Dear Dr. Per Cap:

I just bought a couch at Wayfair using Wayfair Financing – payments are $35 a month for 18 months which adds up to about $100 in interest. It reminds me of layaway that my folks used when I was a kid. Only I don’t have to wait because they’re shipping my couch right away! Is this a smart way to buy stuff?

Signed, Couch Potato

Dear Couch Potato

Like a lot of questions in finance – it depends. Wayfair Financing is a type of credit called a point-of-sale loan. It’s a financial product that’s been around for a while but we’re seeing them advertised a lot more lately, especially at online store checkouts. I relate to your memories of layaway. I still remember that BMX bike my grandma put on layaway for me at K-mart when I was ten. What a ride! However, point-of-sale loans are not layaway.

For one they are installment loans with fixed payments for a specific period of time or term. Layaway was just an agreement that a store would hold your merchandise for a month or two while you made payments. Layaway was also mostly used to purchase big ticket items like TV’s, appliances, and furniture. But point-of-sale loans are common for merchandise under $100.

Many online stores advertise point-of-sale financing. Wayfair currently partners with four companies: Affirm, Fortiva, Genesis Credit, and Katapult formerly known as Zibby to offer customers point-of-sale financing. But there are other financial technology or fintech firms offering similar loans. What’s tricky is they all structure their products differently.

For example some companies check credit before approving a loan while others look at non-traditional lending history – like Affirm which might review a person’s bank account balance.

Afterpay, which is used by stores like Urban Outfitters and Forever 21, doesn’t charge interest to qualified borrowers; while other point-of-sale lenders charge interest based on creditworthiness.

Then you’ve got Katapult which calls their product a lease-to-own payment option and charges a $45 fee upfront and no interest if paid in full within 90 days.
*Point-of-sale* financing can appeal to folks who can’t qualify for a credit card. Moreover, some people actually prefer *point-of-sale* financing to credit cards because interest rates are sometimes lower and a borrower will usually know upfront how much they will pay in total.

However, *point-of-sale* financing has drawbacks too. Loans that aren’t paid off might show up as delinquencies on a credit report prompting debt collectors to get involved. Yikes! Moreover, late fees can apply to missed payments which add up.

Here’s another issue - what happens if you need to return an item before a *point-of-sale* loan has been paid off? When using a credit card the *Truth in Lending Act (TILA)* provides chargeback rights so a borrower is entitled to a refund. Unfortunately *TILA* doesn’t apply to *point-of-sale* financing so refunds might be problematic.

So as with any financial product, do a little homework and consider all your options before agreeing to *point-of-sale* financing. Savvy shopping!

**Ask Dr. Per Cap** is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit [www.firstnations.org](http://www.firstnations.org). To send a question to Dr. Per Cap, email [askdrpercap@firstnations.org](mailto:askdrpercap@firstnations.org).