KerrisdaleCapital

January 2026

Affirm Holdings, Inc. (AFRM)

Buy Now, Cry Later

We are short shares of Affirm Holdings (AFRM), a $25 billion "Buy Now, Pay Later" lender built on the same subprime playbook that has undone monoline consumer finance companies for decades. Since 2022, Affirm's GMV has grown at a 33% CAGR and its stock has risen nearly eightfold from the lows. But this is scale without quality and growth without durability. Expansion has been driven by aggressive credit extension to weak-credit borrowers and by extracting more borrowing from repeat users who are increasingly financing necessities rather than discretionary purchases. When a business shifts from financing Pelotons to installment plans for groceries, it is no longer "democratizing credit" but rather levering the financially fragile. As labor conditions soften and credit normalizes, the illusion of resilience will fade, exposing a balance-sheet lender built for expansion, not endurance. President Trump's recent call to rein in high-cost consumer credit now places Affirm's model under direct political scrutiny.

While often treated by US investors as a bellwether for BNPL, Affirm is in fact an outlier. **Roughly half of its revenue comes from interest income generated by high-APR installment loans, with virtually all interest-bearing balances priced above 10% and the largest bucket north of 30%.** That reliance on consumer interest income is unique among major BNPL players and far greater than at peers like Klarna, where revenue is driven primarily by merchant fees. It also takes on new relevance following Trump's move to cap credit card APRs at 10%, condemning lenders charging "20 to 30%, and even more." In a bid to produce a sliver of profit, Affirm's pricing has only marched higher in recent years: its average yield on interest-bearing loans is now ***31%***, higher than many credit card issuers now in political crosshairs, and a prime example of the ever-rising rates Trump says have "festered unimpeded" and "ripped off" Americans. Even if the rhetoric is presently aimed at credit cards, the substance of the debate ahead of the midterms is about affordability and the impact of high-interest consumer lending, which is exactly where Affirm has centered its business.

That concentration matters because Affirm has no margin for error. Recent results have been flattered by an unusually forgiving credit backdrop. For the past three years, low unemployment and suppressed losses have allowed the company to stretch its balance sheet and barely scrape into GAAP profitability. Today, Affirm is levered over 6x, with credit reserves equal to just 1% of GMV and roughly 2% of retained credit risk – a woefully thin cushion for a borrower base that historically produces 6-7% loss rates in normal conditions. As employment softens, losses will rise, reserves will have to be rebuilt, and growth will slow sharply. A retreat from 40%+ GMV growth would unravel a valuation that assumes near-perfect execution, pushing earnings back into the red and forcing a repricing toward book value of just $9 per share.

Affirm has been dining out on easy credit and full employment. Now, the bill is coming due. Our fair value estimate for Affirm is $17, representing nearly 80% downside from current levels.

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Executive Summary

Recent political focus on credit card interest rates creates a destabilizing overhang for Affirm's business. President Trump's call to cap credit card interest rates at 10% strikes at the economic foundation on which Affirm's profitability rests. Even if the rhetoric is initially aimed at traditional card issuers, Affirm's business model sits directly in the crosshairs of a political climate framed explicitly around "AFFORDABILITY!" and cutting interest rates of "20 to 30%, and even more."

Unlike most BNPL platforms, Affirm is not primarily a payments facilitator reliant on merchant fees. Affirm is a balance sheet lender that generates half its revenue from interest income, with its largest and most profitable loan bucket priced above 30% APR. An administration focused on affordability ahead of midterm elections cannot plausibly cap credit card APRs while allowing functionally equivalent installment loans to charge 36%. Any serious legislative or regulatory process would collapse that distinction, and ongoing pushback from the banking industry would inevitably highlight BNPL products charging the same usurious rates. Strip away the ability to charge 20-30%+ APRs and the model breaks. Even a partial cap would materially impair revenue and turn already thin earnings power deeply negative.

Affirm is a poster child for the charging of higher rates that Trump said "festered unimpeded" under the Biden administration. Over the past three years, the company has increasingly focused its business around high-APR consumer lending, using bank partnerships to access permissive interest-rate regimes that would otherwise be unavailable to a non-bank lender. Affirm's average loan yield for on-balance sheet interest bearing loans in the most recent quarter was *31%*. As political scrutiny expands beyond credit cards to broader affordability concerns, that structure becomes a liability rather than a moat. In a market already sensitive to credit normalization, this policy pressure compounds the downside and accelerates the risk of a valuation reset.

Scale without economics. Affirm's business model is fundamentally flawed. Gross merchandise volume has exploded from roughly $4 billion in 2019 to guidance above $47.5 billion for 2026, yet meaningful and durable GAAP profitability remains elusive.

What Affirm has built is a Rube Goldberg version of FinTech: a rent-a-bank structure layered with complex and costly funding arrangements, securitizations, and analytics, all in service of managing credit risk in a business that increasingly finances everyday necessities rather than discretionary spending. What began as installment lending for high-ticket items has devolved into high-APR microloans for groceries, a clear signal of a stretched and weakening customer base.

Only an extraordinary set of macro tailwinds – maximum employment, abundant liquidity, and historically low credit losses during an inflationary period – has postponed the reckoning. Those tailwinds are now fading. Despite operating at scale, Affirm's economics remain thin and highly dependent on conditions that no longer prevail.

Leaning on heavy repeat usage is risky and unsustainable. Affirm's growth is not being driven by a rapidly expanding user base. It is coming from extracting more borrowing from the same customers. 96% of transactions in the most recent quarter came from existing users. The company has pushed customers into longer-duration 3- to 12-month installment loans, raised APRs on its riskiest products to 36%, and stacked multiple loans onto repeat users. As a result, net interest income has overtaken merchant fees as the primary revenue driver, rising from 35% of revenue in 2021 to roughly 50% in 2025.

Despite constant references to a massive BNPL total addressable market, Affirm's customer base has become more concentrated and more leveraged. This is a familiar late-cycle pattern in subprime lending: hyper-growth driven by easy credit and aggressive underwriting gives way to borrower saturation, intensifying competition, and eventually a catalyst – most often rising unemployment – that exposes the fragility of the model.

Affirm now appears to be entering that phase. With growth increasingly dependent on high-frequency, subprime borrowers, the business is acutely exposed to any deterioration in labor conditions. Even a modest rise in unemployment would hit these customers first and the company's earnings shortly thereafter.

The US jobs engine is stalling. The US labor market has been abnormally strong for years, with unemployment near 4% in the post pandemic period. That stability is now fracturing. Layoff waves have been announced across major employers including Amazon, UPS, and Target, and the federal workforce faces promised downsizing under the Trump Administration. The last available report showed December unemployment at 4.4%, up 10bps in last 3 months, the highest since 2021 alongside negative revisions totaling 76,000 jobs to the prior two months' payroll estimates. Additionally, layoffs are accelerating. The recently provided ADP estimate of US nonfarm payroll missed expectations again in December.

Obvious signs of credit stress are also emerging: auto delinquencies are rising to multi-decade highs and the end of all federal student-loan forbearance on September 1, 2025 has added a new payment burden on younger borrowers. These pressures point toward a weakening consumer balance sheet at precisely the wrong moment for a younger skewing, subprime-exposed lender like Affirm – with 52% of customers having FICO scores below 660 (27% subprime or below), and 61% Millennials and Gen Z.

A widening divergence in income and credit quality trends poses a direct threat to Affirm's business model. Data from the Federal Reserve and BLS show that incomes in the bottom quartile have been rising materially slower than US inflation, a gap that has persisted and widened since 2023. This is the same cohort that makes up the core of Affirm's customer base.

Credit performance is already reflecting this split. Prime borrowers remain relatively stable, while subprime delinquencies have climbed steadily through 2025, reaching multi-decade highs in auto credit. The pattern is the same in credit cards. Securitization data from the Capital One/Discover combination show continued stability in Capital One's higher-FICO portfolio, alongside accelerating deterioration in Discover's lower-FICO borrower base. Affirm sits squarely on the wrong side of this divide. Its growth is concentrated in the income and credit segments where affordability is eroding, and credit stress is emerging first. As these trends deepen, the losses showing up in adjacent subprime markets are likely to migrate directly onto Affirm's balance sheet.

Credit risk and leverage are materially understated. Affirm's headline credit losses materially understate the true risk in the business. While metrics show losses of roughly 1% of GMV, a more accurate view that includes retained credit exposure and losses embedded in loan purchase commitments puts normalized losses closer to 6-7% of loans, or ~3-4% of retained risk. These results were generated during a period of historically low unemployment. As labor conditions normalize, credit losses will rise and already scant earnings will evaporate.
Thin capitalization turns that normalization into a balance-sheet problem. Credit reserves cover only ~2% of retained risk and ~1% of GMV, leaving little buffer for even modest deterioration. Once off-balance-sheet loans where Affirm retains credit exposure are included, effective leverage exceeds 6x. Today's benign loss profile reflects peak credit conditions and abundant risk appetite, not structural strength. As those conditions fade, leverage will rise, reserves will prove inadequate, and the economics will reset sharply against shareholders.

The product set is commoditized, and competition is intense. Affirm's fastest-growing products today are 0% installment loans and its hybrid debit card – hardly groundbreaking financial products. Alongside is a portfolio of max-rate 36% installment loans, pay-in-4 offers, and other undifferentiated BNPL formats. Industry participants consistently described competition as "white hot" for both merchants and consumers. A former Affirm Director of Partnerships we spoke with pointed to this pressure when describing the loss of Affirm's exclusive Walmart BNPL relationship to Klarna, a contract he believed was won at a negative net margin.

