



Second Quarter Fiscal Year 2026 Earnings Call

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Call Participants

Affirm

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

Analysts

Andrew Jeffrey, William Blair
Ramsey El-Assal, Cantor Fitzgerald
Will Nance, Goldman Sachs
Jason Kupferberg, Wells Fargo
Nate Svensson, Deutsche Bank
Dan Dolev, Mizuho Securities
Moshe Orenbuch, TD Cowen
Robert Wildhack, Autonomous Research
Rayna Kumar, Oppenheimer & Co.
Daniel Perlin, RBC Capital Markets
Matthew Coad, Truist Securities
Adam Frisch, Evercore ISI
James Faucette, Morgan Stanley
Reginald Smith, JP Morgan
Mihir Bhatia, Bank of America
Darrin Peller, Wolfe Research
Bryan Keane, Citi
John Hecht, Jefferies
Timothy Chiodo, UBS

Presentation

Operator

Good afternoon. Welcome to the Affirm Holdings Second Quarter Fiscal 2026 Earnings Call. Following the speaker's remarks, we will open the lines for your questions. As a reminder, this 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 now like to turn the call over to Zane Keller, Head of Investor Relations. 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 Q&A. On that note, I will turn the call over to Max to begin.

Max Levchin

Thank you, Zane. Not a lot to add to the results, which were excellent, once again, in my obviously biased opinion. But I did want to take a moment to announce that we will convene our next Investor Forum on May 12 this year, so that's coming up in a couple of months. At the event, you'll hear from a larger subset of our Management team, where we'll talk about our commercial and product initiatives, and update our medium-term financial framework, and there'll be plenty of Lebowski references. Please look for additional information, including registration details, on our Investor Relations website as we get closer to the event. Back to you, Zane.

Zane Keller

Thank you, Max. For those of you that are interested in attending the upcoming Investor Forum in person, please reach out to us and we will do our best to accommodate your requests. Now, let's get to your questions. Operator, please begin the Q&A session.

Operator

Thank you. We will now be conducting the 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 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Our first question comes from Andrew Jeffrey with William Blair. You may proceed with your question.

Andrew Jeffrey

Thanks. Appreciate it. Great to see the solid results here. Max, can you talk a little bit about the dynamics of your growth, namely the top five merchants growing 23% and blending down as a concentration? As I recall, they had been growing faster than overall GMV. Can you just talk a little bit about what you're seeing? The new merchant ads look great. The transaction per active look great. Is the business truly widening out? Is that the right way we should be interpreting those results?

Max Levchin

I might offer Rob up as the interpreter of these results just because, to be completely transparent, I mostly look at the growth of the business through the lens of things like transactions per user, active consumers, active merchant numbers are really important to us. Generally speaking, of course, we want to have less concentration, more diversity, but we also are frequently driven or drafted behind the growth and promotional initiatives of our partners, big and small. I think it's a little bit difficult to piece it out, but I imagine Rob has a much more detailed answer.

Rob O'Hare

Tactically, Andrew, I would just point you to the fact that the top five that we disclose for Q2 of FY '26 is actually a different subset of five merchants that we're comparing to in fiscal '25 in the same period. I think all the more reason not to read too much into that stat. Obviously, it's been well publicized that we have a large merchant partner that was transitioning off of the Affirm integration. That weight on that metric, we have a new top five as a result of that. I think that's really the crispest answer we can give there. But otherwise, I mean, the business is growing quite well and we're quite happy with the diversification, as Max alluded to, that we see in the GMV.

Andrew Jeffrey

I appreciate it. Thank you.

Operator

The next question comes from the line of Ramsey El-Assal with Cantor Fitzgerald. You may proceed with your question.

Ramsey El-Assal

Hi, guys. Thank you so much for taking my question. I was wondering, Max, if you could give us an overview of what you're seeing out there in terms of consumer trends, credit trends, overall economic health. It's such a tumultuous moment. Maybe also comment on what you've seen sort of quarter to date.

Max Levchin

The one-liner answer is the consumer we see today is quite healthy. They're able and willing to pay us back. They're borrowing money. Obviously, the growth numbers are out there in this print. We are not seeing---again, our consumer is now reaching quite a large subset of North Americans and growing nicely in the UK, but we're not everyone. We don't always say yes to a loan. It's a little bit selective, but we feel pretty good about both the demand and the ability and willingness to repay. I don't have anything dramatic or alternative to offer on the state of affairs in the current quarter either. I think we're not seeing a big deviation from what I just said about the past.

Ramsey El-Assal

Great. I think no news is good news. I appreciate your comments. Thank you.

Operator

The next question comes from the line of Will Nance with Goldman Sachs. You may proceed with your question.

Will Nance

Hey, guys. I appreciate you taking the question. Very nice results. This one might be for Rob, but I was just hoping we could unpack sort of the puts and takes and the RLTC margin. Just looking back over the last year or so, there have been a ton of tailwinds, both structural to the Company as well as outside of your control, very favorable funding market tailwinds. I'm just wondering if you could talk to the trajectory of margins as you see them from here. It seems like if we look at the guidance in the remainder of the year, it seems like you're still expecting to be hovering around four as we think about---you had a very large beat on gain on sale this quarter. Zero percent loans have been increasing with the percentage of the mix. Just maybe wondering in your perspective, should we be anchoring more to the 4% range that you're talking about for the second half of the year versus being comfortably above four over the last couple of quarters and just any meaningful puts and takes as you see it from here? Thank you.

