



Third Quarter Fiscal 2025 Earnings Call

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Call Participants

Affirm

Max Levchin, Founder and Chief Executive Officer
Michael Linford, Chief Operating Officer
Rob O'Hare, Chief Financial Officer
Zane Keller, Head of Investor Relations

Analysts

Andrew Jeffrey, William Blair
Dan Dolev, Mizuho
Moshe Orenbuch, TD Cowen
Rob Wildhack, Autonomous
Adam Frisch, Evercore ISI
Lemar Clarke, Wells Fargo
Ramsey El-Assal, Barclays
Will Nance, Goldman Sachs
James Faucette, Morgan Stanley
Matthew O'Neill, FT Partners
Kyle Peterson, Needham & Company
Vincent Caintic, BTIG
David Scharf, Citizens JMP
Giuliano Bologna, Compass Point
Reginald Smith, J.P. Morgan
Jeff Cantwell, Seaport

Presentation

Operator

Good afternoon. Welcome to the Affirm Holdings Third Quarter Fiscal 2025 Earnings Call.

Following the speakers' remarks, we will open the lines for your questions. As a reminder, the conference call is being recorded, and a replay of the call will be available on our Investor Relations website for a reasonable period of time after the call.

I'd like to turn the call over to Zane Keller, Head of Investor Relations. Thank you. You may begin.

Zane Keller

Thank you, Operator.

Before we begin, I would like to remind everyone listening that today's call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC, which are available on our Investor Relations website. Actual results may differ materially from any forward-looking statements that we make today. These forward-looking statements speak only as of today, and the Company does not assume any obligation or intent to update them except as required by law.

In addition, today's call may include non-GAAP financial measures. These measures should be considered as a supplement to and not a substitute for GAAP financial measures. For historical non-GAAP financial measures, reconciliations to the most directly comparable GAAP measures can be found in our earnings supplement slide deck, which is available on our Investor Relations website.

Hosting today's call with me are Max Levchin, Affirm's Founder and Chief Executive Officer; Michael Linford, Affirm's Chief Operating Officer and Rob O'Hare, Affirm's Chief Financial Officer. In line with our practice in prior quarters, we will begin with brief opening remarks from Max before proceeding immediately into questions-and-answers.

On that note, I will turn the call over to Max to begin.

Max Levchin

Thank you, Zane.

The quarter's results of course speak for themselves. We are pleased to improve our outlook for the current quarter and the fiscal year. This quarter is a good example of us leaning into growth opportunities with excellent credit quality and LTV characteristics while hitting our targets. As we continue our journey as a soon-to-be-GAAP profitable business, we'll continue to be judicious in how we spend our hard-earned dollars and as opportunities to take market share arise, we'll keep balancing growth and profitability.

Back to you, Zane.

Zane Keller

Great. Thank you, Max.

With that Operator, we're ready for our question-and-answer session.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key.

Your first question comes from Andrew Jeffrey with William Blair. Please go ahead.

Andrew Jeffrey

Hi, good afternoon. Appreciate you taking the questions this afternoon. Max, I noticed the callout again on the zero APR product in the shareholder letter where you're having excellent traction. Can you talk a little bit about how you balance the economics of those loans versus interest bearing loans, and whether or not you're going to see, or you think you can see more merchant sort of contribution to that product as you go forward, because I think you noted it's a little bit lower RLTC than interest-bearing? I'm just wondering about the mix implications and any other comments on zero interest going forward.

Max Levchin

Sure, it is a little bit responsive or reactive if you will versus proactive. When a merchant shows up and says, hey, I'm thinking of doing a giant 0% promo this quarter, our answer is always going to be, absolutely, let's do this. Yes, it makes a little bit less money, but the brand halo that that drives for us, the conversion that the merchant sees and therefore attaches themselves to Affirm that much more, the incremental value to them is just like, it's all goodness up and down. Part of what you see in my letter this quarter is me saying we had a handful of those opportunities come to us and we just couldn't get enough of them.

You're totally right that the revenue and RLTC content is a little bit light, but on the other side of it, the credit quality is significantly better. I think I quoted some numbers in my notes that it's basically prime and super prime content. We will continue reacting towards that.

One of the really big things that is worth being clear about on the zeros, they are good today. In fact, I think they're great today, but they're really fantastic tomorrow. The totality of Affirm card holders comes from the existing Affirm base. Every time we sign someone new through a 0% promo, some number of months or quarters from now that is a prime candidate for card and that's a lifetime value booster. We haven't come up with a better one. That's why we're so happy with that. Does create a little bit of delayed gratification if you will, but it's totally worth it.

Andrew Jeffrey

That's super helpful. Thank you.

Operator

Next question, Dan Dolev with Mizuho. Please go ahead.

Dan Dolev

Hey guys, excellent results as always. Max and team, can you maybe elaborate a little bit on the pockets of strength in GMV that we're seeing right now? Maybe some comments on Apple Pay and how much of this is sustainable on the April strength. We'd really appreciate some comments. Thank you.

Rob O'Hare

Dan, this is Rob. Thanks for the question. The strength in GMV that we saw in the quarter, it really was incredibly broad-based. I think we had one category that declined, but otherwise we really saw strong growth across the board. That was both growing with our largest merchants and partners but also growing across the merchant base. Obviously, we called out in the letter that the strong growth in our direct-to-consumer services, those grew faster than the rest of the business at large and was led by card of course. But yes, really it was strong growth. The other thing that we called out in the letter was just that we did see growth accelerate across the quarter with March being our strongest month of growth at 40% GMV growth year-on-year.