Valuation is as good as it gets. Affirm faces substantial downside risk as labor conditions soften and credit losses revert toward normal levels. At 5.5x 2027E Revenue and over 14x Gross Profit, both well above FinTech peers, the company's current valuation assumes sustained hyper-growth and benign credit, a combination that is unlikely to persist. As growth slows, the market will once again reprice Affirm away from a technology multiple, echoing the early stages of the 2022 drawdown when the stock fell more than 90% as growth investors exited.

If credit concerns intensify, management will have little choice but to rein in growth to preserve capital, potentially cutting GMV growth dramatically. We see valuation re-anchoring to book value of only $9. In a scenario where unemployment approaches 5% or recession risk becomes central to investor sentiment, the stock is likely to overshoot book value to the downside, consistent with historical outcomes for subprime-dependent lenders.

We estimate fair value for Affirm at $17 per share, implying roughly 80% downside from the current price. This valuation reflects a blended framework that applies EV / Gross Profit multiples consistent with FinTech peers and Price-to-Book multiples used for unsecured subprime consumer lenders.

Company Overview

Capitalization and Summary Financials

$ in Millions except per share data	
AFRM share price	**$71.00**
Total shares outstanding	348
Market Capitalization	**$24,728**
Convertible senior notes	1,127
Less: cash and securities	(1,429)
Total enterprise value	**$24,426**
Book value	$3,299
Book vaue per share	$9.47
Price / Book (x)	7.5x

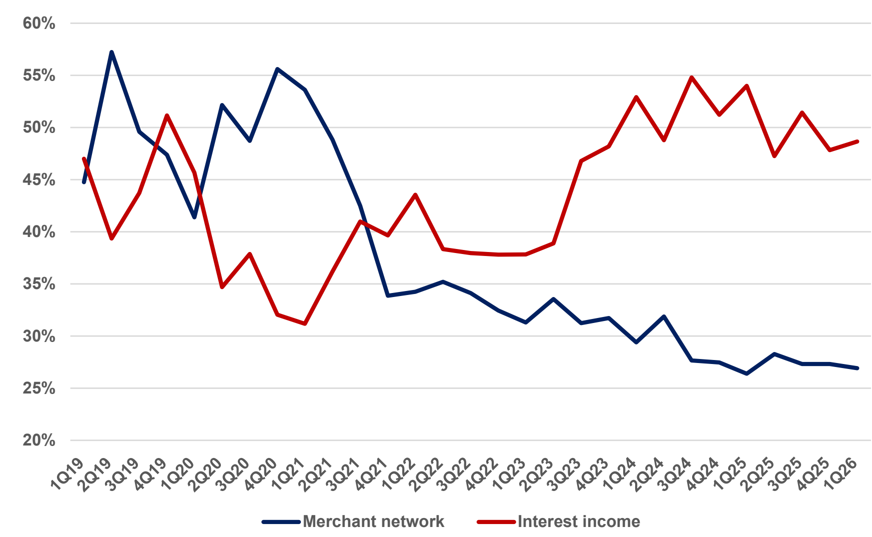
Fiscal year ending June 30,	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
GMV (incl. Affirm Card)	$26,617	$36,700	$45,124	$52,398	$58,992
Growth (y/y)	*31.9%*	*37.9%*	*23.0%*	*16.1%*	*12.6%*
Net revenue	2,323	3,224	3,910	4,506	5,014
Growth (y/y)	*46.3%*	*38.8%*	*21.3%*	*15.2%*	*11.3%*
Take rate (%)	*8.7%*	*8.8%*	*8.7%*	*8.6%*	*8.5%*
Revenue less transaction costs (RLTC)	995	1,482	1,645	1,698	1,701
As % of GMV	*3.7%*	*4.0%*	*3.6%*	*3.2%*	*2.9%*
Gross margin (as % of revenue)	*42.8%*	*46.0%*	*42.1%*	*37.7%*	*33.9%*
Non-GAAP adj. op. income (Affirm defined)	381	778	788	746	695
Operating margin (as % of net revenue)	*16.4%*	*24.1%*	*20.2%*	*16.6%*	*13.9%*
Operating margin (as % of GMV)	*1.4%*	*2.1%*	*1.7%*	*1.4%*	*1.2%*
Stock-based compensation	(345)	(321)	(320)	(360)	(400)
Expense warrant & share-based expense	(476)	(319)	(250)	(250)	(250)
Other adj.	(177)	(224)	(260)	(295)	(293)
Operating income	**($616)**	**($87)**	**($42)**	**($158)**	**($248)**
GAAP net income	**($518)**	**$52**	**$98**	**($18)**	**($65)**
GAAP EPS	**($1.67)**	**$0.15**	**$0.28**	**($0.05)**	**($0.18)**
Diluted shares outstanding	310	341	353	365	371
Multiples					
EV / revenue	10.5x	7.6x	6.2x	5.4x	4.9x
EV / gross profit (RLTC)	24.6x	16.5x	14.8x	14.4x	14.4x
EV / adj. operating income (Affirm defined)	64.1x	31.4x	31.0x	32.7x	35.2x
EV / Operating Income (inc. SBC)	NM	NM	NM	NM	NM
P / E	NA	NM	NM	NM	NM

Source: Affirm SEC Filings, Kerrisdale analysis and projections.

Founded in 2012 by PayPal co-founder Max Levchin (who still serves as CEO and Chairman), Affirm is a leading San-Francisco-based provider of BNPL with roughly 50 million registered users, 24 million active consumers (transacting in the last 12 months), and 419k+ merchant integrations across major US commerce platforms. Affirm uses proprietary technology to assess and analyze risk at an individual transaction level, providing what it believes is a competitive advantage in underwriting unsecured consumer loans. Its median borrower has a household income of $74k and 652 FICO score. Though embarking on an expansion in the UK, virtually all revenue is currently generated in the US.

Given the lack of publicly traded BNPL pure-plays, many US investors treat Affirm as the proxy for the category. Within the industry, however, the true benchmark is Klarna, which operates at far greater scale on a global basis and under a fundamentally different economic model. Klarna and most BNPL platforms emphasize (if not exclusively provide) short-term, interest-free “pay-in-4” products. Affirm, on the other hand, generates ~50% of its revenue by underwriting longer-duration, interest-bearing installment loans.

Revenue Mix: Interest Income vs. Merchant Fees



Source: Affirm SEC Filings, Kerrisdale analysis.

Classic interest-free "Pay-in-4" plans carry little credit risk and involve a down payment at the time of purchase followed by bi-weekly installments for a total repayment period of six weeks. In this arrangement, providers generate revenue predominantly from fees (typically 2-6% of the transaction value plus a small fixed-fee) charged to merchants (the Merchant Discount Rate or MDR). In fiscal 1Q2026, Pay-in-4 accounted for just 15% of originations of Affirm originations, while 72% of Affirm's GMV was tied to simple interest-bearing installment loans.

Affirm Transaction Types by % of GMV (1Q26)

Contribution to GMV	15%	13%		**72%**
Transaction Type	**Pay-in-4**	**Short-Term 0%**	**Long-Term 0%**	**Simple Interest Bearing**
Merchant Discount Rate	4.5%	6%	8 - 15%	2.5%
Annual Percentage Rate	0%	0%	0%	10-36%
Term Lengths	6-8 weeks	3-12 months	13-60 months	3-60 months
Payment Frequency	Bi-weekly	Monthly	Monthly	Monthly
Representative AOV	$100-$250	$500-$750	$800-$1,200	$500-$1,000

Source: Affirm 1Q26 earnings supplement, Kerrisdale estimates and analysis.

This revenue mix divergence from peers underpins a central conclusion of this report. Rather than a tech company facilitating low-risk payments, Affirm's core business is underwriting thinfile, unsecured consumer credit at scale. Growth is driven by longer-duration installment loans and increased balance sheet exposure, not product innovation.

Scale Achieved While Operating Leverage and Meaningful Profits Absent

Affirm is not an early-stage BNPL platform. GMV has scaled 10x since 2019 and the company operates at 3x the revenue of the next largest competitor in the US (p.10). The problem is that meaningful and durable GAAP profitability has still not arrived.

GMV expansion has occurred during an unusually favorable alignment of conditions: retreating competition after the pandemic BNPL land grab, abundant securitization liquidity, new risk-sharing partners, and historically benign credit performance. Annual credit losses during this period have hovered near 2% of retained risk, well below what its borrower demographics with a median ~650 FICO score would suggest in a more normal credit environment.

These demographics are very similar to the customer bases at private label credit card issuers Synchrony and Bread Financial Inc. Synchrony in particular screens very similar with 28% of its customers below 650 FICO vs. 27% at Affirm. Synchrony is projecting 2025 credit losses to be between 5.6-5.7% and a medium term target approximating a more “normal” loss rate in the 5.5-6% percent range. Bread Financial is projected to have a credit loss rate of 7.8-7.9% in 2025 versus 8-9% in a more normal environment. Bread has disclosed that 43% of its customers have a Vantage Score (approximates FICO score) at or below 660. Affirm experienced losses as a percent of retained risk of 2.5% and 3.1% in 2024 through 2025, respectively. While some of Affirm’s lower loss rates versus Synchrony and Bread are structurally explained by product design, we believe that effect is overstated. BNPL loans are shorter-dated, which mechanically flatters loss rates. That explains part of the gap versus credit cards, but it is not the primary driver.

The more important drivers are cyclical and temporary. First, Affirm’s portfolio is unusually early-stage. Rapid GMV growth means a large share of loans were originated recently, before borrowers have had time to exhibit stress. Second, Affirm sharply tightened underwriting in 2023 after losses unexpectedly spiked and the stock collapsed. That tightening was a reactionary, one-time reset rather than a durable structural advantage.

As growth has reaccelerated, those benefits are already fading. Affirm has leaned back into higher-risk products, including the revival of zero-APR installment lending, and credit losses have begun to drift higher. While loss rates remain below peer and long-term normalized levels, the direction is clear: the apparent credit outperformance is narrowing as the portfolio seasons and growth once again prioritizes volume over discipline.

