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CREDIT CRISIS New high cost debt credit crisis 'could be sparked by buy now, pay later offers'

[Levi Winchester](#), Senior Digital Consumer Reporter

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 2 Comments

BUY now, pay later loans could trap more struggling households into high-cost debt and spark a new credit crisis, a former minister has warned.

Such deals let customers spread out the cost of an item by up to 36 months when they can't afford the entire price upfront.



Buy now, pay later schemes are being slammed for pushing families into debt

Credit: Getty - Contributor

But while most retailers offer an interest-free period to start, shoppers are typically charged high interest rates once this is finished.

For example, Littlewoods charges up to 44.9 per cent after its interest-free period.

While Very.co.uk typically adds on 39.9 per cent to the initial cost, and Argos slaps on 29.9 per cent interest.

Speaking to [The Guardian](#), former pensions minister Ros Altmann is calling for tougher regulations on buy now, pay later schemes, over fears people are being lured into borrowing what they can't afford.

Alternatives to high-cost credit

BORROWING money with a high interest rate can end up landing you in serious financial trouble. Here's some alternatives and services which may be able to

arrange a short-term advance on your first benefit payment.

Foodbanks - These organisations help provide emergency food and toiletries to see you through

help you:

Credit Unions - These are small not-for-profit groups that help people save and borrow money, and you may be able to get a loan. You can find out which credit union you are eligible to join by searching [here](#).

Ask for an advance - You can ask your employer to give you an advance on your wages, or the JobCentre Plus may be able to

and toiletries to see you through to payday. You can see if you qualify for your nearest branch [here](#).

Check your benefits - Make sure that you are getting all the benefits that you are entitled to using this calculator from the charity [Turn2us](#).

Freecycle/Facebook groups/Gumtree and eBay - You maybe able to find free or cheap second-hand furniture. ■

It comes after the [Financial Conduct Authority cracked down on retailers charging interest where shoppers have made a partial repayment](#).

Up until November 2019, firms were allowed to backdate interest to the date of purchase - even on parts of the loan you have already paid off.

As well as enforcing stricter affordability checks, Ms Altmann is urging retailers to allow cooling-off periods in case customers change their minds about the purchase.

She said: "The rise of buy now, pay later retailing is of great concern, as more people are being enticed into high-cost [debt](#) that they may struggle to repay.

"Debt levels are rising and if too many customers are unable to repay their debts in future, we could see a repeat of the financial crisis."

How to get out of debt

RECORD numbers of Brits are seeking help to manage their debt.

While getting back on track can seem like a daunting task, we've taken a look at what you can do

[Energyhelpline](#) to see what deals are available.

Get a balance transfer card: If you're paying interest on your credit card balance, this can ultimately add to your debt pile. About 10% of people who get a

to help you on the way.

Get help for free: There are lots of groups who can help you with your debts.

- **Citizens Advice** - 0808 800 9060
- **StepChange** - 0800 138 1111
- **National Debtline** - 0808 808 4000

Don't ignore bills: Ignoring your bills won't make them go away, as tempting as it may be, and the problem will likely escalate. It's best to tackle debt head on by working out exactly what you owe and when you need to pay it back.

Make a budget: Once you know what you need to pay back, it'll become easier to prioritise your finances. The next step is to create a detailed budget so you can see how much you have going in and going out. Use an online tool like one from [Citizens Advice](#) to help you do this.

Switch and save: Households can save hundreds of pounds by checking if they can get a cheaper deal elsewhere. In fact, MoneySavingExpert says families can save £330 on average by switching from Standard Variable Tariffs (SVTs) to a better rate. Use a comparison site like [MoneySuperMarket](#) or

A better option could be getting a 0 per cent balance transfer card. These types of card will let you transfer an existing balance to a new card and gives you the chance to clear it fully without incurring interest.

[MoneySavingExpert's eligibility calculator](#) will let you know what deals you will likely qualify for. You'll need to have a good credit rating to qualify for one.

See if you're entitled to benefits:

It's important to check if you're entitled to any extra benefits or tax credits if you're struggling financially. [Citizens Advice](#) can help you see what help is available and there's a benefits calculator on the [Gov.uk](#) website. Help ranges from tax credits, job seeker's allowance and universal credit.

Also consider: You can find information about Debt Management Plans (DMP) and Individual Voluntary Arrangements (IVA) on the [Money Advice Service website](#) and on the Government's [Gov.uk site](#). But make sure you know exactly what you're signing up to as these plans aren't suitable for everyone. Many firms charge a fee for the service, either upfront or one that's incorporated into your monthly payments. ■

Citizen's Advice says that debts accrued through buy now, pay later schemes are the second most common credit issue that the charity helps people deal with, after overdrafts.

It adds that 80 per cent of people that come to the charity looking for support with store cards or catalogues are struggling with debt repayment issues.

The new warning echoes concerns raised by debt charity StepChange, who urged retailers to "give clear, plain English information" when it comes to buy now, pay later schemes.

Richard Lane, director of external affairs at StepChange, told The Sun: "Regulators also need to keep a close eye on how well consumers understand the types of services they're being offered at the online checkout – especially those that could have the potential to see them build up debt.

"We would actively encourage people to look at the costs they might face if they choose to defer payments through these services, and to contact StepChange if they feel they are at risk of problem debt."