Dan Dolev

Got it. Excellent results. Thank you so much.

Operator

Next question, Moshe Orenbuch with TD Cowen. Please go ahead. Mr. Orenbuch, your line is live.

Moshe Orenbuch

Sorry about that. I was hoping you could perhaps flesh out the commentary on the 0%. You mentioned that they're generally much higher credit quality. Is this the way to think about kind of an acquisition channel for the Affirm Card and just a different—and if that's the case, then maybe could you talk a little bit about when you're going to be willing to do more of it and how we should think about that?

Max Levchin

I'll start and undoubtedly Rob has much more precise contours around. The thing in promotional finance is everybody promises these 0%, no one except for us actually delivers on it. Ninety-nine-point-nine-nine-nine percent of the time somebody says, hey, it's a 0% APR, there's an asterisk next to it. If you read the fine print, it says, if you miss a payment or you're late or something happens or it rains or it's a Thursday, you will get screwed. Interest compounds attractively and it's the worst thing in the world.

We don't do any of those things. When we tell you it's a 0% APR, it is in fact a 0% APR. At this point, we've actually earned our right/brand. People know when Affirm says it's a 0% deal, it is in fact you will pay no interest for as long as the number of months says. People respond to it very positively. The conversion rate on those sort of things is better than it's ever been. Merchants come to us and say, hey, we want to really boost our top line. Let's run a 0%. We'll pay the interest that consumers would have otherwise paid. Let's go for that.

That typically results—very, very rarely, in fact, I can't remember a time where we said, no, we're not interested. Any time this happens, we say, oh my God, of course. We would love to accommodate you. Let's go now and let's do it as often as possible. In that sense, it's just a great thing right now. Yes, it has great credit externalities. It converts really well, et cetera, et cetera. It's also extremely on-brand for us. This is a really important brand deposit that we're making. It also drives GMV growth.

Generally speaking, I don't have a framework in my mind like where like at some point it's too much. The card user acquisition thing is a cherry on top. It's not a thing we do because we want more card users, even though of course we want more card users. It's the fact that when we do this, it results in a disproportionately higher percentage of qualified card users. The card credit quality requirements that we have are higher than the broad Affirm quality requirements. In that sense, the more 0% we run, the higher percentage of card eligible users we have. That's the qualitative answer. Now to Rob, for quantitative.

Rob O'Hare

Yes, and I would just say, Moshe, it really comes down to, for us, where is the portfolio profitability at large? Do we have maybe some surplus that we can invest through mix, not necessarily by subsidizing the MDR for merchants, but just through mix alone to help drive all of the beneficial things that come with 0% that Max alluded to, so modestly better credit, higher growth, slightly better user acquisition. All those things are added benefits, and we think that they drive really nice network effects for us as well.

Operator

Next question, Rob Wildhack with Autonomous Research. Please go ahead.

Rob Wildhack

Thanks. I appreciate the commentary in the letter around your sensitivity to the recession scenario. I was wondering if you could unpack some of the assumptions that underpin that analysis. Obviously, be interested to know like what you considered for GDP and unemployment but also if you assumed anything in that scenario with respect to the business like 0% APR is increasing, decreasing or softening in the funding market, anything like that?

Max Levchin

Let's see. First of all, it's not a precise estimate. The numbers should give you a pretty good clue that this is, 50 and 10 are fairly general levels. What we've done is we've looked at past experience. During COVID, we had some changes we had to implement pretty quickly because of the extremely sudden nature of the furloughs and layoffs. Then in '22-'23, it was a little bit slower, but it was also a little bit of a fire drill. In both times, we had to estimate sort of what's the credit results we wanted in that period of time and empirically find our way to the right approval rates. The numbers I gave are roughly what we saw then.

Then as we do our recession preparedness, which we always do, it's not a thing that we sort of started doing at some recent time, we just look at recession scenarios as a matter of habit. We model out what happens over what period of time as delinquencies and defaults go up.

Basically, the process looks something like this. We just make assumptions about the existing back book and ask ourselves what are the changes we need to do to the front book to mix into the right returns for our investors so that we continue satisfying our capital markets obligations and feel good about the results overall. We deliberately do not make assumptions around things like, well, of course we'll do this and that and everything will get better. There are pockets of improvements to be had after we make those credit cuts, but the assumptions are fairly black and white because that's the most conservative path to approach. That's the process.

The numbers are empirically based from what we've seen as well as the models that we run here. I think capital markets sort of behaved in all sorts of erratic ways in the past. We have that empirically well-known at this point.

Rob O'Hare

Yes, and Rob, this is Rob O'Hare. I think you'll find that because the loan book turns over so quickly in our business, we tend to look much more closely at early signs of stress in our own loan book, more so than we peg our assumptions or our scenario planning around external factors like U.S. unemployment rate or something like that. It's really around if we saw repayment stress in our own loan book and we sprung to action, what would those actions look like and how much would we have to tighten underwriting or adjust our credit posture.

Rob Wildhack

Got it, okay. Then you've had a series of headlines recently highlighting integration and reporting back into the credit bureaus. You do seem to be at the forefront of your industry in doing that. I just wanted to ask, why is that something that's so important to you? Then, is it challenging from a tech perspective to build out that reporting and integration?