Rob O'Hare

Yeah, sure. I mean, as we outlined in the guide, we do expect to see RLTC take rates that are slightly above four. I think that's true in both Q3 and Q4 in the guidance that we've provided. We're going to stick to that, obviously, and that's the plan that we'll execute against. I think to your point on the puts and takes, I mean, I would probably frame it very closely to what we saw in Q2, to be honest. We did see benefits on the transaction cost side, particularly on funding costs as we've seen cost of funds come in, particularly within the ABS market. We would expect that trend to continue. We typically don't guide to specific transaction cost line items or even revenue line items. But in total, I think the take rates and the dynamics will be pretty similar to what we saw from a trend perspective in Q2, where there is a little bit of softening on a year-over-year basis in terms of revenue take rates. Again, it's important to remember that we've driven a lot of 0% mix, and we think that's really good for the network. Then we are seeing really nice benefits on the transaction cost with funding costs being the clearest example there.

Will Nance

Appreciate the commentary.

Operator

Our next question comes from the line of Jason Kupferberg with Wells Fargo. You may proceed with your question.

Jason Kupferberg

Yeah. Hi, guys. Great numbers here. It feels like some others in the space are trying to play catch up and maybe getting a little bit more aggressive over the past couple of quarters in terms of pursuing more prominent presentment, looking to win new merchants, in some cases offering cashback incentives to consumers. I'm just wondering what you're actually seeing in the field. Is this having any discernible impact on Affirm's merchant pricing, just in terms of like-for-like take rates, your go-to-market strategy, anything along those lines? Because I think there's a big debate in the investment community on that right now, but your numbers seem to speak for themselves.

Max Levchin

They do. We like to speak with numbers. Short answer to the question is no. I think this is like a social science theory, so discount appropriately. But we are probably in one of the noisiest environments as far as information headed for consumers' heads maybe ever, certainly in my lifetime. There's news every day, and some of it reads like science fiction. Some of it is science fiction, or at least slop. You can have a deal, and here's five paragraphs of explanation when it's valid, and it's 5%, but only if it's Tuesday. All this promotional go-to-market that we're seeing from a lot of our competitors just doesn't seem to make a dent in what we sell, which is always on the nose, brain dead simple. You are getting no interest. If you buy this thing, you can split it into 12 parts or 24 parts or six parts, and you'll pay no interest at all. Zero percent sells as well as they do, not just because it's free money or free loan. It's because it's so easy to understand. The thing that we've built over the last decade plus is when Affirm says no interest, we actually mean no interest, and there's no asterisk. There's no explanation as to what might happen if you are a penny short or a day late. Our calling card has become, our moat has become associated with us, which is an inherently defensible position. We don't get into conversations with merchants around what if it's zero, but it's not really zero. There's a lot of details to hash out if your offers are not super crisp and transparent, and that's exactly what we do. So, we saw no effect in some of the more ultra aggressive, whatever it was, 50% cashback, or I lost track of the exact offers, but we did not see any.

Jason Kupferberg

Just a quick follow-up, I'm looking at the GMV categories and that other category, you're now up to 15% of total. I think it's basically your second largest vertical, tied for your second largest. It's growing triple digits. Can you unpack what's actually in there? What are some of the major pieces? Are any of them getting to the size where you'd maybe start breaking them out on their own?

Max Levchin

Sure. It's actually a great question, although Rob is rolling his eyes.

Jason Kupferberg

Sorry, Rob.

Max Levchin

We anticipated it because it is a juicy number and yet it is nondescript. It's actually, if you wanted to look for diversification in the business, I wouldn't look at top five, I would look at the other. If we broke it out into categories you would see all sorts of cats and dogs of really exciting categories, like I have a fledgling sticker empire, and you really can't classify that other than novelty or other. That's what you see there. It's a huge number of relatively small merchants that are realizing that they're at a disadvantage if they do not offer Affirm. As that knowledge spreads across the merchant base, it becomes somewhat more difficult to invent new categories for them. If you decide, well, we're going to have to be very, very precise, then you either end up in a giant bucket called Other, which is what we chose, or you start doing things like stickers and either novelty items or something like that. It just really is the long tail and we're excited to serve them all.

Rob O'Hare

You know, as we've seen certain categories get to a critical mass within Other, we have broken them out. Services is a good example. We started breaking that out, I believe, two quarters ago now. If and when we get to critical mass within Other, we'll continue to be very disclosive there.

Max Levchin

If my sticker story really takes off.

Jason Kupferberg

Thank you, guys.

Operator

Our next question comes from the line of Nate Svensson with Deutsche Bank. You may proceed.

Nate Svensson

Hey, thanks for the question. There's a lot of exciting press releases from Affirm intra-quarter. I guess I wanted to ask on the bank charter news. I think that was pretty interesting. I was hoping you could talk more about the decision to potentially go down that path. It seems like there's been some evolution in your thinking on that particular topic over time. Maybe just more color on what you see the benefits from that being, what new products and services can be unlocked, and then I guess any sense on the timeframe or hurdles to clear as you have to get that secured?