Third, and most importantly, Affirm has aggressively shifted credit risk to third-party capital partners through favorable risk-sharing agreements. These arrangements lower reported losses but depend on unusually strong investor demand for consumer credit, a condition unlikely to persist as credit conditions normalize.

In plain terms, Affirm's credit metrics currently benefit from three transitory effects: a large number of unseasoned loans, tighter underwriting following a downturn, and abundant private credit willing to absorb risk at attractive terms. None of these are durable advantages in a cyclical downturn. As growth moderates, the loan book seasons, and risk-sharing terms normalize, loss rates should rise toward levels consistent with peers and the underlying borrower profile. While the gap will not entirely disappear, today's sub-3% retained-risk loss rates are not sustainable for a portfolio with a median FICO around 650.

Despite operating at scale and benefiting from these tailwinds, profitability remains marginal. Affirm crossed into GAAP profitability in 4Q25 and repeated it in 1Q26, but only barely. Those results required GMV growth above 40%, credit costs near cyclical lows, and revenue-less-transaction-costs (RLTC) at or above the high end of management's long-term guidance. Even under these peak conditions, EPS was just $0.01 in 4Q25 and $0.23 in 1Q26.

Crucially, this profitability improvement was not driven by true operating leverage. While operating costs fell from more than two-thirds of revenue in 2023 to under half in 2025, that improvement reflects aggressive cost cutting rather than structural efficiency. There is early evidence that those levels of cuts were overly draconian, and after double digit expense cuts to data and analytics and general and administrative expenses in 2024, both of those resumed growth year-on-year in 2025. This is hardly a category a tech-centric lender would want to cut in 2026 with the onset of widespread layoffs and rising unemployment.

Sales and marketing costs were cut 10% in 2024, and another 25% in 2025, and we believe with the high level of customer saturation and concentration in its borrower base, these costs will be set higher, not lower in the coming years. Overall and in absolute terms, operating expenses were 17% lower in 2025 than in 2023. Recent quarterly results suggest that further scaling benefits have stalled, indicating that the easy efficiencies have already been harvested. With scale efficacies plateauing, pent-up spending needed in operations, and credit losses starting to rise, it is likely incremental margins for the near future will be at or below blended margins.

Operating Expenses					
$ millions					
Fiscal year ending June 30,	**2021A**	**2022A**	**2023A**	**2024A**	**2025A**
Revenue less transaction cost (RLTC)	**$432**	**$662**	**$675**	**$995**	**$1,482**
% y/y growth	*168.2%*	*53.5%*	*2.0%*	*47.3%*	*49.0%*
% of net revenue	*49.6%*	*49.1%*	*42.5%*	*42.8%*	*46.0%*
% of GMV	*5.2%*	*4.3%*	*3.3%*	*3.7%*	*4.0%*
Technology & data analytics	245	419	616	502	590
% y/y growth	*100.5%*	*70.6%*	*47.1%*	*-18.5%*	*17.5%*
% of net revenue	*28.2%*	*31.0%*	*38.8%*	*21.6%*	*18.3%*
Sales & marketing	183	532	638	576	435
% y/y growth	*631.2%*	*191.2%*	*19.9%*	*-9.7%*	*-24.6%*
% of net revenue	*21.0%*	*39.5%*	*40.2%*	*24.8%*	*13.5%*
General & administrative	358	578	586	525	545
% y/y growth	*195.1%*	*61.4%*	*1.5%*	*-10.4%*	*3.8%*
% of net revenue	*41.1%*	*42.8%*	*36.9%*	*22.6%*	*16.9%*
Total Operating Expenses	**786**	**1,528**	**1,876**	**1,610**	**1,569**
% y/y growth	*192.6%*	*94.5%*	*22.8%*	*-14.2%*	*-2.5%*
% of net revenue	*90.3%*	*113.3%*	*118.2%*	*69.3%*	*48.7%*
% of GMV	*9.5%*	*9.9%*	*9.3%*	*6.1%*	*4.3%*

Source: Affirm SEC Filings, Kerrisdale analysis.

Affirm has achieved scale. What it has not achieved is a business model that converts scale into durable earnings power. As tailwinds from an unusually favorable credit cycle fade, the absence of operating leverage becomes a central flaw – and the valuation increasingly difficult to justify.

Funding and Capital Structure

While Affirm markets itself as a capital-light FinTech, its economics resemble those of a capital-intensive subprime lender. As of 1Q26, the company held $7.2 billion of loans on balance sheet and $16.3 billion including loans where it retains credit risk, supported by just $3.3 billion of equity and $426 million of credit reserves. Even aggressive subprime lenders operate with materially stronger loss-absorbing buffers. Affirm's pursuit of scale through installment lending has left it highly exposed to even modest credit normalization.

Although Affirm engages in bank-like activity, it is not a bank and does not hold customer deposits. Instead, it relies on partner banks to originate most BNPL loans, which are then sold back to Affirm after a short holding period of roughly 2–5 days. These arrangements, often described as "rent-a-bank" structures, allow Affirm to avoid direct banking regulation while still extending consumer credit. Its key partners include Lead Bank, Cross River, Evolve Bank, Sutton Bank, and Utah-based Celtic Bank, a common choice given Utah's permissive interest-rate framework, including allowances for 36% APR lending (more shortly on this). Affirm then depends on capital markets to fund growth by selling or packaging these loans through warehouse facilities, asset-backed securitizations, and forward-flow agreements with institutional investors.

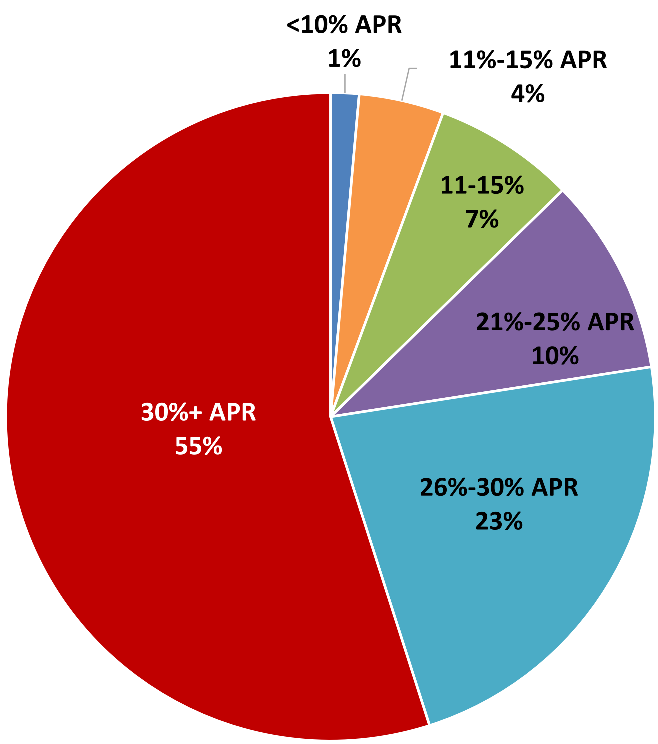
This structure leaves Affirm heavily reliant on external funding. With only $3.3 billion of equity and $426 million of credit reserves, the company has a thin capital buffer for a business planning to fund more than $47.5 billion of GMV in fiscal 2026. Forward-flow agreements and securitizations provide near-term liquidity, gain-on-sale income, and partial risk transfer, but they do not eliminate credit exposure. More importantly, these funding channels are inherently cyclical and can shut down quickly when credit conditions deteriorate.

Affirm also retains meaningful credit risk in these arrangements. As of 1Q26, it had full or shared exposure on $9.3 billion of off-balance-sheet loans. In addition, Affirm holds residual interests in certain securitizations. While these residual tranches can be monetized in favorable markets, they become difficult or impossible to sell when losses rise, trapping capital precisely when it is needed most.

A Political Bullseye on Affirm's Core Business

Recent comments from President Trump represent material risk to Affirm's business model. In a Truth Social post, he called for a one-year 10% cap on credit card interest rates, arguing that Americans should no longer be "ripped off by Credit Card Companies that are charging *interest rates of 20 to 30%, and even more*" [Kerrisdale emphasis]. That language cuts straight to the heart of Affirm's economics. Roughly 50% of Affirm's revenue comes from interest income, and based on our analysis of third-party data, virtually all of its interest-bearing loans are priced above 10% APR, with the 30–36% range forming by far the single largest loan bucket (~55% of the interest-bearing loan book).

Distribution of Interest-Bearing Loans by APR

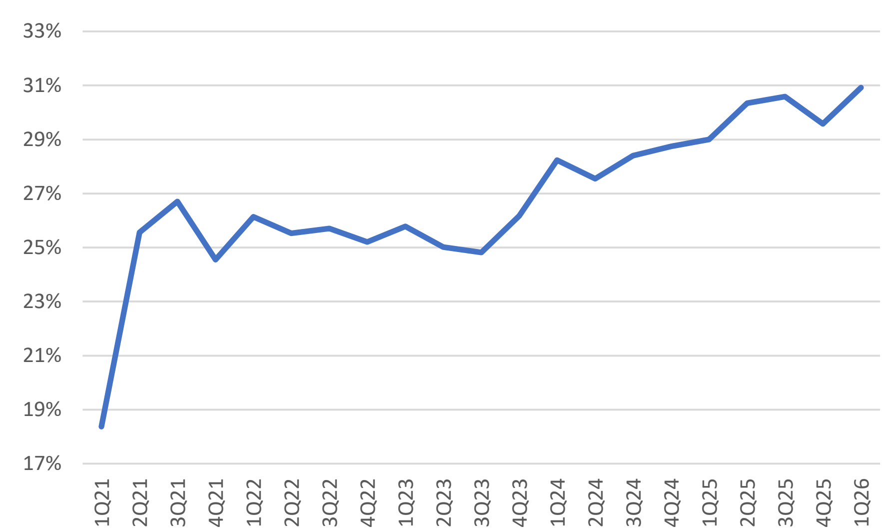


Source: Kerrisdale estimates based on data from 3rd party analytics provider.

