



All forms of credit are not created equal

By Michael Linford, COO, Affirm



It's time to reinvent credit

Consumers are always looking for more value for less money. One place they will not readily find it is via traditional credit cards.

Credit is a powerful tool for helping people get the things they want and need. The concept of credit has been around for thousands of years. But, unlike most industries, I'd argue that it has mostly gone backwards. I can think of few other examples where there can be such a mismatch in incentives between buyers (consumers) and sellers (lenders).

How most credit cards work

Most credit card issuers mainly profit when consumers carry a balance from month-to-month, allowing interest to compound on all outstanding transactions.

Late fees also “consistently ranked as the most significant fee assessed to [credit] cardholders in both dollar amount and frequency,” according to the CFPB, and cost consumers roughly \$15 billion a year!

The average U.S. household has nearly \$10,000 in credit card debt, contributing to a staggering \$1.3 trillion in revolving credit card debt nationwide. This is not a bug for credit card issuers, but rather a feature of how credit cards are designed.

Every time a credit card is swiped or tapped, money is borrowed against a revolving line of credit.

So long as consumers make at least the minimum payment each month (which many do), they get to keep playing the game. If the consumer pays off the balance in full, they aren’t charged interest, and are known as a transactor.

The system may work for transactors but less so for the majority of U.S. households that are known as “revolvers.” These households carry a balance on their credit card each month, which means that they are charged interest for any and all outstanding purchases, no matter how essential they may be. This also makes calculating the total cost of credit on a per transaction basis nearly impossible to figure out since it keeps increasing so long as balances remain outstanding.

Since we enjoy math, we analyzed consumer credit data to evaluate just how much revolving credit cards cost consumers. As always, I need to provide a self-promotional disclaimer but the numbers are the numbers.



SAVINGS WITH AFFIRM



Consumers could save

5%–30%

annually by choosing Affirm
over revolving credit card debt

\$18
billion

The amount U.S. households could
have saved by using Affirm instead
of revolving on a credit card

Affirm helps consumers save money

Our analysis found that Affirm products have a lower total cost of credit for consumers across the entire credit spectrum, when evaluating how most people actually use their credit cards.

A fundamental difference between Affirm and many credit cards is how our interests stay aligned with consumers. We do not have any late fees or hidden charges, and we are incentivized to only extend access to credit that is repaid. With Affirm, there is no ability to “revolve” by design as we make a real-time credit decision and price every transaction individually. In doing so, we provide a more flexible, transparent, and efficient way to access credit as the numbers show.

By choosing Affirm over revolving credit card debt, consumers could save 5% to 30% annually on their total borrowing costs.

In 2024, U.S. households could have saved between \$58 and \$840 by using Affirm instead of revolving on a credit card, which adds up to roughly \$18 billion in total.


Missed or minimum payments as a profit engine vs. aligned incentives between lenders and borrowers

The perils of missed and minimum payments on revolving credit cards highlights how Affirm's business is so much more consumer-centric vs. other models.

The additional fees and interest that accrues can really add up, further reinforcing those misaligned incentives where the seller (the lender) succeeds even when the buyer (the borrower) is worse off.