Max Levchin

Sure. I would quibble with the evolution of thinking merely because we answered this question a bunch of times, obviously, before we disclosed that we have applied. What has been pretty clear, the kind of one, a reason to have a bank charter is regulatory certainty. You operate as a bank partner. You want to know that your bank partner is on excellent footing, that there are no hidden rocks for that particular bank, and if you own a subsidiary, you would presumably understand a lot better, and that's the primary motivation of why we applied. Obviously, the climate at the regulatory bodies that issue such approvals is changed, and that's something that we track very carefully. The timeline is certainly years, so I would step away from any model modifications. We don't know if we get approved. We don't know exactly when we would if we did, and there are all sorts of timelines that are prescribed by the approver to prepare, then to open, then to stay in a de novo period, and then finally to operate with fewer restrictions. It's definitely a long-term investment in regulatory certainty. Down the road, you can start imagining products that are only possible with a bank charter in your available tools. That's so far away, it's really not worth talking about right now, but it is a great investment in our regulatory stability for the years to come, assuming it actually ends up in the approved category.

Nate Svensson

Thanks, Max, and point taken on the evolution of thought. Appreciate it.

Operator

Our next question comes from the line of Dan Dolev with Mizuho. Please proceed.

Dan Dolev

Hey, team. Great results, as always. Just a quick question on the ABS deals. The execution there seems to be really, really strong. Maybe if you can make a few comments. If I can squeeze just a very quick one on the AI. That was a big surprise. I just want to know how much of this AI boost is actually contemplated in the guide, and if it's fully rolled out. Thanks again. Great results.

Max Levchin

I think Dan's asking about the guide. I'm not allowed to speak to the guide.

Rob O'Hare

In terms of the guide, we have a pretty nice trajectory with those two product lines, but we haven't called out specifically how much is in the GMV guide there.

Max Levchin

It's definitely early days for the Boost AI. I was trying to sneak into the letter exactly how few merchants have adopted Boost AI. Adaptive AI has been around for a couple of years. It's, generally speaking, batteries included, as part of the product. Boost AI is new, and it's super cool because it does automated A-B testing, but it also has a channel. It is a channel for incremental merchant dollars. The thing that I tried to describe and ultimately got edited down a little bit more, Boost AI allows a merchant to say, you know what, I have \$100,000 more dollars I'd like to put into Affirm-specific promotions, 0% or just reduced APRs. You guys go and A-B test who would be the most likely to convert with that kind of offer in front of them. Go deploy it. I don't need to know exactly what happens. I just want to maximize my dollar-for-dollar investment into sales. It looks more and more like an advertising model versus a cost-of-acceptance model, which is exciting because it just gives our machine learning engineers a lot more freedom to really do some amazing things for our merchant customers. We're super excited about the product. It is pretty early. We're not breaking out what it does for our numbers. So tells me Rob.

Rob O'Hare

As for the ABS deal we just did, generally, the market is still very constructive, and the team is executing really well out there. The last deal we just priced was done with a spread of under 100 basis points. It's really remarkable. We haven't done that since 2021. The weighted average yield on the deal was below 4.6%. Again, we haven't seen that kind of cost of financing since the (inaudible). We're operating and executing in the capital markets really the best we've seen post the rate movement part of the world. It's a reflection of two things. One is just the continued vote of confidence that the market has in our ability to control credit outcomes and deliver the kind of returns that we sign up to deliver, and of course, just really excellent (inaudible).

Nate Svensson

Thank you.

Operator

The next question comes from the line of Moshe Orenbuch with TD Cowen. You may proceed.

Moshe Orenbuch

Thanks very much. The first question kind of asked about growth and growth in your specific merchants. (Inaudible).

Max Levchin

You're really breaking up. We cannot understand what you're saying.

Moshe Orenbuch

Alright. Sorry. Can you hear me now?

Max Levchin

We can. Much better.

Moshe Orenbuch

Sorry about that. You talked about the growth in your merchants, both in the number of merchants and the growth at the merchants, but both the Affirm card and international expansion are kind of two areas in which you can get significant growth in addition to that. Could you just give us some update? I saw the attach rate and related stats on the Affirm card, but can you just flesh that out for us as to how those are going and how you see the development over the course of the next several quarters? Thanks, and sorry for this background noise.

Max Levchin

No worries at all. The card is just continuing to grow very quickly. GMV year-over-year for the quarter of reporting was up just under 160%. Active cardholders went up 121%. Zero percent deals on the card went up 190% year-over-year. It's not the only growth engine, but it's a big growth engine for our metrics. It's now a material to the overall business. It's no longer a cool novelty product for our diehard users. It's helping us create more diehard users. The card is doing really well. We have a lot more planned for the card, so we don't intend to slow it down, if you will. Probably my personal focus on the product side of things is still predominantly on the card and adjacent things in the card. I'm happy to speak more. There's definitely some stuff in the letter just talking to those numbers and more on the card specifically. International, I don't know if you saw, we announced a couple of really nice deals in the UK specifically. A couple are US brands lighting us up or think that they will light us up soon in the UK. Obviously, Shopify announcement was a little while ago. That's scaling. We're still actually not at peak run rate there, so we expect to improve those numbers. Wayfair, we just announced literally a couple of days ago that we are live in the UK in the beta, pre-beta type thing, but that's going to scale up, and they've been a partner in the US for a very long time. We have a bunch more. VMO2 is obviously, I think it's the largest or certainly one of the first or second largest device selling company in the UK, so we announced that. We have a whole long pipeline of sales happening there and we're excited about that. Then there's more countries to come for sure. Both international and the card are still significant drivers. The card is much larger than international. International is now growing consistently at a pace that excites us. I feel good about both.