Max Levchin

It's a great question. We do believe we are at the forefront of the industry in this sense. It is challenging at the front end. There's a couple of somewhat conflicting considerations in the scenario of reporting. There's a very small handful of people that will tell you don't report my loans. I don't want to—I like the optionality of not paying my bills on time and having my credit score unchanged. That is an extreme minority and some of our competitors love to speak to that minority. But I think the vast majority of the world says, hey, if I'm borrowing money and I'm paying it back on time, I want that reflected on my permanent record. When I go to borrow money for a car or even get my credit check for an apartment rental, I want to know that if I borrowed from you, you help me build my credit history and ultimately helped my credit score.

That part is really important to us. We're absolutely not a socialist enterprise, but we do believe in doing the right thing for our consumer. Our consumer really cares about their credit rating. Helping them build it is really important.

There are some downsides to it in the following areas. Downside isn't the right term, sorry. You can't screw up. If you go to a credit bureau and you tell them, here's a bunch of data, do what you will with it. That is irresponsible. We spend years literally testing what will happen to your credit score if the NPL data is included in it? What about monthly data? What about bi-weekly data? What if it combines with these other transactions that we see? We work very, very hard on making sure that we can stand up and say, we will report your data. If you pay us on time, over time your credit score will improve, and it will not have weird consequences that you might be worried about, et cetera. That work was really significant. It took a lot of negotiating. It took some real effort with TransUnion and Experian. All these announcements you see is literally results of years and years of work.

The actual process of gathering the repayment data and sending it to the credit bureaus is not especially technically challenging. You want to make sure you've formatted data correctly, but that's not the hard part. The hard part is making sure that it's incorporated accurately, represents the behavior truthfully, actually helps people build their scores, doesn't disproportionately benefit or punish them in strange, unexpected consequences.

Rob Wildhack

Okay. Thank you.

Max Levchin

I'll use this one second as the opportunity to pound the table. I invite all of our competitors to do the same thing. I think it's really important. I think this country is fueled by credit, and it is irresponsible of them not to deliver information to the bureaus. By the way, whatever regulatory regime we are in or heading to, the right thing to do is to help people not stack loans, which is the number one concern regulators of all types always have. If you're borrowing here and you're borrowing there, it is at least important to know the total size of your overall debt. We'll lead the way. We'll always do the right thing first, but I think it's really important the industry embraces this practice.

Operator

Next question, Adam Frisch with Evercore ISI. Please proceed.

Adam Frisch

Thanks. Quick housekeeping, and then I have a question on the AC card. If 0% didn't grow so fast or were more in line with the prior mix, what do you think RLTC would have been in the quarter?

Rob O'Hare

We haven't given precision around that, Adam, other than to say, 0% are profitable for us. They're profitable at the RLTC line, and they're just less profitable than an interest-bearing loan that's held. But just given the complexities of in-quarter funding mix and just taking a horizontal view of an asset that lends itself to a several quarters view, it's really hard to quantify that.

Adam Frisch

Okay, no worries. Just want to ask also about any specific initiatives or incentives that you can speak to in order to get people using the Affirm Card more like a debit card, so you see them more, get an even better understanding of their finances, et cetera? If not, maybe provide some color on whether banking or debit or other financial services are on your roadmap. Max, I think you alluded to that very slightly in the last call. I was hoping maybe to get a little more color on that. Thanks.

Max Levchin

Good question. I'll try to keep it succinct lest I get in the preacher mode again. To get to top of wallet is a major effort. We basically have to build out all the functionality we have in mind and we're working pretty hard towards that, but I would not expect the pay now volume to just flip up to a crazy number very quickly. It's going to be a gradual process, and we're seeing good attach rates in cohorts, but we are not, obviously, yet the predominant way for people to pay now.

We're gaining traction pretty nicely in pay later as in we're taking up more and more of the consumer's credit spend. The goal is of course to go after all transactions. What it will take, I'm not sure this is the right place on which to pre-announce our product roadmap. If I do, Michael will elbow me, and it will hurt. But I think one of the things that we did, it's in my notes, we just rolled out foreign transactions, which seems like a really minor thing, but I called it out because there's no network effects in payments geographically. People just don't travel that much. But nothing sucks more than pulling out your debit card in a foreign land and saying, I'm going to buy this thing, swiping it, and it doesn't work.

Fixing these gaping user interface or user experience holes is disproportionately important for things like pay now. Like, you just want it to be more bulletproof. As we clean up those things, I think you will naturally see increased pay now. We have a bunch of ideas on what might we do to create incentives. But what is worth the single most valuable consumer incentive we've come up with is the 0% APR. Like it sounds sort of pedestrian, but we've run A/B tests of all sorts and kinds, and we can offer you 10% off or a 0% deal and nine out of ten times the 0% is just much more compelling even though it costs the merchants less than 10%. Just the economics of that trade are so powerful.

We will continue leaning into APR reductions as a reason to use Affirm products in all sorts of ways, and the card is certainly a giant driver of that. Obviously, there's a bit of a rhyming where if you signed up through a 0% promo, you'd like to see more of those. Creating more of those on the card is pretty valuable.

Adam Frisch

Got it. Okay, thanks guys.

Operator

Next question, Andrew Bauch with Wells Fargo. Please go ahead.