Whether forthcoming legislation explicitly includes BNPL is almost beside the point. An administration focused on affordability heading into midterm elections cannot credibly target 10%+ credit card APRs while leaving functionally identical installment loans charging up to 36% untouched. Any serious legislative or regulatory debate should quickly collapse that distinction. Moreover, any pushback from the banking industry would inevitably highlight BNPL products that charge the same rates politicians are now publicly condemning as usurious.
This risk is amplified by how intentionally (and uniquely among BNPLs) Affirm has structured its business around high-APR lending. Under normal circumstances, a non-bank lender would be subject to state-by-state interest rate caps, many of which sit well below 36%. To bypass those limits, Affirm relies on Utah-based “rent-a-bank” partners. In practice, a Utah-chartered bank originates the loan and is designated the lender of record at inception. Because Utah imposes no meaningful interest rate caps on most consumer loans, that loan can legally carry rates up to 36%, even when the borrower lives in a state where such pricing would otherwise be illegal.

Affirm’s technology, marketing, underwriting, and servicing are all built around this regulatory arbitrage, and the company has leaned into it more aggressively over time. Prior to 2023, most interest-bearing loans were priced between 10% and 30% APR. After its stock collapsed amid rising credit concerns and persistent profitability issues, Affirm did not respond like a particularly innovative technology company. It slashed headcount, doubled down on balance-sheet lending, and raised its maximum APR to 36%. As a result, the average annual yield on interest-bearing loans held on balance sheet now approaches *31%*. This shift toward higher pricing and its impact on consumer affordability is precisely the kind of outcome Trump described as having "fester[ed] unimpeded" under the prior administration.

Average Annual Loan Yield (on B/S, interest-bearing)



Source: AFRM SEC filings. Kerrisdale analysis. In F1Q26, interest-bearing unpaid principal balance was $5.1 billion (72% of $7.2bn total loans held for investment), contractual interest income on unpaid principal was $400m for the period (annualized $1.6 billion).

Strip away the ability to charge 20–30%+ APRs, and the economics of the model unravel. Even a partial cap would severely impair revenue and push already thin earnings power deep into the red**.** By contrast, Klarna, PayPal, and Block rely primarily on merchant fees and short-duration, interest-free products, positioning them far better under any affordability-driven policy regime. It is therefore telling that Klarna's CEO publicly urged the administration to go even further and make the cap 0%, while Affirm, normally eager to attack credit card companies and their practices, has remained conspicuously silent.

Even if legislation ultimately stalls, the damage is already done. The political spotlight is now fixed on pricing practices Affirm depends on. For a company with minimal profitability, elevated leverage, and growth increasingly driven by stretching consumer credit, this is not a peripheral risk. It strikes directly at the regulatory loophole and pricing power that make the business viable in the first place.

BNPL Usage: Credit Stacking, Not Credit Substitution

BNPL primarily fills a credit availability gap for lower-income and lower-FICO consumers, who tend to have riskier credit profiles and higher debt burdens than average borrowers. Research shows that BNPL users are disproportionately younger, carry higher debt loads, and generally have lower credit scores compared with non-users. Many of these consumers are already stretched on traditional credit lines. Surveys find that a significant share of BNPL users cite maxed-out credit cards as a reason for turning to BNPL.

Critically, BNPL's limited reporting to credit bureaus obscures the full picture of a borrower's obligations. Historically, most BNPL transactions have not appeared in traditional credit files, and providers often perform only soft credit checks, meaning multiple BNPL loans can stack without visible impact on a borrower's score. A New York Fed analysis finds that including BNPL in credit bureaus would reduce overall BNPL demand and shift the composition of borrowers, highlighting how current reporting practices mask risk. Because of this lack of comprehensive reporting, the industry has been underwriting consumers without a full view of their total debt burden, contributing to artificially inflated usage and underappreciated credit risk.

Academic research and consumer surveys paint a consistent picture of BNPL users relative to non-adopters:

- BNPL users have a history of higher credit stress and lower credit scores. Affirm reported approximately 50% of GMV came from consumers with FICO scores below 652 (i.e., subprime) in a recent report. This is roughly 2x the distribution of these consumers within the overall population.

- BNPL users are more likely to borrow using credit card and retail cards, personal loans, student debt, and auto loans compared to non-BNPL borrowers. This is an important fact as it dispels the widespread misconception that BNPL borrowers do not have access to traditional forms of credit. Furthermore, it strongly suggests BNPL is frequently used not as a substitute to traditional credit cards, but as *an addition.*

- BNPL users exhibit greater signs of financial distress and are more financially vulnerable (meaning they struggle to spend, save, borrow, and plan). Affirm reports half of its consumers earn less than $74K per year. The #1 reason typically cited for using BNPL is to make a purchase a consumer cannot otherwise afford.

- Evidence of this stress is already visible. A 2025 LegalShield study found that 49% of BNPL users had missed at least one payment and 67% carried more than one BNPL loan simultaneously. The study also documented a sharp rise in BNPL usage for essentials such as groceries. It found that of the 76% of Americans that use BNPL, a full 47% are using it for groceries and 35% for medical bills.

Despite marketing itself as "improving lives," BNPL operates alongside, not instead of, traditional credit. Federal Reserve research reinforces this. A June 2023 New York Fed survey found that 10% of BNPL users made installment payments *using a credit card*. Recently, Chase and Capital One have blocked its credit cards from being used for BNPL installment payments, but it remains an option using most US credit cards. A parallel Boston Fed study found that 71%

of BNPL users were revolving balances on credit cards, versus 40% for non-BNPL users. The highest BNPL usage was concentrated among consumers with 75–100% credit card utilization.

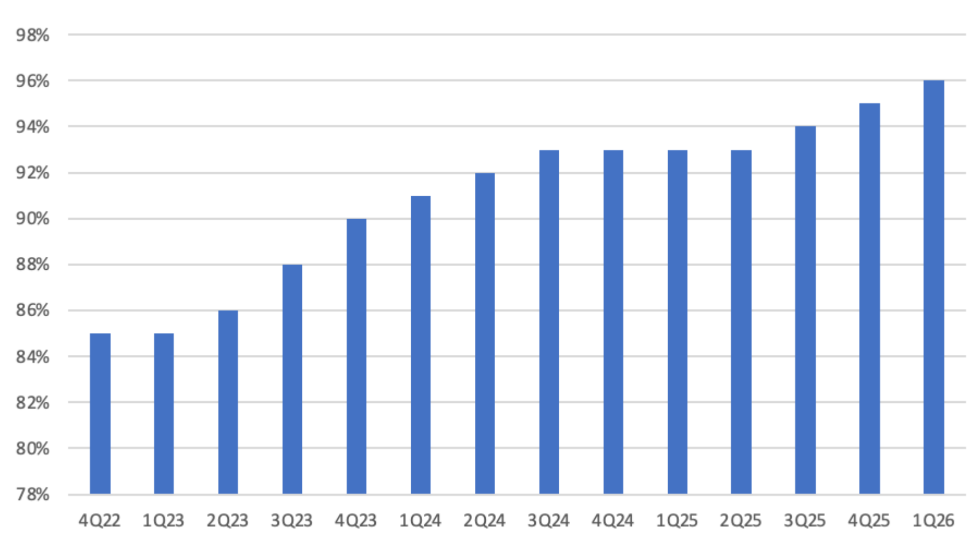
BNPL is marketed as a safer alternative to revolving credit. Research and survey data, however, show the opposite. It is additive, opaque, and concentrated among the most financially fragile consumers. In good times, that fuels growth. In tough times, it accelerates losses.

Repeat Users and Loan Stacking

Affirm has leaned heavily on repeat users under the guise of a more conservative credit strategy, arguing that established repayment histories improve risk modeling. While high-frequency users have historically performed better than new users, this pattern has never been tested in a true consumer credit downturn.

In 1Q 2026, 96% of principal originated went to repeat customers, a figure that continues to climb. The question is unavoidable: if BNPL's TAM is as vast as management claims, why does growth depend so heavily on stacking more loans onto the same borrowers? That looks less like expansion and more like saturation. The pattern should be familiar to investors in subprime lending. Firms such as The Money Store and Household Finance grew by repeatedly lending to their "best" customers, concentrating risk in borrowers most exposed to job loss. When unemployment rose, performance collapsed and neither firm survived the next cycle. Once borrower bases became saturated, even modest increases in unemployment proved fatal. Affirm is following the same playbook.

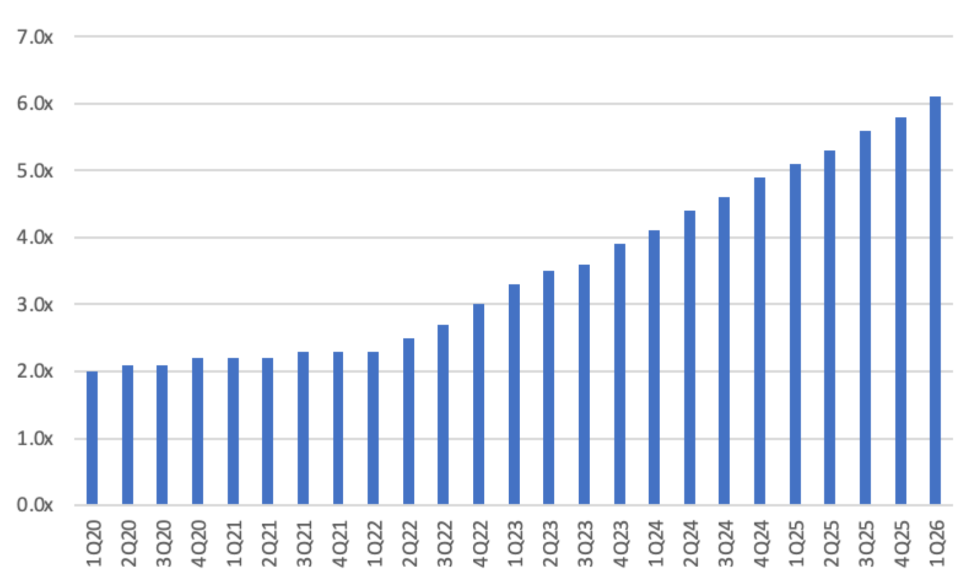
Percentage of Loans Made to Repeat Customers



Source: Affirm 1Q2026 Investor Presentation.