Operator

The next question comes from the line of Rob Wildhack with Autonomous Research. You may proceed with your question.

Robert Wildhack

Hey, guys. One question on the updated outlook. As we see it now, you're pointing to a slowdown in GMV growth to 30% in the third, 25% in the fourth quarter. I know a long time between now and the end of the fiscal year, but could you just talk us through the cadence there and if there are any specific callouts for the decel in the coming quarters?

Rob O'Hare

No specific callouts. We are obviously comping the transition with a large retail partner. Obviously, we had that headwind from a comp perspective this quarter as well and grew at 36%. Really nothing specific to call out in terms of drivers for the de-sell. We'll leave it there.

Robert Wildhack

Okay. Then one more on funding. We see you had the new forward flow deal, but we also see some of the headlines and concern around private credit, many of whom are Affirm loan buyers. What's the current temperature from the forward flow and loan buyer channel right now?

Michael Linford

Yeah, I think it's still extremely constructive. I think the conversations we're having with our partners is usually around having to disappoint them on how much allocation we can give them right now. It's a qualitative read, but tends to be the conversation we're having today. I think a lot of the conversation about the market more broadly really doesn't pick up the specifics of what Affirm's asset creates and the kind of people that we partner with. We've been very selective about how and who we partner with. That puts us in a position, we think, to have a very durable set of partners who are really excited to continue to go deeper with us.

Robert Wildhack

Okay. Thanks a lot.

Operator

The next question comes from the line of Rayna Kumar with Oppenheimer. You may proceed with your question.

Rayna Kumar

Good evening. Thanks for taking my question. Could you just comment on what you're seeing out there in the regulatory environment? Are you hearing anything about potential caps on BNPL rates? If so, how would Affirm react to that?

Max Levchin

Definitely not hearing about potential caps on BNPL rates specifically. Obviously, very dynamic set of conversations happening at the federal level about credit card rates. One good rule of thumb about regulatory realities, if you will, whenever Republicans are in the White House, you can expect more attentive and active Attorneys General from all 50 states, both red and blue, because they feel that you would expect a more relaxed posture by the federal regulators. Whenever Democrats win the White House, the executive branch puts more attention into various laws and regulations at the federal level, and then the state attention typically fades a little bit. It has as much to do with the employment of the people that work in these agencies, both at state and federal level, and the overall posture of the various political elements we have. Right now, just from a practical perspective, obviously, we're tracking all the things, both federal and state level, have an active conversation with all of our regulators, generally speaking, have positive and consistent relationships with them. It doesn't hurt that we don't charge late fees, don't screw our customers, typically do the right thing as much as we can and then some. Nothing sort of too exciting to report. Obviously, we felt compelled to apply for an industrial company bank charter. Clearly, we believe that the sort of really grown up regulators, FDIC in particular, we expect them to see us as a good actor that's prepared for quote, the big leagues or the beginning of the big leagues. Generally speaking, feel pretty good about it, but we are always regulated. We're always regulated by 51 distinct entities, federal and 50 states, and that's part of the job.

Rayna Kumar

Very helpful. Thank you.

Operator

The next question comes from Dan Perlin with RBC Capital Markets. You may proceed.

Daniel Perlin

Thanks. Good evening, everyone. I just wanted to jump in a little bit on the Big Nothing. The question really is on the derivative benefits. You called out the Affirm Card signup. I kind of understand that. My bigger question is kind of the uplift in credit quality that comes with that consumer set. Then how do you apply those learnings to everyday shopping for Affirm? Because clearly, the GMV uplift across the board was pretty significant for the three days. Thanks.

Max Levchin

Yeah. By the way, not to sort of---I'll take the compliment, but I will point out this is our first rodeo with that particular one, and we expect to get better and smarter on the Big Nothing. We're planning the next one, and we're super excited about all the things we're going to do differently and just smarter. There's more money in that banana stand. We're sure about that. In terms of---I don't always refer to the Big Lebowski, sometimes I refer to the rest of the developments. On the GMV boost, the conversion boost is really powerful. It's in the letter. You can see how well it did for us. It does skew higher credit quality because of the self-selection that always happens in reduced APR, 0% APR. It did have excellent second-order effects. We saw outsized---actually the gains in cardholder growth outpaced the gains in GMV, which is kind of interesting. I think that's right, if I remember correctly. I think the card growth was (inaudible), GMV went up 15%. No. I don't want to perjure myself without looking at the cheat sheet, but the card grew even better than the GMV. All of that was really solid. One thing that's worth knowing, it's not in the question, but it should be. We have really good evidence, just lots and lots of months of data showing that folks that come in through a 0% APR loan are quite happy to use us for both interest-bearing and non-interest-bearing products. There's a sort of industry myth that you self-select into an APR and then you react violently when it changes upwards. That is not the case with the Affirm consumer. We can sort of debate exactly why, but it is factually correct that people who sign up with a 0% deal do not mind other offers that we give them. Because it's so effective, we're obviously very hard at work telling merchants about how effective this is and inviting them into the next Big Nothing, et cetera. I said lots of things. I feel like I may have answered the question.

Daniel Perlin

Yes. Nope, that's great. Thank you so much.

Operator

Our next question comes from the line of Matt Coad with Truist Securities. You may proceed with your question.