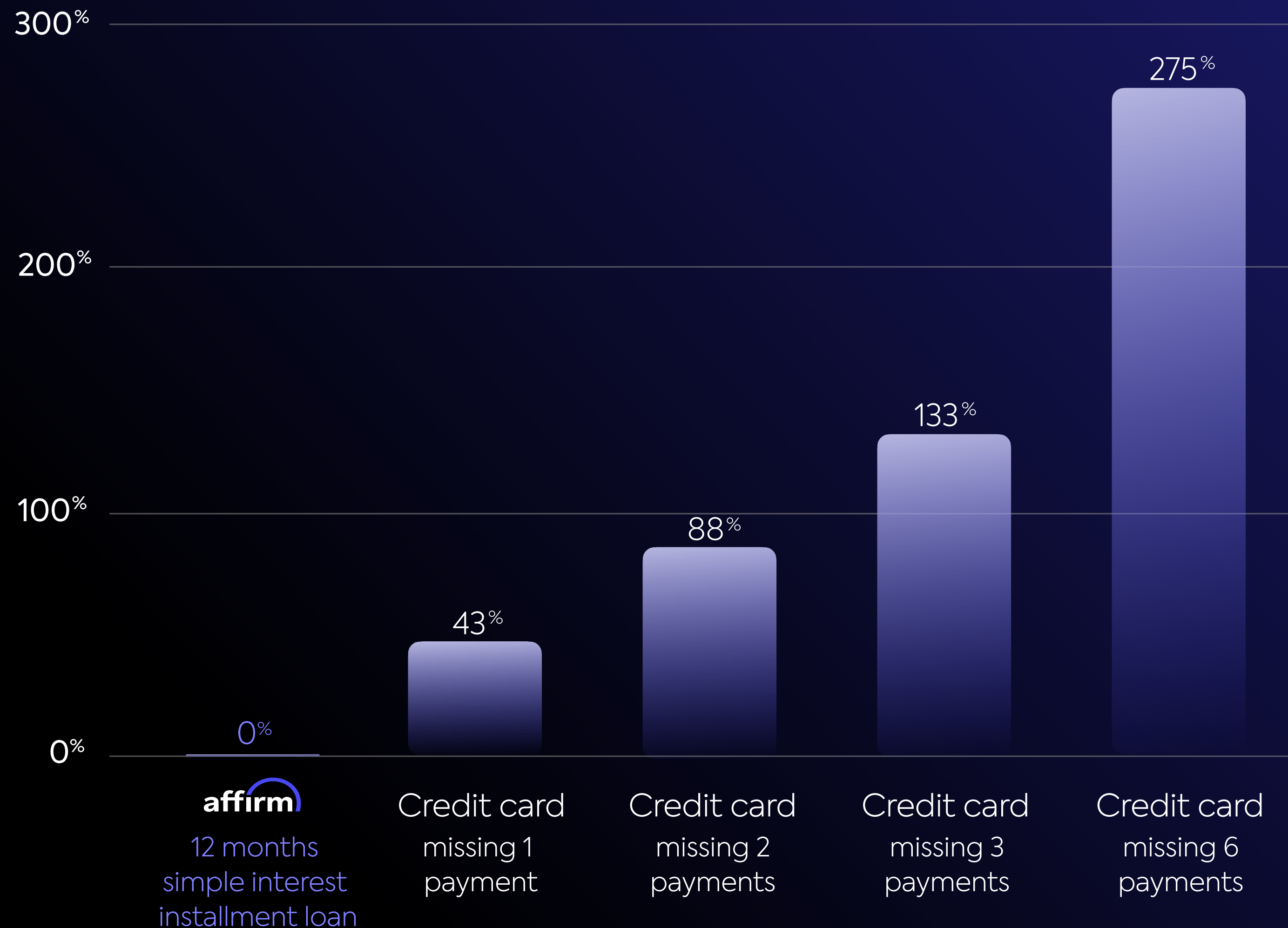
Let's take a \$1,000 purchase that is spread out evenly over 12 months with the following assumptions:

- 24% APR (the current national average on credit cards)
- \$32 late fee (the typical late fee according to the CFPB)
- Consumers pay 10% of their revolving balance

	 12 months simple interest installment loan	Credit card missing 0 payments	Credit card missing 1 payment	Credit card missing 2 payments	Credit card missing 3 payments	Credit card missing 6 payments
Total payments	\$1,134.72	\$1,134.12	\$1,193.00	\$1,253.05	\$1,314.30	\$1,505.46
Principal paid	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
\$ Total charges of credit (12 months)	\$134.72	\$134.12	\$191.06	\$246.98	\$301.64	\$455.66
% Total charges of credit (12 months)	13.47%	13.41%	19.11%	24.70%	30.16%	45.57%
\$ Total extra charges of credit (payoff)	\$0.00	-\$0.59	\$58.29	\$118.34	\$179.59	\$370.74
% Total charges of credit (payoff)	13.47%	13.41%	19.30%	25.31%	31.43%	50.55%

The cost of being late becomes exponentially more expensive when revolving on a credit card vs. Affirm.

Relative extra RCC charges compared with Affirm installment loans



Revolving on a credit card should be called buy now, pay forever

Even when consumers don't miss a payment, the "just pay the minimum" prompt is another gateway to buying now and paying forever. On average, consumers are charged \$88 extra per year, which ultimately increases to an average of \$400 once the debt is fully paid off.

With Affirm, these extra fees will always be zero, period.

All forms of credit are not created equal

Access to credit is essential. It empowers individuals to manage cash flow, budget effectively, and invest in themselves and their futures. However, not all forms of credit are created equal. For the last several years, consumers have been rightly demanding more value from their payment methods. That's why they are continuing to adopt honest financial products like Affirm.

\$58-\$840
per year
potential individual household savings using Affirm vs. revolving on a credit card

 <p>\$15 billion in credit card late fees annually</p>	 <p>No late fees ever, with Affirm</p>
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Analysis includes data utilizing the following sources:

- Affirm
- The Consumer Credit Card Market, October 2023, from the Consumer Financial Protection Bureau
- 2024 American Household Credit Card Debt Study, January 2025, Nerdwallet
- Large Bank Consumer Credit Card Balances: Revolving Balances Only, October 2024, from the Federal Reserve Bank of St. Louis.
- Consumer Credit, April 2025, Federal Reserve, June 6, 2025
- Household Debt and Credit, March 2025, from the Federal Reserve Bank of New York's Center for Microeconomic Data.
- Delinquency Rate on Credit Card Loans, May 21, 2025, All Commercial Banks, Federal Reserve Bank of St. Louis
- Minimum Payments and Debt Paydown in Consumer Credit Cards, October 2016, National Bureau of Economic Research
- Innovation Fosters Financial Inclusion, March 2025, Office of the Comptroller of the Currency