



## Be Wary of Buy Now, Pay Later Apps: They Could Hurt Your Credit

### Description

Buy Now, Pay Later (BNPL) apps are all the rage in e-commerce and retail. Instead of making a big purchase outright, you can break it up into smaller installments, which you pay over a few months. And the best part — BNPL apps come with zero-interest offers that make them uber-affordable for Canadians. What could possibly go wrong?

Well, your [credit score](#).

BNPL apps may give Canadians the luxury of buying expensive items now instead of saving up for them, but if you're not careful, they can negatively impact your credit score. How does that work? Well, here are three of the most common scenarios.

### 1. You use too many services

The sneakiest way BNPL apps can negatively impact your credit score is simply using too many.

That's because some BNPL apps run a hard inquiry on your credit score. Anytime a BNPL app or service asks for your Social Insurance Number, that's an indication they'll check your credit. And since credit inquiries make up 10% of your score, you could see your score drop a few points after every inquiry.

Now, don't get me wrong: one or two inquiries won't tank your score. But four or five? That can start to lower your score by a noticeable amount.

It's incredibly easy to use more than one BNPL service, especially since retailers may not accept all of them. But to protect your credit score, be cautious of how many you use.

### 2. You make late payments

Like credit cards and loan companies, many BNPL services will report crediting activities to major

crediting bureaus. If you make BNPL payments on time, this can help your credit score. If you start missing payments, however, you could lower your score significantly.

Do you think you won't make a late payment? Well, it's actually more common than you might expect. [According to research by the Ascent](#), around 31% of BNPL users have made a late payment in the last year, with another 36% claiming they'll make a late payment in the next year or so. Late payments pretty much nullify the "no-interest" benefit of BNPL services, as you'll pay late fees that can be as expensive as a [credit card's APR](#).

Now, as far as credit scores are concerned, you do have one saving grace: late payments usually don't show up on your report, unless you're over 30 days late on a payment. Your BNPL service may charge you extra fees for being 29 days late, but so long as you make a payment on the 29th day, crediting bureaus won't knock your score.

Still... don't use BNPL services, unless you're positive you can pay back what you borrow. The extra fees and potential damage to your credit score aren't worth owning a Peloton today.

### 3. You default

Finally, as with credit cards and loans, you can default on a BNPL service. While most BNPL companies will give you a chance to catch up, they will eventually send your debt to a collection agency. Defaults are always reported to crediting bureaus, and the damage to your credit score can be significant — often a hundred points or more. It can take years to rebuild your credit score after a negative impact like that.

## Bottom Line

BNPL services can help you spread big purchases over several months, but if you use too many, fail to make a payment in 30 days, or default, you could hurt your credit score. While these apps can be helpful, they still don't offer the full range of payments you get with the [right credit card](#), such as lucrative rewards, extra insurance, and near universal acceptability.

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