The phantom math of "phantom debt"

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New innovations often face harsh pushback from incumbents. When it's well-informed and anchored in what's right for the consumer, this is generally a good thing. It serves as a valuable testing ground that separates the wheat from the chaff, protecting the end-user in the process. At just over a decade old, the buy now, pay later (BNPL) industry is no stranger to this concept. We've been tested time and time again, and, at Affirm, we're better for it.

Recently, there's been a new critique – labeling BNPL as "phantom" debt that is ignored by the financial markets. A recent report falsely suggested that transaction volume across BNPL made up about one-third of the increase in credit card balances in 2023 and that there's a hidden balance of $700B in consumer debt. While that's a catchy claim and one that garners newsletter headlines, it couldn't be further from the truth — the math simply doesn't add up.

Let me explain why. The report compares BNPL purchase volume with credit card debt growth, which is the YoY change in outstanding credit card balances. Making the claim that BNPL purchase volume equates to one-third of the increase in credit card balances relies on the **assumption that every single BNPL transaction is not repaid**. To state the obvious, if that were true, Affirm and every other BNPL provider wouldn't be in business.

Since I'm a numbers guy, I wanted to lay out an accurate way to calculate BNPL based on true apples to apples comparisons: purchase volume and outstanding balances, respectively. If you look at BNPL purchase volume (implied by the methodology of at least one report as $36 billion in 2022) vs that of credit cards (estimated at greater than $3.2 trillion in 2022), **BNPL represented roughly 1% of credit card volume,** nowhere near one-third as suggested.

Since outstanding balances represent the biggest cost for credit card holders, one should also compare these two critical figures. Pay in 4 balances across the industry**, based on our data and industry reports, represented less than 0.3% of the $1.1 trillion in outstanding credit card balances** in 2023.

The difference becomes even more stark when you consider all the revolving interest, late or hidden fees, and other junk consumers pay each year because of their credit cards. Affirm's interests are fundamentally aligned with those of consumers. We don't charge late or hidden fees, underwrite every single transaction and only extend access to credit that we believe can and will be repaid. If a consumer can't pay us back, we don't benefit from their misfortunes. Our monthly loans are already reported to Experian, and we're strong supporters of standardized credit reporting for BNPL broadly in a manner that benefits consumers.

Consumers have continued to vote with their wallets for more honest financial products like Affirm, and we're happy to provide them with the flexibility and transparency they want and need. BNPL has certainly come a long way, but this "phantom" is sounding more like a ghost story told by economists to back up inaccurate predictions than reality.