Matthew Coad

Hey, guys. Thanks for taking the question. One more, maybe on the other bucket in terms of new verticals that may enter that other bucket. There were some press releases over the quarter about entering B2B through the partnership with QuickBooks Payments and then maybe moving into the rent vertical as well. I know it's kind of early days for both, but I just was hoping that you guys could talk about the growth opportunity there and then kind of how you think about underwriting, especially in rents and how that may differ from your current book of payments and underwriting. Thanks.

Max Levchin

Yeah. I'll take it in the inverse order, but super important. The rent test is a very, very small test. It is definitely not our MO to take what is essentially a subscription product and turn it into a differently contoured subscription product. The product cannot be you want to pay your 12-month rent over 18 months. That doesn't help our consumers. It's not the right product to build. That's not what this is. The test we're running is if we allowed you to time shift, e.g., you get paid on the 16, but your rent is due on the 15, that's a strain on your personal finances. What if we allowed you to move that or split it into two parts? That's the thing we're testing. Very small. The number of loans we are allowing through is countable on several people's hands sort of thing, at least in the very first portion of this. Deliberately so. This is not an area we think is obviously going to happen. We'll find out. We'll test, but put nothing in your model for now. On the Intuit side, that's actually super exciting, and it's not B2B. What it is, is there is a whole facet of the services world that gets billed through QuickBooks. Until just now, or whenever it launches, you would pay for these services with a credit card. The service provider would tell you it's going to cost you \$5,000, and off you go. You decide if you want it. As soon as we launch, which is on a fairly accelerated timeline, the service provider will tell you, I can make this \$5,000 over the course of six months. All you have to do is use Affirm. You already know the name. It will be in your invoice. It is the usual Affirm, if you will, B2B2C. Intuit is a fantastic aggregator of small service providers, businesses that bill consumers. We will be included in those invoices, and the consumer will be educated that they can pay over time for these services. We feel like we have unlocked another side of transactions that until recently were just not exposed to Buy Now, Pay Later at all, so super excited about that. There's a lot more to do there, but that's the first step.

Rob O'Hare

Just the other point I would make on the Other category to your first question, we do include our wallet partnerships in Other. As Max alluded to, there is the long tail of merchants, but then wallets would be another part of Other that is pretty high growth for us today.

Matthew Coad

Really helpful. Thanks, guys.

Operator

Our next question comes from the line of Adam Frisch with Evercore ISI. You may proceed with your question.

Adam Frisch

Thanks, guys. Given the value you generate for merchants with the 0% offers, what are your thoughts around the potential to continue to raise pricing there? It seems like there is an excess buffer between your fees to the merchant and the lower revenues they avoid by not having to initiate a 25% or 30% off sale. It seems like pricing did tick up for the long term piece of this book, flat for the short term, at least on Page 16 of the deck, so maybe some color there on the mix between long term and short term and the potential to raise prices.

Max Levchin

Great question.

Rob O'Hare

I would say I think it does vary a bit by merchant size, and we have had nice traction with a couple of our go-to-market packages that we use for some of the platforms that help us aggregate distribution into smaller merchants. We actually have seen nice uptick of merchants starting with a base package and

then moving into a higher converting package that includes more 0% offerings in their financing program. I think that is working for us in terms of the go-to-market motion. Then, honestly, I think with some of the larger merchants, it's really on us to prove that 0% offerings drive conversion, and I think those conversations take time and are going to be a function of the success that we drive, and then it's on us to make sure that we're being compensated for what we're delivering to the merchant.

Michael Linford

Yeah, and just to add, I think flat pricing in a declining rate environment is actually the same thing as taking price.

Adam Frisch

Yeah. What's the mix between short term and long term on the 0% book?

Rob O'Hare

We haven't disclosed that.

Adam Frisch

Okay. If I could just squeeze in one more. The loss provisions ticked up a few basis points. Nothing crazy at all. I'm just trying to figure out why this stock might be down a couple bucks here in the after hour. Did you see something in the quarter? Is it taking advantage of some strength this quarter and being proactive, or just some color around that would be great? Thanks, guys.

Max Levchin

Thank you. I think I already said consumer is healthy. We are not seeing any disturbances in the force, which gives us freedom to optimize for RLTC. You can see the RLTC number is just shy of the upper side of the long term goal. We manage credit to a NACO number. If you look at the chart of the NACO curves, you'll see that these are super tightly run lines that are just one on top of the other. That's what I look at when I worry or don't worry about credit results. The North Star is NACO doing okay, and it certainly is right now. I'm not sure I can help you interpret why the stock is down, though. We're managing credit very attentively at all times.

Adam Frisch

I think you guys are doing a great job. Thank you.

Operator

The next question comes from James Faucette with Morgan Stanley. You may proceed.

James Faucette

Thank you so much. I just want to follow up with one of the answers you gave just a moment ago. In terms of the behavior of those that are coming in for 0% promotions versus maybe others, can you give any more detail in terms of their frequency of engagement, what products they're tending to be attracted to? It seemed like you were suggesting that they would use also interest bearing and maybe gravitate towards the card, but just help us understand where you're seeing success continuing to engage with those customers and what that behavior looks like versus those that come in either through interest bearing or very short duration 0%.