Lemar Clarke

Hi guys. It's Lemar on for Andrew. On the recent headlines this week around student loan enforcement by the administration and the likely wage garnishment, which potentially could affect 5.3 million defaulted student loan borrowers this summer, are you guys internally thinking about the potential implications for Affirm?

Max Levchin

It's something that we're very mindful of. I think we said two quarters ago that we have done an extensive amount of back testing of presence of student loans, presence of student loan delinquencies and defaults, which is obviously a really important signal. All that is already factored into our underwriting in all the right appropriate ways. I can't say we are too concerned. That said, we'll obviously see if there are meaningful changes to repayment as a consequence of the actions of the administration, and we'll adjust appropriately.

Lemar Clarke

Okay, makes sense. Then a quick follow-up, in your prior shareholder letter, you had mentioned work done around the redesign of the Affirm app, just focusing on increasing the utility there. I wanted to ask you if there's anything that you may be seeing so far in terms of the impact of these changes, maybe in terms of driving conversion and incremental user engagement. Thank you.

Max Levchin

It is improving. We strongly believe in continuous deployment. A meaningful percentage of the app changes haven't even rolled out yet. We're very careful. The reason for it, by the way, the single most important use of the app which gets insufficient airplay from my point of view is loan repayment. The number one reason—the reason we have the app and the number one reason it's used for is to pay your loan back. As much as we love tinkering with user interface, the number one guardrail we run against is, has our repayment rate changed in a way that we don't like?

You'll actually see us trickle out quite a number of incremental user interface changes, which every one of them moves some needle somewhere positively on the conversion side of things, always against the backdrop of are we improving or hurting repayment? If it's ever hurting, those changes don't survive very long. We're very, very careful not to mess with our repayment rates. There's some really cool stuff coming in the app that's not visible yet. I would say ask me this question maybe next quarter, and you'll be able to ask, like, hey, you changed this thing, and it looks cool.

If you look through the Affirm Card pre-approval process or loan pre-approval process, you'll see some really neat changes towards the end of the flow. That's a good breadcrumb if you wanted to go spelunk some user flows, see what we did. But it did improve conversion very nicely.

Lemar Clarke

Okay, I'll take a look, thanks.

Max Levchin

Thank you.

Operator

Next question, Ramsey El-Assal with Barclays. Please go ahead.

Ramsey El-Assal

Hi, thank you so much for taking my question. Could you comment on the online partnership with Costco, that announcement maybe in terms of impact, timing of the implementation, and then could this move in-store at any point? Maybe that's wishful thinking, but thought I'd ask.

Max Levchin

Let's see what we can say. It's very cool. I'm very excited about this one. I can say that much. I think it's a brand renowned for its obsession with consumers. It's kind of the original consumer obsessed brand in many ways on the retail side of things. Very, very proud to be a provider to their members. I don't think we are announcing a timeline, but obviously we wouldn't talk about it if we didn't think that's a thing that we will be at some point in the reasonable future. We're definitely not updating any numbers as to its impact on any metric.

These things, as you know, always take a long time to get right. You need to launch, then you need to tune, then you need to A/B test, then you need to make sure it's profitable for all sides involved. It definitely—don't model anything crazy in there. But like every one of our enterprise partnerships, we're very committed to it, which means that over time, we'll fine tune it to be a really great part of our business. I would just hold your horses a little bit, but we'll invest the right amount of effort into making it great.

Ramsey El-Assal

Fair enough. A really quick follow-up from me. Any P&L impact from the Shopify renewal? I saw that was impressive that you renewed that through 2028. Was there any concessions on the economic front or any P&L impact we should think through on that renewal?

Rob O'Hare

No economic concessions. The one housekeeping item is that it does elongate the amortization period for the warrants that were—that Shopify received in the initial agreement. Because those are tied to the life of the agreement, there is a longer amortization period now, but that's pretty small.

Ramsey El-Assal

Got it. Thank you very much.

Operator

Will Nance with Goldman Sachs. Please proceed.

Will Nance

Hey guys, appreciate you taking the question. Nice results as always. I also wanted to congratulate you on the Costco partnership. I thought that was great. I was wondering if you could provide any details on your latest understanding about how the Walmart relationship will be evolving over the remainder of the year given some of the headlines out recently. Thank you.

Max Levchin

We're currently live at Walmart. We think we're doing great work. We're actually actively investing in making sure that they are getting the absolute best possible value from our work together. The day we understand when that changes and how, we'll obviously notify you and the market. At the moment, I

think we are being a good partner and a good vendor. I don't know, Rob or Michael, want to add any more color?

Rob O'Hare

No. I mean, we're still proud to power the program and we're there for Walmart consumers.

Operator

Next question, James Faucette with Morgan Stanley. Please proceed.

James Faucette

Thank you very much. I wanted to go back to the app. Interesting comments there, Max, about using that to drive and make sure that you have good repayment engagement. But just wondering then how we should fit that together with some of the promotional and deal offers that come through the app. I guess I would expect those to grow.

Just help us think about it. I know that there are future improvements coming, but how should we think about the long-term objective of the app? Is it still a repayment engagement mechanism or it seems like there's also opportunity to go after your better, higher quality customers that you're attracting initially with 0%. Just try to help us think through the long-term scope of the app and that endeavor?