The risk is compounded by the absence of cross-provider visibility. Klarna, Afterpay, PayPal, Zip, and others all emphasize repeat usage to merchants, yet none have a complete view of a consumer's obligations across BNPL platforms. Loan stacking is occurring in parallel across providers, creating structural risk that is invisible…until it is not.

Transactions per Affirm Customer



Source: Affirm 1Q2026 Investor Presentation.

Deteriorating Labor Market Poses Significant Risk

> ***Kerrisdale*:** Are you seeing any changes with the BNPL customers that you are servicing?
>
> ***Expert:*** "The spending behavior of their (Affirm) customers has definitely changed and their delinquencies are up."
>
> "Affordability. That is the single reason people are taking a lot of personal loans".
>
> — President, leading global provider of collections services

US unemployment is moving in one direction: upward. Any increase will pressure consumer credit and Affirm is uniquely exposed within BNPL. In 2022, a modest shift in credit expectations drove a severe stock decline. Today, the setup is worse. Affirm's balance sheet is more leveraged, retained credit risk is higher, and dependence on interest income has roughly doubled.

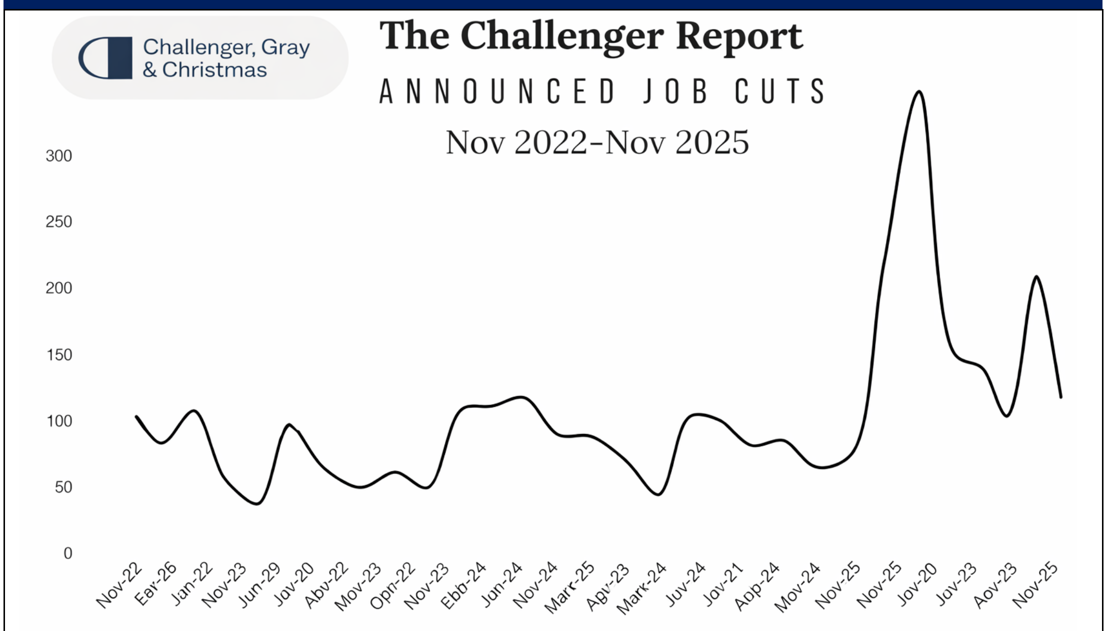
Unemployment Rising, Wage Growth Falling

Given the leverage embedded in Affirm's balance sheet, even modest deterioration would result in outsized credit losses and meaningful erosion of capital. When losses rise, Affirm will not have the flexibility to absorb them gradually.

US unemployment has hovered near 4% for much of the past three years, but cracks are emerging. [The Bureau of Labor Statistics](#) reported a 4.6% unemployment rate in November 2025, up from the prior month. Job growth has stalled, with little meaningful net hiring in 2H 2025.

Leading indicators are becoming more negative. Data from Challenger, Gray & Christmas show announced layoffs of 153K in October 2025, nearly 3x the level a year earlier and the highest monthly reading of the year. November improved modestly, but at 71k still marked the worst November since late 2022. These trends point to rising labor-market stress at precisely the wrong time for a lender concentrated in subprime and near-subprime borrowers.

US Job Cuts on the Rise

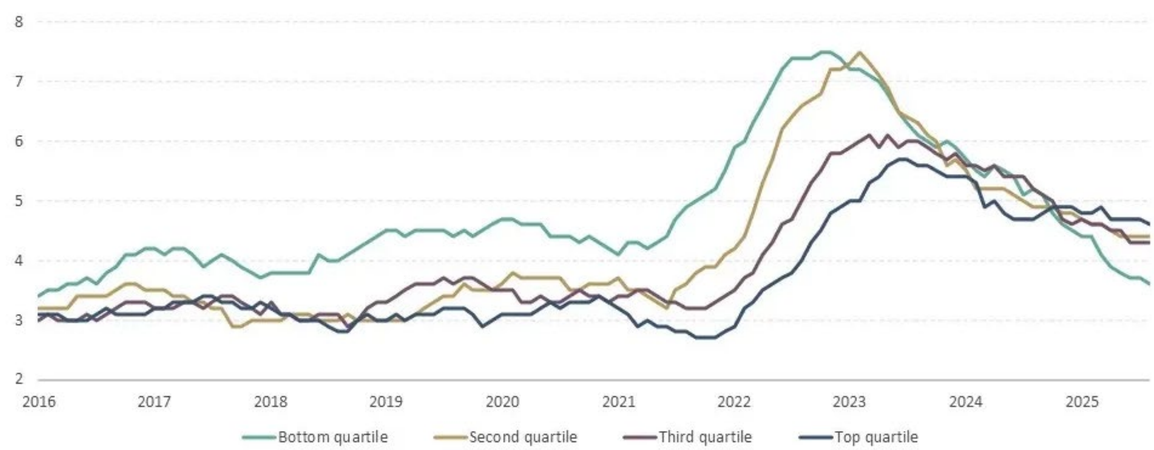


Source: [Challenger, Gray & Christmas.](#)

The most recent private payroll data from ADP for [December](#) and [November](#) 2025 reinforces these warnings signs. For November 2025, ADP reported a negative 29k change in private payrolls, a sharp miss versus expectations for a positive 40k. The weakness was concentrated in small businesses, which shed 74k jobs. Small businesses have been the primary engine of US job growth in recent years, and their retrenchment is often an early indicator of broader labor-market deterioration. In fact, small-business employment has declined in six of the past seven months in the ADP survey, with November marking the largest contraction since the Covid period. While the December ADP payroll report did offer some relief from the November report, it was modest. In December private payrolls were up 41k, but still an anemic result that missed consensus of 48k by 15%. Small business hiring did grow, but barely at 9k job additions that were generally concentrated in lower wage categories such as leisure and hospitality.

In 2022, early signs of inflation-driven credit stress briefly rattled markets. Those signals sent Affirm's stock into single digits, down more than 90% from prior highs. That episode ultimately proved to be a head fake. Inflation peaked later that year, and employment remained supported by unprecedented federal spending and pandemic-era stimulus. Credit losses never materialized. This time is different. The fiscal support has faded and labor-market weakness is emerging from the private sector.

Wage Growth by Income Quartile



Note: 12-month moving average, y/y % change, as of August 2025.
Source: Atlanta Fed, Federal Reserve, Havery Analytics, Mogan Stanley Research,

The Federal Reserve chart above highlights a widening divergence in wage growth that began in 2023 and persisted through 2025. Wages for the top quartile of earners have continued to outpace inflation, the middle has roughly kept pace, and the bottom quartile has steadily fallen behind. That bottom quartile overlaps heavily with Affirm's core customer base. These consumers are the most reliant on BNPL, the most exposed to job loss, and the least able to absorb additional affordability shocks.

Rising living costs over the past several years have driven incremental credit demand and fueled BNPL growth. Affirm and its peers have benefited from this dynamic. The payback arrives when employment weakens. Job losses among these borrowers translate directly into higher defaults, and we believe that process is now underway.

Consumer credit ultimately hinges on employment and affordability. Everything else is secondary. The US has combined near-full employment with a genuine affordability crisis, a mix that supported GMV growth in recent years while storing up future losses. We expect those losses to surface in 2026 as credit costs rise.