Max Levchin

Everything you just said sort of answers your own question a little bit already. The very last thing you said is not what I said, and I don't want to imply that. In other words, I would not encourage you to think of short-term zeros as a great feeder into something else. What I was trying to say is zeros, writ large, short and long-term. Obviously, longer-term zeros are a higher form of value. If you're getting a six month 0% loan or 12 month 0% loan for a large ticket purchase, that's an extraordinary deal. That's exactly the conversation we're having with merchants around don't run a 25% off sale, pay us 11% and offer 12 months plus or minus 0% loans on your large item. You're right, though. I did suggest that a zero as the first loan does not preclude, in fact, does not seem to bear any relevance as to your propensity to take out an interest bearing loan, which is mostly just the freedom for us to correctly price the transactions whenever merchants do or do not subsidize the interest rate. Maybe the shortest form of the summary here is consumers we sign do not fall by and large into only transacts with X type of transaction, only transacts with Y type of transaction. They cross-pollinate nicely. To the who is more engaged. That's a great question. I'm not sure I want to talk too much about it, but a lot of our product strategy is shaped by the observations that consumers that come in through a particular type of a transaction find us in more and more surfaces. A lot of how Boost AI and Adapt AI actually work, it's the fact that we are seeing consumers across multiple differentiated services. You start typically at the point of sale, you end up taking out the card, you might use Affirm Anywhere before that, which is the cardless version of the card that was developed a couple of years prior. As you start compounding, if you will, these different kinds of Affirm use, your engagement goes up, your transactions per user goes up, your overall annual spend on Affirm goes up, and that's exactly what we want. We are absolutely very attentive to what else might we offer you as you're increasing your transactions per user and your total Affirm spend. These 0% deals of various kinds are super valuable because they have such an outsized impact on propensity to convert.

James Faucette

That's really good color. Thanks, Max.

Operator

Our next question comes from the line of Reginald Smith with JP Morgan. Please proceed.

Reginald Smith

Congrats on the quarter. Most of my questions have been answered. I did have one. A question I get a lot from investors is whether your expansion into some of these newer categories, home improvement, medical, auto repair, signals anything about, I guess, your base, your core retail BNPL business, whether it's competition or anything like that, or maybe even a shrinking opportunity, I guess. What would be your reaction or response to those questions? Then how did you decide or what was the signal that confirmed that now is the time to make that move into those new verticals. Then lastly, is there any link or relationship between moves to those verticals and maybe getting a bank charter? I'm just curious whether the lower funding and the longer duration of deposits played any thinking or any role in that decision. Thanks a lot.

Max Levchin

I'll go back, Reggie. Short answer to the last one is no. We are not figuring any sort of a short-term reduction in cost of funds. We need to get approved. We need to go through de novo. We need to gather deposits from which we could lend. Any years into the future, we can talk about, hey, now that we have a lot of deposits, can we leverage some of that to fund our own book? That's very, very far away. That's not even a little bit related to these new categories. The way we choose new categories is entirely based on consumer pull. Because we have a card that works everywhere that Visa is accepted, we get a really high fidelity daily print of, oh, check it out, people are using this for this thing. That's interesting. We should

maybe talk to some of the people that sell whatever that thing is. We knew that auto parts and adjacent things has been a huge component of our growth for a very, very long time. It made a ton of sense to go talk to people that sell auto parts and ask them, okay, so if we integrated directly instead of having our consumers come through the card door, what would that product look like? Would there be a reason for us to do something a little bit deeper? Would you be interested in sponsoring zeros, et cetera? That's roughly how we pick new categories. Then the reason we went to new categories, the very short answer is we're building a network. Visa is accepted everywhere. Amex is accepted everywhere, et cetera. We see ourselves as a twenty-first century version of American Express sometimes. The goal is to be on every convenience store door and all the doors, all the online doors, all the offline doors, Affirm wants to be the universal acceptance mark. It's not a matter of which one do we choose, it's which one do we choose next. Some number of years from now, we hope to just be a thing that consumers expect to see at any retailer, big and small, online and offline.

Reginald Smith

Makes a lot of sense. Great answer. Thank you.

Operator

Our next question comes from the line of Mihir Bhatia with Bank of America. You may proceed with your question.

Mihir Bhatia

Hi. Good afternoon. Thank you for taking my question. Just wondering if you could talk about the announcement with Fiserv earlier this quarter. Maybe just describe what you're trying to do there, the interest you're seeing in the product from banks, regional banks, anything you can share on how the product would work in practice, unit economics. Thank you.

Max Levchin

Definitely a little bit early to talk to the unit economics given we've just announced the partnership there. But it follows our partnership with FIS, and we're certainly not stopping there. We are seeing excellent interest, hence the opportunity to partner more and broader in the community of folks providing services to such financial institutions. We think that we should not be the only people issuing debit cards with buy now, pay later capacity on them. There's already on the order of a half a billion debit cards in America, and many, many, many banks where people bank locally have a debit card, have a banking brand they love and don't feel like switching out of and would love to see buy now, pay later capabilities from their bank. Their bank, on the other hand, does not have a software engineering team or an underwriting team or capital markets team. We do. We are excited to offer our platform to anyone who wants to be on it. The best way of reaching some of these folks given their technical limitations is through their core banking software providers and their integration teams. That's what we're trying to do here. At some point, we'll start talking a little bit more about specifically who'll go first, who'll go second in the actual underlying financial institution customer, but we're just not quite there yet.

Mihir Bhatia

Got it. I understand. Can I ask you just to follow up on the Affirm card just generally? I was wondering, Max, if you're thinking on the card has evolved as you've seen customer usage of the card. I think early on, you've certainly talked about it as wanting it to be like the customer's top of wallet, everyday card. Is that how customers, consumers are using it today? Any evolution on that thinking? Thank you.