Max Levchin

You should think of the repayment functionality of the app as a key guardrail. In other words, whatever it is we do to the app in pursuit of other goals, we will not compromise repayment. This is consistent with the credit is job number one - something that I love to repeat. We will never do something that harms repayment because it, one, hurts our capital partners, two, screws up our ability to sign more capital partners, et cetera, et cetera. That's the guardrail and it's probably, the reason we don't talk about it is because it's understood, and we will not mess with repayment.

That said, the app fundamentally is two more things. It's a catalog of merchants and their offers, most importantly 0% offers that are currently available on the network. It's really important in the sense that consumers do not come to the app to start their shopping journeys. What they do come to the app for, in addition to repaying their bills, is to check if a thing or a merchant they're interested in has a great financing offer, be it a 0% or a reduced APR or a longer period or increased purchasing power. There's many different kinds of promos that we know how to run, and we know how to run very profitably both for our partners and for ourselves and delight consumers.

Over time, we will send out more reasons to consumers to come to the app to check in on the offers available to them. One of the things that we rolled out within our adaptive checkout solution that lives on merchant sites is something that we've built for the app a little while ago called dynamic optimization, which in real time figures out the best possible term lengths of the loans you might take out and APR offers for that single consumer given something we know about their current set of interests.

Maybe the best possible approximation for the app, which will sound a little controversial but actually think it probably is the best way I reason about it. It's a search engine that you come and query on the topic of, I have this thing in mind, or I have this merchant in mind, what's the smartest financial decision I can make with Affirm as my tool to fulfill this financial objective. We expect to lean into answering that question more and more and more. You can imagine some product ideas and maybe features that come out of that.

The search engine that we have today is pretty good. We are working on improvements on that pretty relentlessly. I think if I'm allowed a super minor comment on the topic that's not come up yet, for which I'm somewhat thankful. If you look at how the world is changing in the context of Generative AI, every search is going to be an AI conversation. That's very, very apparent at this point. You should absolutely expect us to have an answer for that as well.

James Faucette

Got it. That's helpful context. Thanks, Max.

Max Levchin

Thank you.

Operator

Matthew O'Neill with FT Partners, please go ahead.

Matthew O'Neill

Yes, good afternoon. Thanks for taking my questions. I was curious if you could give us a little bit of an update on the international expansion, particularly in the UK, notably following the partnership with Adyen. Is that something you should expect to be somewhat step functional or maybe just kind of how to dimensionalize that as well as other partnerships like the one with J.P. Morgan? Thanks.

Max Levchin

Adyen, similar to some of the other payment providers or payment processors, the most important value from that partnership, from that kind of partnership really, is speed to integration, speed to going live. It doesn't necessarily increase our pace of sales, but it moves our pace of implementation from whatever average is to much shorter because you're already plumbed through with Adyen, you can just light up Affirm in the UK very, very quickly. In the sense that whatever we have in the pipeline that we have signed going live, if they're on Adyen today, will be a faster process. We have many of those relationships in the U.S. This one isn't the first one internationally, but it's definitely, I think, the most significant or the most visible one right now.

In terms of the sense for things in the UK, just came back from London. I feel like I'm spending half my time in London at this point. Going well, doubling down on sales. I spend lots of time visiting merchants. Obviously, we are the upstart brand in the market, so I have to spend a lot of time just educating the market about who we are, how we do business, how we're a little bit different from the incumbents. Obviously, we already said it out loud, so it's no surprise the big step function will come when we take Shopify live there and that's definitely on the horizon. We're working towards that.

We won't get there before we get through the beta period with Shopify in Canada, which is live now. Just limited number of engineers we can throw at this. But Canada beta is going well. I am confident UK beta will happen in reasonable time and very well as well.

Matthew O'Neill

Thanks, Max. Maybe as a follow-up, speaking of large international incumbents, one that had a particularly aggressive posture on AI historically took a bit of a turn today. I was wondering if you can address where AI is working. I noticed in the note the dispute resolution process, for example, but maybe where you

found the most success. I know you've been a proponent of machine learning and AI for a long time and maybe where the human touch still reigns supreme? Thanks.

Max Levchin

That's a great question. I could spend a lot of time on it. So we are applying, and unfortunately the world has gotten really confused about what is and isn't AI under today's definition versus yesterday's definition. I'll try to be very precise. We've used machine learning since the day of our founding. In fact, the idea was to build a credit score that was built on alternative data and modern machine learning techniques and obviously we've been pretty successful with it. So we use that all the time, every part of the business, et cetera. That's just the baseline.

GenAI or LLMs, large language models, have been really, really helpful in a bunch of places. Internally, we use them in all kinds of ways, including, and we're actually quite actively investing into internal adoption of AI, where we have teams that are tasked with finding use cases for GenAI specifically inside their teams or increasing productivity, anything from we have literally hundreds of thousands of legal contracts with merchants. You need to find a clause that we need to modify for whatever reason, that's a great task for an LLM. Read 435,000 contracts or whatever the current number is, find the clause that we need to change which is very subtly different contract to contract, summarize it, and construct a thing that we need to go out there and get re-signed. That's the thing that humans would take thousands of hours for potentially, can be done in minutes with AI. This isn't a made-up example. It's very real.