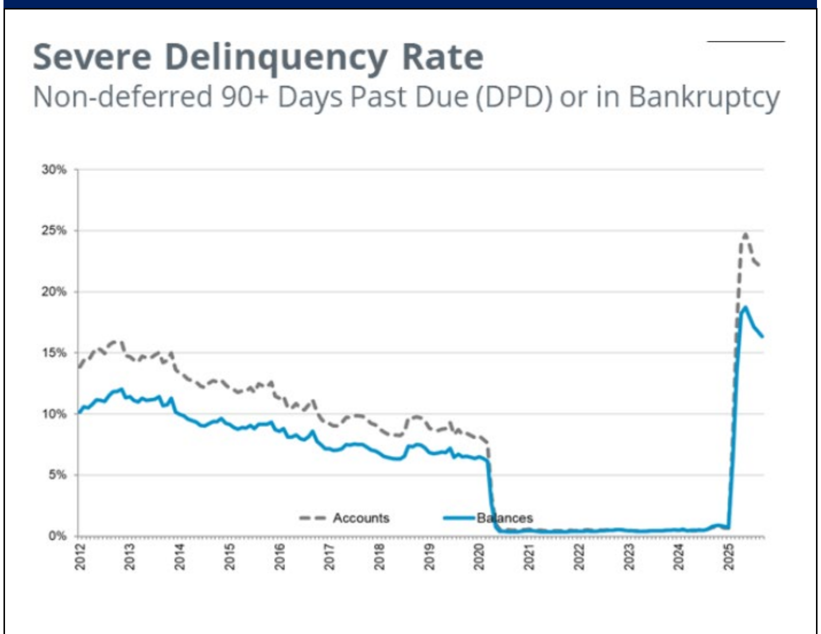
Under any scenario of rising credit stress, whether gradual or abrupt, Affirm's exposure is outsized. BNPL is often marketed as a sophisticated, transaction-level underwriting product with dynamic pricing. In practice, it is largely commoditized. Affirm's underwriting capabilities may fine-tune outcomes at the margin, but they do not change the core risk. These are unsecured, subprime loans to consumers already struggling with affordability and disproportionately vulnerable to job losses. That reality, not product design, will determine outcomes when the labor market weakens.

Student Loans

Another emerging headwind for Affirm's customer base is the restart of federal student loan payments. This matters disproportionately for Affirm, whose users skew younger. Interest on federal student loans resumed in September 2025, with payments restarting in October following the expiration of the SAVE forbearance. This comes on top of already severe stress in the student loan system. Since the end of the "On-Ramp" period in September 2024, delinquencies and defaults have surged to near-record levels, eclipsing anything seen during the Global Financial Crisis.

These pressures are likely to intensify. Millions of borrowers who had been shielded from payments or collections are now reentering repayment, and many face materially higher monthly obligations. GAO and Department of Education data show that delinquency rates spiked sharply once pandemic-era protections expired and have only partially retraced since collections resumed in May 2025.

DoE Student Loan Data

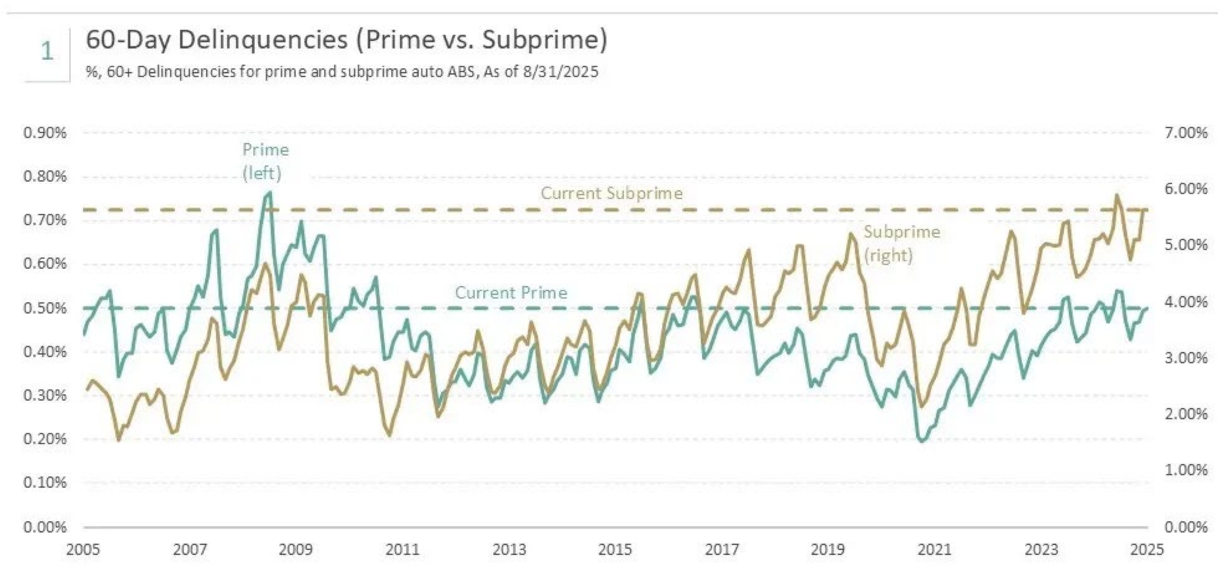


Source: Department of Education

Auto Credit Rolling Over

Early signs of stress are also emerging in auto credit. Franklin Templeton data (below) show that subprime auto delinquencies deteriorated by roughly 75 bps in 2025 to 5.75%, already near the high end of historical ranges. Prime delinquencies rose a modest 10 bps to around 0.50%, in line with long-term norms. Once again, the burden is falling on the have-nots, not the haves. That distinction matters for Affirm given its subprime and near-subprime customer base, precisely the cohort showing stress first. When borrowers fall behind on car payments, discretionary obligations are the first to be sacrificed.

Auto Credit Rolling Over



Source: Franklin Templeton dated October 17, 2025.

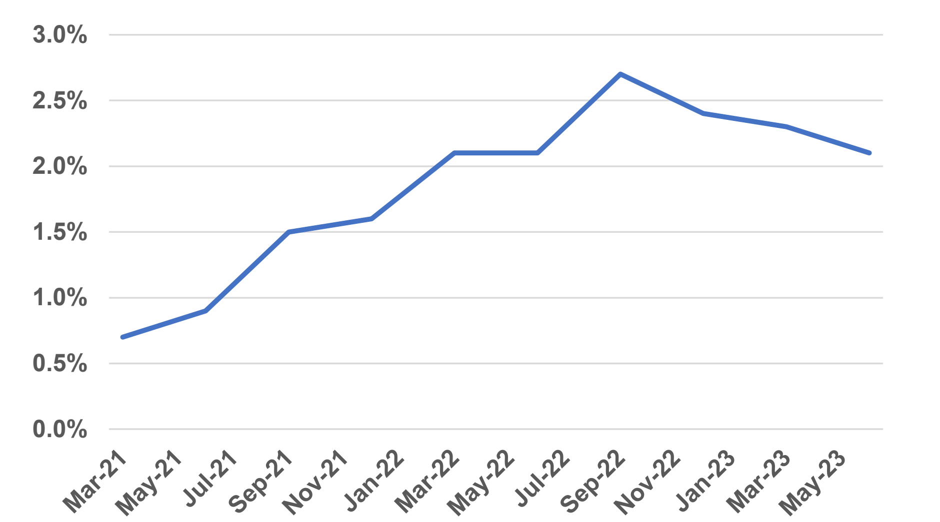
Cracks in Unsecured Credit Markets

Making lots of small, unsecured loans to lower-credit borrowers is hard even when the economy is strong. It becomes much harder when conditions tighten. Affirm's loans turn over quickly, roughly twice a year, which means the risk profile of its portfolio can worsen fast. By the time problems show up in traditional credit metrics, the damage is often already done.

That is exactly what happened in early 2022. There was almost no warning before credit performance deteriorated sharply and Affirm was forced to pull back. Zero-APR originations fell 31% in 2023 as the company raised prices across products, even though unemployment stayed anchored around 3.5%. Losses did not spike because borrowers lost jobs. They spiked because inflation triggered an affordability shock.

Credit losses jumped from 3.2% of retained risk in 2021 to 9.1% in 2022 (see table on p.24), without the usual warning of a slow buildup in delinquencies. As shown in the chart below, delinquency rates nearly doubled in less than a year, with 50-60bp quarter-over-quarter jumps at points, despite no meaningful deterioration in the labor market. That kind of volatility is unusual in consumer finance and underscores how quickly Affirm's credit can break when affordability tightens.

Delinquency Rates - 30+ Days Ex-Pay in 4



Source: Affirm FY 4Q 2023 Earnings Supplement.

In theory, securitization data should help investors spot these problems early. In practice, Affirm's disclosures make that difficult. Unlike most consumer lenders, Affirm does not report a single, ongoing dataset (a "Master Trust") that tracks how its loans perform over time. Instead, it reports performance deal by deal. Each securitization is its own standalone pool of loans, with different metrics, different reporting formats, and different lifespans.

As these loan pools shrink over time, which is expected for short-duration loans, Affirm often stops reporting key performance metrics altogether. That is a problem because late-stage losses typically come from a small subset of "straggler" borrowers who fall behind well after origination. In Affirm's disclosures, those loans frequently drop out of public reporting before their losses fully materialize. This was evident in a prominent 2021 securitization (Trust 2021-Z1), where both detailed credit metrics and rating agency coverage ceased precisely when the remaining loans were most vulnerable to default. In most consumer credit securitizations, reporting extends well beyond the point where balances have meaningfully amortized, reflecting the fact that credit risk can persist even as principal declines. Affirm is an outlier.

That opacity matters because many investors and sell-side analysts rely heavily on securitization data to judge credit quality. When the data is fragmented and incomplete, it can create a false sense of stability. To get a clearer picture, it is more useful to look at lenders with similar borrowers that report cleaner data. Credit card portfolios at Discover, Synchrony, and Bread Financial provide that benchmark. These lenders serve comparable subprime and near-prime consumers and report consolidated, long-running datasets. Their trends show that Affirm's apparent outperformance is largely explained by rapid growth and a young loan book, not structurally better credit.

As growth slows and loans season, that statistical advantage fades. Over time, Affirm's losses should converge toward those of similar unsecured consumer lenders, with only a modest benefit from shorter loan duration. That still implies normalized loss rates in the 6-7% range, far above current levels and inconsistent with the assumptions embedded in today's valuation.