Max Levchin

Actually, Michael said something a little while ago, which sort of seemed obvious after I heard him say it. We have 25 million active users, and we still keep on talking externally, but also kind of internally as if we have exactly one product that fits them all. No one at that sort of scale has, oh yeah, we got this one thing, and everybody should just use that. It is true. The card is used fairly differently by different consumer categories. We have a category of consumers who's absolutely using the card as a top of wallet, every transaction, they're both power users, but they've completely been, I don't know, the color of our logo is, I guess, kind of purple, so maybe they've been purple-pilled. Is that the word? But I'm making this up as I go along, obviously. That group exists. It's not small anymore, but it is a minority. Majority of our consumers still use the card as a considered purchase when a transaction really matters to them. They pull out their Affirm card. They'll also see Affirm logo. They might just go through the integrated path. If they're active, Apple Pay, Google Pay, Chrome Autofill, Shop Pay users have a dozen huge wallets, partnerships that we power, and all of those are available to them. They don't always reach for their card, even if they have it in their wallet. And that group certainly thinks of us as a considered purchases. But again, within that group, there are people for whom \$50 is a highly considered purchase. Actually, if you turn to the first page of my section of the letter, we broke out, just for the big nothing, the GMV lift merchants saw by size of basket, which is kind of a really, we don't really talk about it that much, but you can see there's like a nearly perfect linear curve. As the size of the transaction increases, the GMV uplift by offering 0% goes up as well. That explains a lot about the customer differentiation. We will, at some point, start talking a little bit more about the customer segmentation that we have or consumer segmentation that we have internally. Definitely not prepared to give a lecture on this topic right now, but it's starting to bifurcate, trifurcate fairly rapidly into groups that we need to serve a little bit differently. We're actually very, very excited about that. Nothing is better than as a product person to know you have market pull and the market is teaching you, we need a card that does this. Then we have another group and they want something else entirely. Building that is cheaper and cheaper thanks to all these programming techniques that we now have. We're excited to build more software.

Mihir Bhatia

Thank you.

Operator

Our next question comes from the line of Darrin Peller with Wolfe Research. You may proceed.

Darrin Peller

Hey guys, thanks. Last quarter, I know you mentioned you were in discussions with some key PSP partners really to become a default payment method. And I think you were already live with one. Maybe just touch a little more on the benefits you're seeing from that PSP default method and how these conversations have evolved. Maybe just when you're in these conversations with PSPs, what's the pitch like to really convince them? Thanks guys.

Max Levchin

Just goes right back to the thing I said earlier. Ten years ago, if you said Affirm should be right next to Visa, Mastercard, American Express, Discover, your average payment processor would say, what firm? Sorry, if you're on the phone or Zoom. That's not the question anymore today. Fortunately, our name has now a certain degree of weight and becomes a conversation of, does this help my overall conversion? How does this change my economics as I pitch downstream merchant for my overall services? I'm not sure I'm prepared to break it out into a ton of detail, but the default on just means the consumer sees our logo as they select a way they're going to pay for a thing or a service. For a large percentage of the merchants, both within these partnerships and outside, our logo is visible, not just on the payment sheet, but a funnel where the consumer finds out that Affirm is available and they can split their payment and expect no fees.

Darrin Peller

Okay. All right. I mean, but I think that could be a key driver for you guys, assuming it's sticky and it actually resonates. I'm just curious if there's been progress, but I don't know, anything more you can share on that. But then my other question, yeah, go ahead.

Rob O'Hare

Sorry. I mean, I think we think about platforms really when we talk about PSPs as well. Obviously, the Intuit announcement is one that we're incredibly excited about. I think that the size of that platform is immense and it's on us to make sure that we maximize the opportunity and build the biggest program there that we can. That's one that's been in the pipeline that we're excited to have out in the public today.

Darrin Peller

Right. Right. That makes sense. Thanks. I guess just a quick follow up would be on any quick comments you can give us on your latest view around agentic commerce? I know it's not a quick topic, but just given that it's going to be, it could become such an important part of the ecosystem. I'd be curious to hear what steps the Company is taking just to make sure you're ready to capture, just kind of spend.

Max Levchin

I'm laughing because it's Michael's turn to roll his eyes. We got the meaning of life question and a short answer. Is there a short answer? Let's see. Still bullish. Still think that it is hugely accretive for our financial product flavor to have agents that judge whether a financial service is a good one or a bad one. I think as the bots learn more and more about how things like deferred interest, late fees and compounding interest work, it's easier and easier to stand out because we don't do any of those things. I think all of that sort of structurally; we benefit from that. In terms of just being there and making sure that we are in the mix, we certainly are very, very active. I can't always keep track of exactly what announcements we made. I'll punt on saying exactly where we'll pop up next or first or second, but we are certainly very engaged with the industry, trying to understand what's the best way of delivering our product. But yeah, you should absolutely expect us to be in all those stories. I think I continue to maintain from the sort of pure consumer product perspective that there are purchases that are more like entertainment and they will continue being largely human-driven and purchases that are more sort of human-computer partnership where AI will help you research the product you're going to buy and maybe even serve up the final decision for you and then you'll pull the trigger, but the person will still be human-supervised. Then there'll be a large transition to transactions that just don't need humans anymore, and those will be wonderful. You want to make sure that you're included in those too and some form of a default selection is available. Some of those conversations are certainly very active, not just between us, but the industry.

Darrin Peller

Okay. Thanks, Max. Appreciate it.