The thing that I refer to in the letter, a big part of consumer delight is, at least for us anyway, is transparency and speed to resolution. The ability to speak to a human and explain your case is really powerful. That's one thing that I don't think will ever go away, like having empathy from someone who gets it and can actually speak to you with a human emotion in their voice. Machines aren't there yet, then it may actually be irreducible. But if you kind of know what you want and you don't want to wait, and you have it all figured out. Most importantly, you have the evidence that there's a dispute and it's just going to go a very specific way. We can use machine learning to adjudicate the outcome.

You can package the entire thing with GenAI and say, all right, let's have an interaction. You understand you're talking to a robot, but this robot can take in all your evidence, process it, run it through machine learning model in a backend and say yes this basically means you get a refund. We'll tell you right now. The refund is coming. You're going to be okay. We'll take care of the rest. That is a huge booster of customer satisfaction. That's actually—that's what I'm referring to in the letter. That's also an example of both GenAI as a user interface and machine learning on a back-end as a resolution device.

Machine learning is much more stable if you will. The models are highly, highly predictable and repeatable. That's why they're favored in precise things like credit underwriting and GenAI models are somewhat less predictable. Everybody's heard about hallucinations, but they make for an amazing, very flexible user interface. We use both very actively. I'll skip the part where I talk about how we have lots of engineers using lots of AI to write code and so on, but obviously we're doing that as well.

We don't spend a ton of time talking about it. We are very enthusiastic adopters of all this new stuff. But we also kind of think that it's a bit of a set of tools. You use what is available to you, and you try to find the very best ones, and you maybe don't make such a big story out of it.

Matthew O'Neill

Appreciate it. Thank you.

Max Levchin

Yes.

Operator

Kyle Peterson with Needham & Company. Please proceed.

Kyle Peterson

Great. Good afternoon, guys and nice results. I want to ask a little bit about credit and what you guys are seeing there. Obviously, the delinquency trends look to be pretty healthy, but I noticed you guys did take up the reserve for loan losses and balance sheet up a bit sequentially. Was there anything in terms of like concern or is there mix or anything, just I guess how should we think about the allowance creeping up and how should we think about that?

Rob O'Hare

Yes, thanks for the question. I'll start and Max may have some color to add as well. We are seeing really healthy repayment rates come through. We do about \$100 million of GMV a day and so we get a pretty fulsome data set every day as those cohorts are coming in for repayment 30 days later. We're not seeing any signs of stress with the consumer in the repayment rates.

One small thing that did happen during the quarter is we actually saw a slight uptick in prepayments. We take that as a pretty positive credit signal, actually. There is some tax seasonality, but even adjusting for that, we saw an increase year-on-year in prepayments. We think that's a modest positive and that does on the margin change the mix of loans that are still on the balance sheet, and we still feel like the allowance rate, while up marginally, is still in a really healthy place. I think delinquencies are a good leading indicator of where the credit box is and how the book is performing.

Kyle Peterson

Okay. That's helpful. Thank you.

Operator

Next question –

Max Levchin

Obviously, this is the snapshot—sorry, I just wanted to comment that it's really important to be intellectually honest about credit. In the current moment, the snapshot looks fantastic. Things could change. We are very attentive. We will change with things. The good news or the most important property of our business, we have a very, very short term length. As the book goes through, we adjust our required credit quality on the front book as the back book mixes out and we will always get to the numbers that we need to have for us and for our capital orders.

Operator

Vincent Caintic with BTIG. Please proceed.

Vincent Caintic

Hi, good afternoon, Thanks for taking my questions. I wanted to get updates on two topics. I'll just ask both of them now. The first one about competition, kind of related to that discussion earlier related to

Walmart. In this environment where maybe you have competition willing to give back economics to win merchants. Just wondering if you're seeing a lot of that sort of competition.

Then second update, if you could talk about your funding structure and actually specifically, if you had any updated thoughts about becoming a bank. The reason I asked is it does seem like the regulatory environment is more conducive to becoming a bank, whether it's build or buy. Just wanted to see if there's any updated thoughts there. Thank you.

Max Levchin

I'm going to make Michael answer the competition question because I feel like I've been completely monopolizing airtime, but I'll answer the bank question first. There are three distinct things having to do with bank charters. Number one that really does not apply here, and it's important to just get that out of the way. Even if we woke up tomorrow morning with a bank charter in our back pocket, we would not be able to lend from deposits that that bank had. It would take a long time to gather deposits. It would be regulatorily encumbered in what's called the de novo period, where you really wouldn't be able to do all that much at all with it. A bank charter is just not a solution for our funding strategy. That's sort of full stop. And if we had a bank charter tomorrow, five years from now, we could have a conversation about what is that doing for your funding cost and even then, probably not. That's not a thing.

There are two other things. There's regulatory certainty where if you have your own charter, you can have a little bit more clarity as to how the regulators think of you. The bank partner model gets interrogated by the regulators both Federal and State level fairly frequently. We have done really well. It obviously doesn't hurt that we look our bank partner—make our bank partners look good by not charging any late fees, by not doing any questionable anti-consumer things. Our partnerships have been strong, and we've enjoyed a plurality of bank partnerships over the years. That said, there's some argument to be had there.

The most important thing, and I've said it before and I'll say it again, we are regulatorily driven or motivated towards features or by features. In other words, if there were a feature that we just couldn't build without a bank charter, we would absolutely consider pursuing one. There is a handful of those, there's no point in rattling them off, but you could construct a straw man around - you would want to do this because it's great for consumers, it's on mission, Affirm would be good at it, and yet you can't because there's no bank charter. If and when we prioritize one of those things, bank charter will become part of the consideration.

