked. So remember this when your refrigerator dies.
- An offer by you to pay with cash here and now will usually get you a much better price; even on sale items. You might get a sofa for \$850.00 plus tax if you write a cheque on the spot. But it’ll be \$1,000.00 plus tax, interest charges and fees if you go with the deferred payment option.
- It’s not unusual for customers to have to pay a deferral fee in addition to the cost. These fees are typically a flat amount ranging anywhere from \$25.00 to \$75.00 or more. But sometimes they’re a percentage of the amount to be financed – particularly on large purchases. These fees increase the overall cost of the purchase whether we want to acknowledge it or not.

- The financing itself is rarely if ever handled by the retailer themselves but rather is carried out by a third party – typically a finance company. Many consumers don't realize this since the purchase would have been carried out right there in the retailer's showroom. The first knowledge they have of this reality is a note from the finance company several days later by mail, reminding them that their "credit is good" and, additional funds are close by or just a phone call away. The problem isn't the third party, it's their interest rates.
- The annual rate of interest on a deferred payment scheme is usually between 25% and 30% and on occasion even higher. Again this makes the overall price quite costly. Repayment terms sometimes reach five years. So if the deferred period is 18 months and the repayment period is five years, the sofa's often well worn before it's actually owned.
- Because the payment isn't now and the money to buy doesn't have to be found today, deferred payment plans pander to our tendencies as human being to put things off, to buy things we can't afford and to escape our financial reality. Since they quickly and easily allow retailers to increase sales and to maximize what goes out their doors, these things are rarely talked about or even considered.
- Deferred payment programs restricts future income, limits our future options and certainly limits the benefits of being in control of our income at all times. If we are committed to developing and living on a realistic budget we don't need a deferred payment scheme in any event.

But if you find your choices are limited or if you decide for some other reason that these kinds of programs are okay for you, then at the very least, don't leave the retailers showroom until you've written a post-dated cheque for the amount of your purchase, good on the very day the deferred program expires. Then start right away to look for ways to cover the cheque.

Next time we'll be talking about the financial benefits of a will – just in time for all souls night!