



Layaway for the Holidays: Should You Sign On?

CASH-STRAPPED SHOPPERS may steer clear of the "buy now, pay later" of credit cards this holiday season.

Roughly 20% of consumers haven't decided how they'll pay for purchases this holiday season, reports financial provider USAA. So with increases in credit-card interest rates and minimum payments high, what are shoppers considering? According to predictions from the National Retail Federation and the [National Foundation for Credit Counseling](#): layaway — at least for some purchases.

Layaway programs allow consumers to put items on hold, in exchange for a [nominal fee](#) and a deposit of 10% to 20% of the purchase's total value. You make regular payments over the course of the contract, which can last a few weeks or several months, depending on the retailer. Once the items are paid for in full, you can take them home.

"You avoid the New Year's hangover of paying by [credit card](#)," says James Roberts, a professor of marketing at Baylor University in Waco, Texas. Layaway can be appealing for people who haven't accumulated savings to spend all at once, whether for their whole holiday shopping list or a big-ticket item like furniture or jewelry. It's also an option for those who don't have affordable credit available to them.

Sears (SHLD: 68.12, +0.03, +0.04%) and Kmart revitalized layaway last year, advertising their longstanding programs for most items the department stores sell to shoppers worried about affordable holiday gifts in the slumping economy. Burlington Coat Factory, **T.J. Maxx (TJX: 38.30, -0.16, -0.41%)** and Marshalls also offer layaway on most items. **Wal-Mart (WMT: 50.38, +0.48, +0.96%)** offers it on jewelry only. Online, there's [Elayaway.com](#), which has partnerships with online merchants as well as a mall of select items from big-name retailers like **Dell (DELL: 14.58, -0.01, -0.06%)** and **Home Depot (HD: 24.96, -0.04, -0.16%)**.

Toys "R" Us and Babies "R" Us jumped on the trend in October, offering layaway on big-ticket items in select categories, including bikes, televisions and strollers.

The advantages for retailers are clear. Layaway entices shoppers to spend more than they have available at that time, securing one sale and setting up payment-making and pickup visits when you could buy more, says Jack Taylor, a professor of retail at Birmingham-Southern College in Birmingham, Ala. It's also an opportunity for stores to differentiate themselves from competitors with similar prices. Kmart's layaway option, for example, may push a cash-strapped [consumer](#) to shop there instead of Wal-Mart or **Target (TGT: 49.27, +0.02, +0.04%)**.

Retailers also profit from the layaway account itself. Consumers typically pay \$5 to \$10 per contract, with similar fees incurred for cancelling it. Retailers also have use of your deposit to invest or borrow against, helping them come out ahead even if you don't complete the purchase.

But for consumers, layaway isn't always such a clear win. "Not all consumers need it, or want it," Taylor says. Consider these five factors before you sign up:

Credit card balances

If you pay off your balance in full each month and can still do so with holiday purchases on the tab, there's no advantage to layaway. But if you are or will be carrying a balance, layaway is cheaper than adding to your [credit card debt](#), says Barbara Stark, the director of community development and education at American Debt Counseling, a nonprofit credit counseling firm.

Say, for example, you have a \$2,000 balance on a card with a 15% APR. Pay \$150 a month and don't add to the balance, and you'd shell out \$204 in interest and be debt free in 15 months. Charge \$500 in gifts and -- even if you pay an extra \$500 the next month -- you'll pay another \$23 in interest over the life of the loan.

Setup fees

Layaway doesn't make sense unless the \$5 to \$10 setup fee stores charge equates to less than 10% of the value of the items you're buying, says Stark. For best value, stick to big-ticket items -- or plan to do a lot of your shopping at that store.

Holiday budget

Plenty of layaway accounts are abandoned and unfulfilled because shoppers belatedly realized they couldn't afford the payments, Taylor says. You're not responsible for the full purchase at checkout, which can lead to overspending. "It's almost like paying with play money," he says. Before you set up an account, check that the items and the payment schedule fit with your budget. Also read the fine print to see what happens if you miss a payment. Retailers allow layaway contract cancellations, but it'll cost you. Most assess a fee of \$5 to \$10.

Sales

When you set up a layaway account, you lose the ability to take advantage of price drops and sales on the items on hold, Roberts says. Be cautious about using layaway before Black Friday, when many retailers are expected to roll out their best deals. (For more details, click [here](#).)

Item availability

Layaway is a smart solution to get your hands on hot holiday toys and other limited-edition or unique items (like jewelry or designer clothing) before you have the ability to pay in full. "The reality is that most retailers have really controlled their buying this year," Gottlieb says. Once a retailer sells out, it's unlikely they will restock.

On the other hand, layaway may not be the best plan if the item you're eyeing could be obsolete by the time you finish paying. For example, use [elayaway.com](#) to buy a \$399 64GB iPod touch from **Best Buy (BBY: 38.96, -0.36, -0.91%)**, and you could pay \$45.55 per month (including taxes and a 1.9% transaction fee) for 10 months. Stash cash in a high-yield account so that you can afford a shorter timeframe (and higher monthly payments) once **Apple (AAPL: 190.81, +2.06, +1.09%)** introduces the latest generation.