We've been in that mode for quite some time, and you're totally right that the current regulators I think have publicly called for wanting to see more applications. It's not lost on us, but we would do it if we felt the need to pursue it for a product construct that we had in mind. Michael, now on competition.

Michael Linford

Yes, on competition, the first thing I'd say it's very competitive today, as it's been since the day we went public. The category will, we believe, remain competitive well into the future. Anytime a category is being defined like ours, where there's meaningful adoption of a new category, it attracts competition from pure players, but also attracts competition from the incumbents in the broader consumer credit space who would like to compete. That has been true for the past five years.

We include in our supplement a chart that shows the trends of our merchant fee rates over the past five years—or past several years, sorry. The thing that jumps out to me and hopefully to investors is how consistent our pricing has been despite the extreme competitive environment. The reason why is we don't win on price. We obviously have to put forward competitive pricing and our cost structure and ability to do things that we do in the capital markets allows us to be aggressive, but it's really important given the risk management mindset that we have in our business that we can generate enough profit to

operate the business the way we want to operate it, which means we don't do the same thing that some competition might do with respect to pricing.

We win on conversion, we win on impact, we win on putting ourselves out there for the consumers of the brands that we work with. I think the track record we have on our distribution is evident of that. I think the more successful we are in proving there's a really good business to be had here, the more competition it will attract. We've never thought about our contracts or our distribution as being something that cements our leadership. We have to earn it every day by driving real impact for our merchant partners and that's where our focus certainly lies. But make no mistake, we think the market is competitive and will remain competitive for as long as we're out changing the world.

Vincent Caintic

Thank you.

Operator

Next question, David Scharf with Citizens Capital Markets. Please go ahead.

David Scharf

Hey, good afternoon. Thanks for taking my questions as well. Hey, Max just wanted to circle back to the 0% loan focus in mix. I appreciate the commentary that it's been more reactive to what partners are asking for as opposed to proactive. I guess the main question I have is maybe you can give us a little more color on just why. What do we generally take away in periods where you see particularly some of the larger enterprise partners want to lean into it? Is it a statement about what they're seeing on retail sales and worries and concerns, trying to drive more volume? Is it competitive in terms of playing you off of, let's say, another competitor? What should we basically take away from kind of this uptick in interest and promotional activity?

Michael Linford

Let me try to maybe add a little color here. I think it's important to think about the state and condition of our merchant partners when we think about these kinds of programs. In our experience, merchants who are wanting to do 0% promotions tend to be the ones who are most growth oriented. It's a reflection of strength in those merchants where they really want to go out and be front-footed and grow their businesses. It's an incredibly powerful growth tool for them.

I think the truth is when we were dealing with a surge in rates and associated pressures to the merchant partners, it became very difficult to make the economics work for these. But when you're in a scenario that we were most of this quarter and certainly the prior couple of quarters where the market conditions were favorable for the provider and Affirm and the brands really wanted to invest dollars in growth, it's a great lever to pull.

Where I think merchants pull back on 0% is when they feel like they need to be less growthful and more focused on the cost structure of the business. I've always thought about it as a real sign of strength for the merchants, knowing that that's a great way for them to grow their business. There's nothing defensive about it.

The last thing to note that's really important, our merchant partners are reactive. I think that they are some of the best retailers in the world, but even with that, they don't react in minutes and days. These things take months to think about and plan and execute. As a result, I would think it'd be a big mistake to look at what we saw this quarter and associate it with anything you're reading in the news.

Rob O'Hare

Yes, and I would just add to what Michael said. Some of the largest merchants that chose to run zeros this quarter really have business models where they're both selling direct to consumer, and then they're also selling into a distribution channel. When you look at the unit level economics for that merchant, selling direct is the most profitable action they can do. While the MDRs that they're paying to Affirm might be higher than the credit card processing rate that they're paying on the direct channel, if they can drive more volume through direct, it's still really accretive to their gross margins versus selling into wholesale or selling into a channel.

Max Levchin

That is really, really important. I just want to underline what Rob just said. That is a very, very key thing to understand about the business.

David Scharf

That's terrific color. Thank you.

Operator

Next question, Giuliano Bologna with Compass Point. Please go ahead.

Giuliano Bologna

Congrats on continued incredible overall results. One thing I was curious about asking you was when I looked at the outlook, it kind of implies a continued acceleration in GMV growth. I'm curious to ask you if there's any—if you have any sense of any potential pull forward that may or may not have happened related to the whole tariff discussion, the Liberation Day and how you think about that because you probably have a lot more insight being a month plus beyond that? I'm curious how you think about that, and what you'll think about the outlook for the rest of the year, what that implies for GMV growth acceleration?

Rob O'Hare

Yes, thanks for the question. I think at the high end of the GMV range, we're calling for 34% year-on-year growth, and that's down ever so slightly from the 36% growth that we saw this quarter. We're not calling for an acceleration on that basis in the guide. Then we alluded to it in the letter, but we did see elevated growth rates in April. Those were roughly in line with what we saw in March, which we had called out as 40% year-on-year growth in the month. We are expecting that growth will moderate from the levels that we've seen quarter to date.