Discover Card Asset Backed Securitization Consolidated Metrics

	Sept '25	Oct '25	Nov '25
Portfolio Yield	21.02%	21.52%	20.98%
Net Charge-offs	2.21%	2.29%	2.48%
Weighted Average Coupon	3.37%	3.04%	3.14%
Servicing Fee	2.00%	2.00%	2.00%
Excess Spread Percentage	13.41%	14.14%	13.55%
30-59 Days Delinquency Rate	0.48%	0.53%	0.60%
60-89 Days Delinqucy Rate	0.34%	0.36%	0.44%
30+ Days Deliquency Rate	1.58%	1.64%	1.73%
90+ Days Deliquency Rate	0.71%	0.72%	0.75%
Gross Payment Rate	28.42%	29.13%	27.64%

Source: Discover Card Asset Backed Securitization Program data released December 15, 2025. Figures differ from seasonally unadjusted metrics.

Early warning signs are already visible. Credit data from Discover shows delinquencies and defaults bottoming in 2024 and rising again in late 2025, particularly among subprime borrowers. Capital One's higher-quality portfolio has remained relatively stable, highlighting a widening divide between prime and subprime consumers. The same split appears in auto loans, wages, and employment, where lower-income households are under the most pressure.

Thin Capital, Hidden Leverage

To understand Affirm's real credit risk, you have to look past its headline loss numbers. On the surface, reported credit losses look manageable, averaging about 1% of GMV. When losses are measured against the credit risk Affirm truly retains and when losses embedded in loan purchase commitments are included, the picture changes meaningfully.

In 2022, losses surged above 9% of retained loans. Since then, they have settled in the 6-7% range, or roughly 3-4% of retained credit exposure. Importantly, these losses occurred during an unusually strong economic backdrop, with US unemployment averaging just 3.6-4.2%, well below long-term norms closer to 5-6%. As unemployment moves back toward more typical levels – already rising from 4.0% to 4.6% in 2025 – credit losses are likely to rise again. When that happens, Affirm's earnings will not gradually compress; they will reverse.

A significant portion of this risk is obscured by how Affirm accounts for losses tied to loan purchase commitments. Under its rent-a-bank structure, a partner bank originates the loan and Affirm is required to buy it shortly afterward. For low- or zero-interest loans, Affirm often pays more than the loan is worth in order to take it off the bank's balance sheet. That overpayment is not an interest expense. It is an immediate credit loss. Although Affirm does not label these costs as "credit losses," economically they are exactly that: expected losses recognized upfront rather than spread over the life of the loan.

When these purchase-commitment losses are added back to reported credit losses, Affirm's true credit costs look very different. From 2023 through 2025, total losses average roughly 4.2% of retained risk, compared with about 2.7% suggested by reported metrics alone. While that still appears slightly better than some peers, the gap is far narrower than it seems and is largely explained by rapid growth and the youth of the loan book – not by structurally superior underwriting.

Total Credit Losses

$ millions, unless otherwise noted	2021	2022	2023	2024	2025	2026E	2027E	2028E
Total credit losses [1]	**$311**	**$432**	**$416**	**$515**	**$744**	**$965**	**$1,311**	**$1,485**
% y/y growth	*16.7%*	*38.9%*	*-3.7%*	*23.8%*	*44.5%*	*29.6%*	*35.9%*	*13.2%*
% of GMV	*3.8%*	*2.8%*	*2.1%*	*1.9%*	*2.0%*	*2.1%*	*2.5%*	*2.5%*
% of retained loans	*15.4%*	*17.3%*	*9.4%*	*9.1%*	*10.6%*	*10.6%*	*11.5%*	*11.1%*
% of retained credit risk	*5.6%*	*6.2%*	*4.1%*	*3.8%*	*4.6%*	*4.8%*	*5.4%*	*5.2%*
Credit losses	65	228	276	335	502	708	977	1,137
% y/y growth	*-38.2%*	*250.8%*	*21.1%*	*21.4%*	*49.9%*	*41.1%*	*37.9%*	*16.4%*
% of GMV	*0.8%*	*1.5%*	*1.4%*	*1.3%*	*1.4%*	*1.6%*	*1.9%*	*1.9%*
% of retained loans	*3.2%*	*9.1%*	*6.3%*	*5.9%*	*7.1%*	*7.8%*	*8.6%*	*8.5%*
% of retained credit risk	*1.2%*	*3.3%*	*2.7%*	*2.5%*	*3.1%*	*3.5%*	*4.0%*	*4.0%*
Losses on loan purchase commitments	246	204	140	180	242	256	334	348
% y/y growth	*52.3%*	*-17.1%*	*-31.4%*	*28.6%*	*34.4%*	*5.9%*	*30.4%*	*4.1%*
% of GMV	*3.0%*	*1.3%*	*0.7%*	*0.7%*	*0.7%*	*0.6%*	*0.6%*	*0.6%*
% of 0% APR GMV	*7.6%*	*5.2%*	*5.2%*	*5.9%*	*5.7%*	*5.7%*	*6.4%*	*5.9%*

Source: Affirm SEC Filings for historicals, Kerrisdale projections.

1. *Reported credit losses plus losses on loan purchases commitments.*

The more serious issue is what sits behind those losses. Affirm's capital buffer is exceptionally thin relative to the risk it retains. Credit loss reserves amount to roughly 1% of GMV and only about 2–2.5% of retained credit exposure. That provides very little room for error. Even a modest increase in losses would quickly consume reserves and force materially higher provisions, pushing earnings decisively back into negative territory.

Credit Loss Reserves

$ millions, unless otherwise noted	2022	2023	2024	2025	2026E	2027E	2028E
Beginning Balance	$118	$155	$205	$309	$397	$539	$734
Provision for Credit Losses	253	320	440	590	850	1,172	1,215
Net charge-offs	(228)	(276)	(335)	(502)	(708)	(977)	(1,137)
Recoveries/Other	12	6	(1)	0	0	0	0
Ending Balance	**$155**	**$205**	**$309**	**$397**	**$539**	**$734**	**$812**
% of retained loans	*6.2%*	*4.7%*	*5.4%*	*5.7%*	*5.9%*	*6.4%*	*6.1%*
% of retained credit risk	*2.2%*	*2.0%*	*2.3%*	*2.4%*	*2.7%*	*3.0%*	*2.9%*
% of GMV	*1.0%*	*1.0%*	*1.2%*	*1.1%*	*1.2%*	*1.4%*	*1.4%*

Source: Affirm SEC Filings for historicals, Kerrisdale projections.

Hidden Leverage Amplifies the Credit Risk

Thin reserves are only part of the problem, and, as usual, leverage magnifies downside risk. On the surface, Affirm looks less levered (3.4x total assets/equity, see below chart) than traditional subprime lenders (~7x) because many loans are sold off its balance sheet. That view is incomplete. Affirm often retains risk in the loans it has sold. When those off-balance sheet exposures are included, effective leverage rises above 6x.

This additional leverage is further masked by unusually favorable funding conditions. Today, Affirm's exposure to securitization residuals, the first-loss slices that absorb losses before any other investor, is only about $16 million. That is not a sign of prudence or strength. It reflects a market where private credit investors are eager to buy risk. In more normal conditions, investors demand larger first-loss cushions before providing funding. When that happens, Affirm will be required to keep more of this riskiest exposure on its own balance sheet.

When losses rise, those residual interests are the first to be wiped out. This shifts even more loss absorption back onto Affirm at precisely the wrong time. What looks like modest leverage today is therefore a function of unusually easy markets, not a durable feature of the business. As credit conditions normalize, leverage increases, buffers shrink, and the financial profile becomes rapidly less forgiving.

Leverage Metrics for Consumer Lenders					
	Assets to Equity	Assets to Eq.+Reserve	Latest Quarter Assets	Equity	Reserves
Synchrony Financial	7.4x	4.5x	$116.9	$15.8	$10.4
Bread Financial	6.6x	4.0x	$21.7	$3.3	$2.1
OneMain	7.9x	4.3x	$26.9	$3.4	$2.8
Average	7.3x	4.3x	$55.2	$7.5	$5.1
Affirm	**3.5x**	**3.1x**	**$11.5**	**$3.3**	**$0.4**
Off B/S subject to risk [1]			$9.3		
Affirm incl. off B/S risk	**6.3x**	**5.6x**	**$20.8**	**$3.3**	**$0.4**
Impact from 1% higher prov. [2]			($0.4)	($0.4)	($0.4)
Affirm PF 1% higher prov.	**7.1x**	**6.9x**	**$20.4**	**$2.9**	**$0.1**

Source: Kerrisdale analysis. 1Q2026 10-Q filing for Affirm. 3Q2025 10-Q's for Synchrony Financial Inc., Bread Financial Holdings Inc., and OneMain Holdings Inc.

1. *As of 1Q26 Affirm sold $9.3 billion in unpaid principal balance loans which are subject to risk sharing arrangements, p. 75.*
2. *Kerrisdale estimated impact based on 1% increase to provision rate on $20bn of total retained risk base plus associated one-time accounting charge to shareholder's equity.*

The sensitivity to rising losses is stark. In the above analysis, we estimate a modest 1% increase in the provision rate – from roughly 3% to 4% – pushes adjusted leverage above 7x once off-balance-sheet retained risk is included. That same increase to provision rate would all but wipe out the company's scant $426 million credit loss reserve and erase roughly 15% of book equity. This is not a particularly stressed scenario in our view. It is simply a move toward normal credit conditions.

