Apple rolls out buy now, pay later service: What to know

March 28 2023, by Cora Lewis

An Apple logo adorns the facade of the downtown Brooklyn Apple store on March 14, 2020, in New York. Apple is getting into the Buy Now, Pay Later space with a few tweaks to the existing model — including no option to pay with a credit card. The company will roll out the product to some consumers spring 2023, and will begin reporting the loans to credit bureaus in the fall. Credit: AP Photo/Kathy Willens, File

Apple is getting into the buy now, pay later space with a few tweaks to the existing model—including no option to pay with a credit card. The company will roll out the product to some consumers this spring, and will begin reporting the loans to credit bureaus in the fall.

Since the start of the pandemic, the option to "buy now, pay later" has skyrocketed in popularity, especially among young and low-income consumers who may not have ready access to traditional credit.

If you shop online for clothes or furniture, sneakers or concert tickets, you've seen the option at checkout to break the cost into smaller installments over time. Companies like Afterpay, Affirm, Klarna, and Paypal already offer the service, typically with late fees for missed payments and the option to use a credit card or bank account to make installment payments.

Apple's version, which is integrated with Apple Pay and facilitated by MasterCard, will require the consumer to use a debit card and a bank account to make those payments, the company said, and will not charge flat or percentage late fees. Instead, missed payments will eventually result in the consumer losing access to these kinds of loans.

Here's what you need to know:

HOW DOES BUY NOW, PAY LATER WORK?

Branded as "interest-free loans," buy now, pay later services require you to download an app, link a bank account or debit or credit card, and sign up to pay in weekly or monthly installments. Some companies, such as Klarna and Afterpay, do soft credit checks, which aren't reported to credit bureaus, before approving borrowers. This is how Apple's product will operate as well. Most users are approved in minutes. Scheduled payments are then automatically deducted from one's bank account or charged to one's card.

The services generally don't charge more than a customer would have paid up front, meaning there's technically no interest, so long as one makes the payments on time.

But if a customer pays late, they may be subject to a flat fee or a fee calculated as a percentage of the total owed. These can run as high as $34 plus interest. If a customer misses multiple payments, they may be shut out from using the service in the future, and the delinquency could hurt one's credit score.

In Apple's case, the company said there will be no late fees, either flat or as a percentage—only the possibility of missed payments reported to credit bureaus, and a loss of access to the loans. If a user wishes to defer payments, or set up a different payment plan, Apple said they can contact support. Several services allow users to defer payments in this way.

ARE MY PURCHASES PROTECTED?

In the U.S., buy now, pay later services are not currently covered by the Truth in Lending Act, which regulates credit cards and other types of loans (those paid back in more than four installments).

That means you could find it more difficult to settle disputes with merchants, return items, or get your money back in cases of fraud. Companies can offer protections, but they don't have to. Apple's protections are offered through Mastercard.

Lauren Saunders, associate director at the National Consumer Law Center, advises borrowers to avoid linking a credit card to buy now, pay later apps whenever possible. If you do, you lose the protections you get from using the credit card while also opening yourself up to owing interest to the card company.

"Use the credit card directly and get those protections," she said. "Otherwise, it's the worst of both worlds."

Apple's decision not to permit consumers to link a credit card to its buy now, pay later product means the consumer avoids stacking debt in this way.

WHAT ARE THE OTHER RISKS?

Because there's no centralized reporting of buy now, pay later purchases, those debts won't necessarily appear on your credit profile with major credit rating agencies.

That means more companies may let you buy more items, even if you can't afford them, because the lenders don't know how many loans you have set up with other companies.

Payments you make on time aren't reported to credit rating agencies, but missed payments are.

"Right now, buy now, pay later can't generally help you build credit, but it can hurt," said Saunders.

Elyse Hicks, consumer policy counsel at Americans for Financial Reform, a progressive nonprofit, said people may not consider seriously enough whether they'll still be able to afford payments down the road.

"Because of inflation, people may think, 'I'm going to have to get what I need and pay for it later in these installments,'" she said. "But are you still going to be able to afford the things you're affording now six months from now?"

WHY DO RETAILERS OFFER BUY NOW, PAY LATER?

Retailers accept the backend fees of buy now, pay later services because the products increase cart sizes. When shoppers are given the option to pay off purchases in installments, they're more likely to buy more goods in one go.

When Apple announced it would be creating its own buy now, pay later service, Josiah Herndon, 23, joked on Twitter about "paying off 6 carts of (things) I can't afford with Apple, Klarna, Afterpay, PayPal Pay in 4, Shop Pay in 4, & Affirm."

Herndon, who works in insurance in Indianapolis, said he started using the services because it was taking a long time for him to be approved for a credit card, since his age meant he didn't have an extensive credit history. He's since used them to pay for high-end clothes, shoes, and other luxury goods. Herndon said he lines the payment schedules up with his paychecks so he doesn't miss installments, and called the option "very convenient."

WHO SHOULD USE BUY NOW, PAY LATER?

If you have the ability to make all payments on time, buy now, pay later loans are a relatively healthy, interest-free form of consumer credit.

"If (the loans) work as promised, and if people can avoid late fees and don't have trouble managing their finances, they have a place," said Saunders, of the National Consumer Law Center.

But if you're looking to build your credit score, and you're able to make payments on time, a credit card is a better choice, she said. The same goes if you want strong legal protections from fraud, and clear, centralized reporting of loans.

If you're uncertain whether you'll be able to make payments on time, consider whether the fees charged by buy now, pay later companies will exceed the penalties and interest a credit card company or other lender would charge.

HOW WILL ECONOMIC INSTABILITY AFFECT BUY NOW, PAY LATER?

As the cost of living increases, some shoppers have started breaking up payments on essentials, rather than just big-ticket items like electronics or designer clothes. A poll by Morning Consult last fall found 15% of buy now, pay later customers were using the service for routine purchases, such as groceries and gas, sounding alarm bells among financial advisors.

Hicks points to the rising number of delinquent payments as a sign that buy now, pay later could already be contributing to unmanageable debt for consumers. A July report from the Fitch ratings agency found delinquencies on the apps increased sharply in the 12 months that ended March 31 of last year, to as high as 4.1% for Afterpay, while credit card delinquencies held relatively steady at 1.4%.

"The increasing popularity of this is going to be interesting to see over these different economic waves," Hicks said. "The immediate fallout is what's happening now."

be published, broadcast, rewritten or redistributed without permission.