Giuliano Bologna

That's very helpful. Then you obviously set up a pretty incredible funding structure. But when you think about the percentage of loans that you might sell on a quarter-to-quarter basis, should we think about that running at the high end of the historical range for a while in the near future? Just because of the volume of partnerships that are out there and the demand for private credit, and just how that should flow through, at least in the near term?

Rob O'Hare

I think when you think about the funding mix, the biggest variable in any given quarter is whether or not we're going to do a non-consolidated ABS deal. We did just price a non-consolidated ABS deal last week and so that will have an impact on the mix of off-balance sheet funding that we see intra-quarter. But we've also had really strong execution with on-balance sheet ABS too. We're fortunate to have really great funding partners in all of our channels, Forward Flow included.

Yes, I think there will be a modest uptick in off-balance sheet funding as a result of the ABS deal that we did, but otherwise we really haven't commented on funding mix.

Giuliano Bologna

That's very helpful. I appreciate it. I'll jump back in the queue.

Operator

Next question, Reggie Smith with J.P. Morgan. Please go ahead.

Reginald Smith

Hey, guys. Appreciate you taking the question. I've got, I guess one more, and I hate to beat a dead horse, but I have a question about the zero coupon offers. I'm specifically interested in the ones where you guys are doing the funding. I was hoping you could share—typically when I think about those zero financing, my mind always goes back to the Peloton bikes. I'm guessing that's not either the price point or the duration for those loans. Maybe if you talk a little bit about those loans in particular, the zero coupon loans that you guys are financing yourselves. Then again, just reading the note, it sounds like those are primarily showing up in your app. Maybe talk about where—how you deploy them a little bit. Thank you.

Rob O'Hare

Yes, Reggie, to your question, about 10% of the 0% volume would come on what I would consider our surfaces. Either the Affirm Card is the best example and the largest example in the quarter, but also some of the wallet partnerships. We can dictate what the financing program is there and we're not, there's not a merchant necessarily that's part of the equation in that function. Those are the two best examples. Again, that was only about 10% of the 0% volume, and we can dictate the exact cutoffs for when the 0% is presented and we can filter there either based on the credit quality of the consumers.

It may be obvious, but I'll say it anyway, higher credit quality consumers, there typically are lower costs for us elsewhere in the transaction. We can lean in by forgoing some of the interest revenue that we would get in an interest-bearing loan and present more 0% as a result. But yes, that's really how we're thinking about it. We do—we've typically had some 0% in all of our own surfaces. Card, again, is the best example. We can play with the mix of zeros that we want to run in any given quarter and be thoughtful about the consumers we present zeros to and when and why.

Reginald Smith

Got it. It sounds like for those zeros in particular, those are people that you know they already have the card. It's almost like a reward to them as opposed to in the case of you self-funding, those aren't you acquiring new customers. It's primarily people that you already know.

Rob O'Hare

That's right, and again, I want to make sure we address the self-funding piece because when we look at the top 20 merchants that drove 0% volume, those are mostly negotiated 0% programs where there's a

healthy MDR to cover the costs. To the Peloton point that you raised, Peloton was obviously a very long-dated loan program, and it had a very, very high percentage of 0% loans. It's altogether just a different equation. The 0% that we saw this quarter clustered around roughly 12 months in term length. The MDR that we need to make the math work there is just, it's different than a three-year loan program like we had with Peloton.

Michael Linford

Maybe just two exchanges. I think we're making—I think we have maybe—we talked about self-funding these things a little bit too much. It's not a binary thing of, is it Affirm funded or not? We look at the merchant fees that we get either through the merchant discount rate in a negotiated deal or the interchange on the card, including Visa Flexible Credential interchange, and we make a financing offer based upon that revenue mix. There's always revenue in the picture.

When we talk about self-funding it, what we mean is that we can intentionally direct a higher mix of offers to that consumer. Maybe that means we're intentionally accepting slightly lower margin. But we're not walking into situations and saying let's go acquire users by offering 24 months 0% promotional financing. That's just not the business model.

Rob O'Hare

Yes, and again, we try to be really transparent with the merchant discount rates that we collect by product, and you can see the consistency that we've driven there across each of the product lines in the earnings supplement.

Reginald Smith

That makes sense. I'm glad you guys clarified that because there may have been some confusion about that. Thanks.

Operator

Final question comes from Jeff with Seaport Research.

Jeff Cantwell

Hey, thanks for allowing me to join these calls. Most of my questions have been asked. Let's have a quick one maybe for Rob, which is how are you thinking about that sales and marketing line going forward? It looks like it stepped down this quarter, \$74 million, just trying to get a sense of, A, what got into that number this quarter? B, what the right level is for your sales and marketing. Maybe just touch on qualitatively any initiatives that are worth calling out. Thanks.

Rob O'Hare

Yes, I think the biggest change there was just that the amortization of warrant expense from one of our large partners came to the end of its amortization period in the December quarter. This was the first quarter without that expense flowing through that line. There was a step down in the non-cash warrant amortization and that'll be the case going into this current June quarter as well. That was the biggest change.

Jeff Cantwell

Got it. That flows through going forward, or how should we think about that? I'm just trying to get a sense of it.

Rob O'Hare

The amortization period has ended there, so the run rate that you saw this quarter will be roughly what you should expect in the June quarter.

Jeff Cantwell

Got it. Great. Thanks very much.

Operator

I would like to turn the floor over to Zane for closing remarks.

Zane Keller

Okay, thank you everybody for joining the call today. We look forward to speaking with you again next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.