Point-of-Sale Financing

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. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.*