Operator

Our next question comes from the line of Bryan Keane with Citi. You may proceed with your question.

Bryan Keane

Yeah. Hi, guys. Jumped on a little bit late, but the spike in the active merchant growth up to 42%, I know that was running in the low 20s for a while for a few quarters and then moved up last quarter and then again, a significant move. Is that one relationship or is that multiple relationships? Just trying to get a better understanding of the growth there.

Rob O'Hare

Yeah. I would say the inflection in growth is being driven by some wallet partnerships that we have. We're including merchants from those wallet partnerships in that merchant count. That has been an accelerant from a growth perspective.

Bryan Keane

Got it. How long does it take to get the corresponding volumes from those merchants, from those wallets?

Rob O'Hare

I mean, obviously, or maybe not obviously, we're only counting the merchant if they're active with us. We're not counting doors if the merchant isn't taking transactions from Affirm. We're only counting active merchants, whether it comes through a wallet or comes through a more direct integration with Affirm.

Bryan Keane

Yeah. Yeah.

Rob O'Hare

That is just a function of scaling with the merchant, right?

Bryan Keane

Right. Right. Yeah. That's what I was thinking about is how fast it takes to scale with those particular merchants, maybe that they're not directly integrated. Okay. Then the other question just on that I had was on adjusted operating margins, just thinking about the first half, first, second half, obviously strong margins in the first half, and then looks like a slight deceleration in margin growth that you're just probably being a bit conservative there. But anything to think about in terms of the adjusted operating margins, first half or second half?

Max Levchin

No. I mean, I think we did have a really nice trajectory over the course of last year. To your point, the margin expansion is a bit lower in Q4, for example, in the guide than it was in Q2. But we are approaching, we're quite happy with the margin profile and we're signing up for more FY '26 margin expansion in this version of the guide than we had 90 days ago. Yeah, I think it's just continued operating leverage and continuing to scale nicely. Most of that is driven by the strong growth that we're seeing in revenue-less transaction costs.

Bryan Keane

Okay, great. Thanks, Guys.

Operator

The next question comes from the line of John Hecht with Jeffries. Please proceed with your question.

John Hecht

Afternoon. Thanks for all the color and details. Most of my questions have been asked. I guess one thing I'm just curious about is you're now, forward flow agreements with private credit counterparties are an increasing part of the funding sources. I know you've been selling assets to off-balance sheet partners over time, but I'm wondering, is the characteristic of what the private credit partners want in such a way that it changes the mix of what you end up holding on balance sheet or is it all the same?

Michael Linford

No, definitely not. We still have an approach that says we allocate loans to partners on a vertical slice. Our partners generally want broad exposure to everything that we originate, and we're committed to not selecting particular assets for on and off. The only exception to that or asterisk is there's certain concentration limits or certain even test products that maybe don't get into our normal funding flows. But for the vast majority of the stuff that we originate, it's randomly allocated to partners, and we just decide how much we're going to push to each partner. I think that the reason for that approach for a lot of our partners is when they think about partnering with us, they're not thinking about specific assets. Our assets turn over way too fast for that. They're really thinking about partnering with us as a source of origination flow and they spend a lot of time making sure that they have confidence in how the company will operate, not thinking about like a pool of assets like you might see with a larger, longer dated, longer duration personal loan company.

John Hecht

Okay, that makes sense. Thanks very much.

Operator

Due to time constraints, our final question will come from Timothy Chiodo with UBS. You may proceed.

Timothy Chiodo

Great. Thanks a lot, everybody. In agentic commerce, I want to circle back on the topic Darrin brought up. Broadly speaking, we can think about three types. There's using ChatGPT to search and then clicking off. There's using ChatGPT to search and then staying within the interface and using an instant checkout button, if you will. Then, of course, there's the full agentic, which Max, I think you were alluding to. If we just confine this kind of conversation to the instant checkout portion, when we go into ChatGPT today, we can see the Apple Pay button, we can see the Stripe Link button, and we can see Pay with Card. Is it possible that over time we will see the Affirm button within that ChatGPT and other agentic platforms within that user interface for what's called the instant checkout type of transaction?

Max Levchin

It's possible, but we're making no such announcements right now. I just think it's really important to note that this is very, very early. The entire agentic commerce thing is still super early. But yes, I think there's absolutely room. Let's go down that road. There's definitely room for Affirm button in all possible forms of commerce, including agentic commerce. If there's human supervision involved, you should hold us to account of, hey, did you place your button there? If you have not, why haven't you, and when will you? I think that that's a reasonable expectation from our shareholders or our analysts.

Timothy Chiodo

Excellent. Thank you, Max. Also fully acknowledging that you can use virtual card, Affirm card in that channel as well. But yeah, I was specific to the button and appreciate your answer there. Thank you.

Max Levchin

You can definitely---I mean, last I checked, I actually haven't tried in a little bit, but I think you can find Affirm on the Apple Pay through the Apple Pay door if you go there. I think we're---and Libor, who's not here with us, but I would be remiss without mentioning his mantra. We love channel conflict. If you believe that you are a network, you better be included in every wallet.

Operator

This now concludes our question-and-answer session. I would like to turn the floor back over to Zane for closing comments.

Zane Keller

Thank you for joining the call, everyone. We appreciate the wonderful list of questions you all submitted. Look forward to seeing many of you on the conference circuit and talk to you again soon. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may disconnect your lines and have a wonderful day.