Reserve Coverage Assuming 1% Increase to Provision Rate					
	Reserves to Loans (%)	Res. + Equity Loans (%)	Latest Quarter Loans	Equity	Reserves
Synchrony Financial	9.3%	24.0%	$100.2	$14.7	$9.3
Bread Financial	7.4%	22.7%	$17.6	$2.7	$1.3
OneMain	8.5%	21.6%	$25.9	$3.4	$2.2
Average	8.4%	22.8%	$47.9	$6.9	$4.3
Affirm	**1.4%**	**40.6%**	**$7.2**	**$2.8**	**$0.1**
Off B/S subject to risk			9.3		
Total	***0.6%***	***17.8%***	***$16.5***	***$2.8***	***$0.1***

Source: Kerrisdale analysis. 1Q2026 10-Q filing for Affirm. 3Q2025 10-Q's for Synchrony Financial Inc., Bread Financial Holdings Inc., and OneMain Holdings Inc.

Competitive Race to the Bottom

> ***Kerrisdale:*** *How do you see the current landscape in regard to competition, pricing, and product innovation?*
>
> ***Expert:*** *"MDRs are getting a lot, lot lower. Look at some of the deals that Klarna are doing. Like the Walmart deal is fascinating.* ***That is going to be negative margin almost guaranteed, maybe break even on a 2, 3-year horizon".***
>
> — Former Senior Director, Strategic Partnerships & GTM at Affirm

The BNPL market is no longer about innovation. It is about price competition and risk-taking. Product differentiation has vanished, merchant pricing is under pressure and Affirm is increasingly the only player leaning on its balance sheet to sustain growth.

Industry participants we spoke with were unequivocal. Merchant discount rates are falling, competition is "white hot," and flagship deals like Klarna's recent win at Walmart are widely viewed as negative margin or, at best, break-even over a multi-year horizon. One former senior Affirm executive (quote above) summarized it plainly: "*You go to any BNPL right now, the terms are all the same. Everybody can offer pay-in-4, everybody can offer the same monthly lending terms*."

The competitive landscape has consolidated around four serious players: Klarna, PayPal, Block, and Affirm. Klarna dominates global BNPL volume and is pushing aggressively into the US. PayPal and Block operate BNPL as secondary products within much larger ecosystems and can afford thinner margins because they take limited credit risk. The long tail of 200+ pandemic-era BNPL entrants has largely faded as consumers returned to traditional credit cards with rewards. This consolidation has intensified price competition, particularly on the merchant side. Klarna, PayPal, and Block are pushing MDRs lower, forcing BNPL providers to compete on price rather than functionality. Our channel checks suggest MDR compression extends well beyond the Walmart contract and is becoming industry wide.

Affirm's response has been different, and materially riskier. While competitors have not meaningfully increased consumer credit exposure, Affirm has doubled down on lending to sustain growth. Attempts to diversify into products like a hybrid debit card and a high-yield savings account do not change this dynamic. These offerings are undifferentiated and late to market in a crowded neobank landscape dominated by much larger platforms such as Block, PayPal, SoFi, and Chime.

Affirm is not competing by building a better product. It is competing by taking more credit risk. That strategy works only while credit remains benign. When it does not, valuation will reset, just as it did in 2022, toward book value.

Headed Toward a Familiar Ending

Countless subprime monoline lenders have promised that superior data, analytics, and proprietary underwriting would deliver rapid growth in good times while insulating shareholders from credit losses in bad ones. It is a well-worn pitch, and it has failed repeatedly. One of the closest historical parallels to Affirm is Bread Financial, formerly Alliance Data Systems (ADS).
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Founded in 1996 through the merger of J.C. Penney's and The Limited's private-label credit card businesses, ADS was explicitly built around "powerful, predictive" analytics designed to assess creditworthiness, customize offers, boost merchant conversion, and reduce defaults. The language could be lifted directly from Affirm's investor materials today.

For nearly two decades, the model appeared to work. ADS expanded rapidly, added funding partners, and even navigated the Global Financial Crisis. Growth remained strong into 2015, the last year revenue exceeded 20%. Then credit normalized. In its 4Q15 earnings call, management guided to normalized losses of roughly 5% of unpaid principal and revenue growth of 10% for 2016. The market's response was immediate. The stock fell by roughly one-third overnight and never recovered. Normalized losses ultimately proved higher, settling in the 6-7% range. Revenue never again grew at prior rates. Today, the stock trades near $70, down more than 65% over the past decade.

By the standards of subprime monoline lending, ADS is a relative survivor. Many peers did far worse. The pattern was consistent: a period of hyper-growth fueled by easy credit and aggressive underwriting, followed by borrower saturation, intensifying competition, and then a catalyst – almost always rising unemployment – that exposed the fragility of the model.
Affirm now appears to be entering that same late-stage phase. Revolving credit card balances at U.S. banks have flattened year-over-year at roughly $1.1 trillion as of 3Q25, following a post-pandemic surge. Growth has been crowded out by an unprecedented wave of private capital targeting unsecured consumer credit, including BNPL. Large regulated banks continue to lend, but they are tightening underwriting, maintaining capital discipline, and building reserves rather than chasing marginal borrowers.

Private credit, by contrast, is doing the opposite. The Financial Times recently reported that firms including KKR, Blue Owl, and Sixth Street committed roughly $136 billion to consumer loan purchases in 2025 via forward-flow agreements, more than 13x the level in 2024. Funding markets are flush and aggressively searching for borrowers.

Affirm is feeling the same pressure. Credit performance has held up – for now – but competition for marginal borrowers is intense. Unlike regulated banks, Affirm is responding by levering its balance sheet beyond 6x at precisely the moment underwriting terms are loosening and macro risks, particularly rising unemployment, are beginning to mount.

Valuation Ignores Mounting Credit Risk

Affirm continues to be valued as a high-growth FinTech platform despite operating with the balance sheet, leverage, and cyclicality of a subprime consumer lender. By leaning into net interest income rather than merchant fees, the company has boosted reported growth at the cost of materially higher credit and capital risk. That trade-off flatters results in benign environments but leaves the business acutely exposed when credit conditions normalize.

At 5.5 EV / revenue and over 14x EV / gross profit, Affirm trades well above FinTech peers, which trade closer to 1.0x EV / revenue and 2-3x EV / gross profit (see Appendix II). The market is pricing in sustained hyper-growth, stable funding markets, and persistently low credit losses. There is no margin for error. Operating margins are thin, incremental margins are unimpressive, and even modest increases in credit losses, funding costs, or operating expenses would push earnings back into the red. This dynamic played out in 2022, when early credit concerns drove a rapid and severe re-rating.

Today, the setup is worse. Political risk is significant, leverage is higher, retained credit exposure is larger, and reliance on interest income has roughly doubled. We value Affirm for what it is: part FinTech, but predominantly a subprime consumer lender. Our framework assigns a 25% weighting to FinTech trading multiples, using an average EV/gross profit multiple of 2.6x for peers, and a 75% weighting to traditional consumer lender valuations, using an average price-to-book multiple of 1.8x. On this blended basis, we arrive at a fair value of approximately $17 per share.

Affirm Fair Value

Comparables	Metric	Multiple	Weighting	Implied equity fair Value
FinTech	EV/'27E gross profit	2.6x	25%	$14
Consumer Lenders	P/B	1.8x	75%	$17
AFRM FV (average)				**$17**
(%) downside to FV				-77%

Source: Affirm SEC Filings, Kerrisdale analysis.

Conclusion

Affirm is a balance-sheet lender that has only ever been tested in the most forgiving credit environment imaginable. Since going public, it has operated against a backdrop of falling unemployment, extraordinary fiscal support, and unusually benign credit conditions. Those tailwinds have obscured the true risk embedded in the model.

Today, they are reversing at precisely the wrong moment. Leverage is higher, retained credit exposure is larger, and reliance on interest income is at a peak. With reserves covering roughly 2% of retained risk and ~1% of GMV, there is no buffer for normalization. When credit losses rise, earnings will not fade gradually. They will snap back into losses as reserves are rebuilt and capital comes under pressure. The stock is priced for sustained growth and stability. The business is built for neither.

Appendix I

Affirm Financial Outlook	
Fiscal 2Q2026	
GMV, in $ billions	$13 - $13.3
Revenue, in $ millions	$1,030 -$1,060
RLTC, in $ milliions	$510 - $525
GAAP operating margin	6.5% - 8.5%
Adjusted operating margin (%)	28% - 30%
Weighted average basic shares, in millions	335
Weighted average diluted shares, in millions	354
Fiscal 2026	
GMV, in billions	More than $47.5
Revenue	~8.4% of GMV
RLTC	~4% of GMV
GAAP operating margin (%)	More than 7.5%
Adjusted operating margin (%)	More than 27.1%
Weighted average basic shares, in millions	336
Weighted average diluted shares, in millions	353

Source: Affirm

Appendix II

Trading Comparables – FinTech and Consumer Lenders

			2027E		
Company	**Ticker**	**Price**	**EV / Rev**	**EV / GP**	**P/E**
Klarna	KLAR	$27	0.8x	2.0x	22.8x
Paypal	PYPL	$55	1.4x	3.1x	8.5x
Block	XYZ	$63	1.2x	2.7x	14.3x
Average			**1.2x**	**2.6x**	**15.2x**
Affirm	**AFRM**	**$71**	**5.4x**	**14.4x**	**NM**

			2027E	
Company		**Price**	**P/B**	**P/E**
Synchrony Financial	SYF	$76	1.7x	7.4x
Bread Financial	BFH	$70	1.6x	6.8x
OneMain	OMF	$63	2.2x	6.2x
Average			**1.8x**	**6.8x**
Affirm	**AFRM**	**$71**	**7.5x**	**NM**

Source: Kerrisdale analysis and estimates for AFRM. Company filings, Bloomberg consensus estimates for Klarna Group plc, PayPal, Inc., Block, Inc., Synchrony Financial, Bread Financial Holdings Inc. and OneMain Holdings, Inc.

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