

Payment Plans

Buy Now, Pay Later

How do they work?

You have the option to purchase items without making the full payment upfront with methods like “buy now, pay later,” rent-to-own, lease-to-own, and layaway plans. It is essential to understand the specifics of each plan before choosing one, as the details can significantly impact the total amount you pay each month. It is important to remember that these plans emphasize that you do not pay the full cost upfront, but you might have to pay the item off in a matter of weeks.

Many stores and online shops offer a “buy now, pay later” option. **Here is what you need to know if you choose this method at checkout:**

- A credit check may or may not be required.
- You pay a portion of the cost upfront and receive the item.
- Your payments go to the company managing the plan. That company pays the store in full.
- You make regular payments to the company that manages the plan, typically using a credit or debit card. Payments are made over a few weeks or months until the purchase is paid off.

Many “buy now, pay later” plans advertise no-interest payments and few or no fees. However, most plans do charge some fees for each payment, late payments, or changing your payment date. The way you set up your payments can lead to additional fees. For instance, if you use autopay with your debit card and you do not have enough money in your account when the payment is withdrawn, you could incur overdraft fees. If you use a credit card, ensure the payment will not exceed your credit limit to avoid getting charged extra.

Companies managing these payment plans may report your payments to the three nationwide credit bureaus: Equifax, Experian, and TransUnion. Missing or making late payments could negatively impact your credit, while making timely payments may improve your credit.



Rent-to-own or Lease-to-own

Some stores offer rent-to-own or lease-to-own plans for more expensive items like furniture or electronics. By choosing one of these plans, you will sign a contract to make regular weekly or monthly payments to the store or an outside company, and you will get to take the item home.

Here is what to know if you choose a rent-to-own or lease-to-own plan to pay for an item:

- You may have the option to choose the length of the contract term.
- A longer contract term means you will pay less each month, but in the end, you will pay more in total through price markups and fees.
- A shorter contract term means you will pay more each month, but in the end, you will pay less in total than with a longer contract.
- The plan may conduct a credit check, or it may not be required at all. Some plans report your payments to the credit bureaus, while others do not.

- Automatic payments (including fees and interest) are processed regularly with your debit card, credit card, or bank account. The payment will be processed even if you do not have enough funds in your account on the due date or if you have reached your credit limit.
- If you decide to return the item, you may have the option to stop making payments. However, you likely will not receive a refund for the payments you have already made.
- If you miss a payment, you might lose both the item and all the money you paid toward it. It is important to carefully review the terms and conditions of your agreement to understand the consequences of a missed payment.

Stores that offer rent-to-own or lease-to-own often highlight benefits such as choice of different repayment periods, no credit check, automatic withdrawals, and fast approval. However, these conveniences, like using a washing machine while you are paying it off, can lead to paying double the amount compared to paying in cash up front.

Before You Use Any Payment Plan

When you reach the checkout line or online shopping cart, you might encounter offers for “buy now, pay later,” rent-to-own, lease-to-own or layaway plans for the first time. While these options may appear convenient, they can carry hidden costs and potentially impact your credit. If you feel pressured to sign up for one of these plans, take a moment to slow down, ask questions, or do some online research to fully understand the terms and implications.

What will I pay with interest and fees?

Depending on the payment plan, you might end up paying a bit more or significantly more for the item. With some rent-to-own and lease-to-own plans, you could pay twice as much when compared to paying in cash.

Consider waiting a few months to save up and pay for the item in full. This way you will avoid the extra costs associated with payment plans.

What happens “if”?

What happens if things do not go as planned? If you pay late or miss a payment, could you lose the item or harm your credit? If the item you are renting or leasing is repossessed, can you get it back? Will it cost you more to do so?

What is the plan’s refund policy?

What if you decide you no longer want the item while you are still making payments on it? Will you get your money back, or will you be charged any fees?

What is written in the contract?

For instance, does the rent-to-own or lease-to-own contract specify who is responsible for repairs if the item breaks? Did the salesperson make any promises, and are those promises included in the contract? Always ensure you get a copy of the contract and keep detailed records of your payments.

What are other people saying?

Research the reputation of the store or online shop and the payment plan, particularly regarding returns and disputes. Search online for the store name, the payment plan name, and “complaint.” When it comes to disputes, know that these plans typically offer fewer protections. Even if you use a credit card to make payments, its protections might not extend to the original purchase.

Getting Help if Things Go Wrong

Most states have specific laws that apply to rent-to-own, lease-to-own, and layaway plans. Some states have consumer credit laws for “buy now, pay later” plans. Check with your state attorney general or state and local consumer protection agencies for details about your rights when using these plans.

If you have a negative experience with a payment plan, report the issue to the FTC at ReportFraud.ftc.gov.