Lawmakers looking at buy now, pay later should raise the bar

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By Max Levchin, Founder and CEO

There's been increased attention on buy now, pay later ("BNPL") over the last several weeks, raising questions about why consumers choose these products, how they use them, and the industry's overall practices. Affirm, along with several companies that offer BNPL products, recently received a letter from a group of U.S. Senators asking for more information about our business.

We were happy to respond. Consumers have made it clear: they want more and better credit choices, and as a result, BNPL is here to stay. But they—and we—want BNPL to be safe, transparent, and fair, without the junk fees that pollute so many financia products. Our full letter lays out how Affirm operates, the standards we hold ourselves to, and why our business model is fundamentally different from other BNPL providers and credit card issuers.

Affirm was built to be the most pro-consumer payments network, and we welcome a regulatory environment that puts greater trust, transparency, and clarity into financial products. Since the earliest days of the company, we've considered open and constructive engagement with regulators and policymakers critical to our mission of delivering honest financial products that improve lives.

What modern payments can—and should—delive
Many BNPL products may look similar on the surface. In reality, all BNPL products are not created equal. And the differences matter. Policymakers evaluating the future of credit need to look no further than current market practices to understand what responsible, transparent consumer-centric credit products can achieve.

1. **No late fees or hidden fees or charges, ever.**
Modern payment systems do not need to rely on punitive late fees or hidden charges. Affirm never charges late fees or hidden fees, showing that the industry does not need to depend on models that profit from consumers' misfortune or mistakes. In comparison, credit cards charge consumers more than $14 billion in late fees, which are "consistently ranked as the most significant fee assessed to cardholders in both dollar amount and frequency."

2. **Responsibly extending access to credit by underwriting every transaction**
Better, more responsible and adaptive underwriting is possible at scale today. Affirm underwrites every transaction, using real-time data, to evaluate a consumer's likelihood to repay before making a credit decision. Credit cards, on the other hand, rely on extending open-ended lines of revolving credit.

3. **Clear disclosures and upfront pricing**
Modern credit products can provide consumers with transparent disclosures every time they check out. Each Affirm loan comes with clear Truth-in-Lending disclosures. Consumers can make better, more informed purchasing decisions when they are able to understand the full cost of credit upfront for each transaction.

4. **Consistent credit reporting**
Consumers deserve credit for using BNPL responsibly, and transparency in consumers' financial profile is critical for promoting positive outcomes for all lenders and borrowers. Affirm is the only major BNPL provider that reports all loans in the U.S. to credit bureaus. The reason we report BNPL loans is simple: we always want to be on the same side as consumers and they deserve to get credit for using BNPL responsibly. Earlier this year, FICO released the results of a 12-month study we conducted together to find the best way to factor BNPL data into credit scoring. The results showed that adding Affirm loan data can lead to higher FICO scores and improved credit outcomes.

5. **Aligning business success with consumer success**
Because we don't charge any late or hidden fees, Affirm has zero incentive to extend credit that can't be repaid. Our business only works when consumers pay their loans back successfully, which is why our delinquency rates are consistently lower than traditional credit cards.

Affirm supports better regulation
Since our earliest days, Affirm has supported regulation of BNPL that incentivizes honesty and transparency. We want consumers protected everywhere, not just when they are using Affirm. That means raising the standards for everyone—and pushing companies that can't meet them out of the business.

We will continue working with regulators and lawmakers at every level, as we have for the last 13 years. Consistent industry

practices are critical to strengthening consumer trust and the BNPL category as a whole, including by:

- Requiring all BNPL lenders to assess a consumer's ability to repay before extending credit;
- Capping late fees and regulating them just like interest;
- Requiring that consumers receive simple, easy-to-understand disclosures that clearly provide all terms, including any fees, upfront; and
- Ensuring all BNPL loans are reported to credit bureaus.

For those interested in learning more, you can read our full response to the Senators here.

[1] "The Consumer Credit Card Market," Consumer Financial Protection Bureau, October 2023 – https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf