

# Promise To Pay: Vol Banks Battles Bellies

Banks are facing a new challenge: the rise of buy now, pay later (BNPL) services. These services allow consumers to make purchases without having to pay upfront, and then pay off the balance over time. This can be a convenient option for consumers, but it can also lead to debt problems if not used responsibly.



## Promise to Pay (Vol. I): Banks, Battles & Bellies

by Masood Rezvi

★★★★★ 5 out of 5

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BNPL services have become increasingly popular in recent years, especially among younger consumers. According to a recent study by the Consumer Financial Protection Bureau (CFPB), 40% of consumers under the age of 35 have used a BNPL service in the past year. The CFPB also found that BNPL users are more likely to be low-income and have poor credit scores.

Banks are worried that BNPL services could pose a threat to their traditional lending businesses. BNPL services offer a number of advantages over traditional loans, such as lower interest rates, no fees,

and instant approval. This makes them very appealing to consumers who are struggling to make ends meet.

In response to the rise of BNPL services, banks are starting to offer their own BNPL products. However, these products are often more expensive than those offered by BNPL startups. For example, Bank of America's BNPL product, Klarna, charges a 1.25% fee on each transaction. This is compared to Affirm, a BNPL startup, which charges no fees.

It is still too early to say whether BNPL services will pose a serious threat to banks' traditional lending businesses. However, it is clear that banks are taking the threat seriously. They are starting to offer their own BNPL products and are working to make their traditional lending products more competitive.

### **The Risks of Buy Now, Pay Later**

While BNPL services can be a convenient option for consumers, it is important to be aware of the risks involved. These services can lead to debt problems if not used responsibly.

Here are some of the risks of using BNPL services:

- **You may spend more than you can afford.** BNPL services make it easy to make purchases without having to pay upfront. This can lead to consumers spending more than they can afford, which can lead to debt problems.
- **You may not be able to make your payments on time.** BNPL services typically have short repayment periods, such as 30 days or 60

days. This can make it difficult for consumers to budget for their payments, which can lead to late fees and other penalties.

- **You may damage your credit score.** If you miss a payment on a BNPL loan, it can damage your credit score. This can make it more difficult to get approved for other loans in the future.

If you are considering using a BNPL service, it is important to weigh the risks and benefits carefully. Make sure you understand the terms of the loan and that you can afford to make the payments on time. If you are not sure whether a BNPL service is right for you, talk to a financial advisor.

### **How to Use Buy Now, Pay Later Responsibly**

If you use BNPL services responsibly, they can be a convenient and affordable way to make purchases. Here are some tips for using BNPL services responsibly:

- **Only use BNPL services for purchases that you can afford.** Do not use BNPL services to make purchases that you cannot afford to pay off in full.
- **Create a budget and stick to it.** Make sure you can afford to make the payments on your BNPL loans before you use these services.
- **Set up automatic payments.** This will help you avoid missing payments and damaging your credit score.
- **Monitor your credit report.** Make sure that your BNPL loans are being reported to the credit bureaus. This will help you build a good credit score.

By following these tips, you can use BNPL services responsibly and avoid debt problems.

BNPL services are a new and growing trend in the financial services industry. These services offer a number of advantages over traditional loans, such as lower interest rates, no fees, and instant approval. However, it is important to be aware of the risks involved with using BNPL services. These services can lead to debt problems if not used responsibly.

If you are considering using a BNPL service, weigh the risks and benefits carefully. Make sure you understand the terms of the loan and that you can afford to make the payments on time. If you are not sure whether a BNPL service is right for you, talk to a financial advisor.



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