Government and Banks Caution Against Using Credit Cards for Buy Now, Pay Later Loans

July 31, 2024 - JPMorgan Chase, the largest bank in the United States, will soon prohibit its customers from using credit cards to pay for 'buy now, pay later' (BNPL) loans. Starting October 10, payments to installment plans from companies such as Klarna, Affirm, and AfterPay will be declined.

Chase has already informed its customers of the upcoming change, advising them to update their payment methods to avoid missed payments or late fees. The bank reason for the change is that BNPL loans are actually a form of credit and Chase has a policy against using Chase credit cards to pay for other credit products. Doing so can cause long term credit and debt issues for any consumers who attempt it.

But the bankâ€™s move may have more to do with profits than with protecting consumers. Chase has its own BNPL service, Chase Pay Over Time. This service allows customers to break down larger purchases into monthly payments without interest but with a fixed fee. So the move to eliminate payments to other BNPL providers also helps the bank protect itself against direct competitors.

The BNPL market has surged alongside the growth of online shopping, particularly during the COVID-19 pandemic. These services typically offer interest-free or low-fee installment payments, provided users pay on time. However, missed payments can incur hefty fees, leading to a cycle of debt that concerns both regulators and consumer advocates.

Using credit cards to pay off BNPL loans is especially problematic. Transferring installment payments to a credit card can result in higher interest rates if the credit card balance is not paid in full each month. With the average credit card interest rate hovering around 24.84 percent, consumers can quickly find themselves in deeper financial trouble.

Regulators and consumer advocates argue that using credit to pay for credit defeats the purpose of installment loans, which are designed to provide a more manageable payment plan. This practice can obscure the true cost of borrowing and increase the risk of accumulating unmanageable debt.

Earlier this year, the Consumer Financial Protection Bureau (CFPB) implemented new rules requiring BNPL companies to offer the same consumer protections as credit card lenders. These protections include the right to dispute transactions and demand refunds. The CFPB's mandate aims to ensure that consumers are equally protected, whether they use traditional credit cards or BNPL services.
by Jim Malmberg
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