Affirm Holdings, Inc.
Second Quarter Fiscal 2024 Earnings Call
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Corporate participants

Zane Keller, *Director, Investor Relations*

Max Levchin, *Founder and Chief Executive Officer*

Michael Linford, *Chief Financial Officer*

Conference call participants

Ramsey El-Assal, *Barclays*

Andrew Jeffrey, *Truist Securities*

Reggie Smith, *JPMorgan Chase and Company*

Dan Dolev, *Mizuho Securities*

Robert Wildhack, *Autonomous Research*

Jason Kupferberg, *Bank of America Merrill Lynch*

Jill Shea, *UBS*

James Faucette, *Morgan Stanley*

John Hecht, *Jefferies & Co.*

Kevin Barker, *Piper Sandler*

Mike Ng, *Goldman Sachs*

Andrew Bauch, *Wells Fargo Securities*

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, and Michael Linford, the firm'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 questions and answers.

On that note, I will turn the call over to Max to begin.

Max Levchin

Thank you, Zane. Thank you all for joining us today.

We're excited to share the results of another great quarter. As is our custom, the better the results, the fewer words we use to comment on them. This time around, I feel good enough to go directly to the Q&A.

Back to you, Zane.

Zane Keller

Thank you, Max.

With that, we will now take your questions. Operator, please open the line for our first question.

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Ramsey El-Assal with Barclays. Please proceed with your question.

Ramsey El-Assal

Hi. Thanks for taking my question this evening. I was wondering, if you could help us think through RLTC for the remaining two quarters of the year. What are the drivers, puts, takes, variables that could impact RLTC and drive underperformance or outperformance? How should we think about those kinds of variables?

Michael Linford

Yes. I think, obviously, if you are thinking in terms of percentage of GMV, there are a number of factors, mix and macro at the top of the list. If you're thinking about total dollars, then GMV on the platform was going to be the biggest driver of results there.

In terms of the RLTC rate, the take rate on a percentage of GMV, it is really mix and macro. The mix of business across our merchant base and the products that we offer there. From a macro perspective, everything going on with consumers and rates would be there.

We really like the environment we are in right now. That is why we've updated our full year guidance like we have. We feel good about the back half of the year, RLTC margins as a percentage of GMV, and feel good about that because of the macro environment that we are in. As per the usual, we take the current macro signals current levels of unemployment, current forward curve and bake those into our assumptions. But obviously, there are scenarios where those could move one way or the other that would change the outcome for us.

Ramsey El-Assal

Okay. A follow-up from me. On Slide 10, where you list out your GMV vertical mix, it looks like general merchandise has picked up quite a bit from travel and ticketing, or travel and ticketing has gone down and general merchandise gone up. Are there any drivers to call out there? I guess, more broadly, can you just comment on performance across key verticals in there?

Michael Linford

Travel and ticketing is a very seasonal category. A lot of folks' book summer vacation travel in the first two calendar quarters, last two fiscal quarters of our year, and it tends to be lowest in terms of bookings in fiscal quarters like Q2. We think there is a huge seasonality factor there. For general merchandise, some of our largest merchant enterprise partners fall in that bucket. As we continue to scale those, we will see lots of purchases there, and it is not unusual for that to be a category that spikes in and around holiday season as a lot of holiday shopping is done in those channels.

Ramsey El-Assal

Got it. Makes perfect sense. Thank you.

Operator

Thank you. Our next question comes from the line of Andrew Jeffrey with Truist Securities. Please proceed with your question.

Andrew Jeffrey

Hi. Appreciate you taking the question, Max. Brevity is indeed the sister of talent. You have made that very clear. I've got a couple of questions, on GMV growth and tender share. As I recall, you have tightened the credit box about a year ago, and obviously, the back half of the fiscal year looks strong. Can you comment, either Max or Michael, just on how underwriting and risk are factoring into that strength? Then the corollary or the follow-on would be around tender share of your enterprise customers, and it appeared to be elevated during the holidays. I just wonder if that is a sign of accelerating tender share to come or aspirational tender share growth.

Max Levchin

Appreciate the compliment, first of all. The underwriting settings, the single most I would say, accelerated change we have conducted to our, as we call it, Box, was really more a 1.5 years ago than a year ago. April of '22 is when we saw real stress on the consumer, and we reacted to that within the next 60 days or so. We have since really not done an enormous amount of significant steering. We change marginal cut-offs on a merchant-by-merchant, category by category, product by product basis all the time and also change things like allowed terms, as in durations, required down payments, etc.

We manage credit very, very actively since the beginning of time for us but there has not been a major change to our posture in the last 1.5 years. The numbers that we printed just now are not an accident. We drove them to be what they are very, very deliberately. I do not want anybody to assume that we're hands off and the numbers just print themselves. It is a lot of work, and we care quite a lot where they end up. We have certain expectations we set with capital markets, and we intend to continue delivering those expectations. That is first and foremost. That governs a lot of our metrics as output to that.

The tender share—share of wallet as we call it internally, has done really well over the holidays. We have generally been gaining wallet share, although the stories are different category to category. In some cases, merchant to merchant. Feel very good about some of the things that we announced. Obviously, offline. We were not a noticeable player until recently and between the card and some of the online—offline self-checkout kiosks, really powerful.

Then just call out one, particularly strong performance over the holidays especially, and overall, in the last quarter, Shopify has just continued to perform extraordinarily. The growth of that particular partnership is accelerating three plus years into the partnership. That set of products grew about twice the speed of the rest of Affirm. It's just been a story of success to success. We still have a lot of things that we have not scaled out. They have their own offline aspirations that we are obviously very excited to be a part of, etc.

It is a little bit of a—and I'm giving a very long-winded answer here, but frequency for us is being where consumer shops. Share of tender comes as a consequence of being available and being able to support the various consumer needs as we encounter them.

Michael Linford

The only thing I would add is we did with the 36% APR cap that we were able to get in place, we were able to be more expansionary in a number of places. That is completely done now. We wouldn't expect any more volume benefit there, although there is still some margin benefit we think that will come as the program continues to roll out and scale. But we would not expect any more volume there because of 36%.

Andrew Jeffrey

Thank you. Appreciate it.

Operator

Thank you. Our next question comes from the line of Reggie Smith with JPMorgan. Please proceed with your question.

Reggie Smith

Hey, good afternoon and congrats on the quarter. You kept your comments short, but where were you most surprised? This is a pretty big beat. Then I had a follow-up after that.

Max Levchin

We try to run a tight ship, surprises are rarely a welcome thing and if they are to the good. I already called that out, but I thought Shopify as a company, appears to have done a fantastic job with their products and we stand to support our partners there and have done it all together. Let’s see, any other surprises? We do not like surprises, Reggie. I feel like, anytime somebody surprises me, I am not going to like the outcome.

Actually, I will give you one very surprising fact, which is a little bit of an inside view, but we had very noticeably accelerated our ability to ship software. I had anticipated some of that, but I am quite surprised about how productive the teams' have been on the engineering side, on the product side and design side, sort of percolates down to revenue. Generally speaking, I expected that we would rally around the goals, especially from the low point of this time last year. But if it is a turnaround, it is a much faster and more aggressive turnaround than I myself expected.

Reggie Smith

Got it. Then just looking at the seasonal patterns of your margins, the back half of the year tends to be better than the front half of the year. When I look at your full year guidance for your operating margin, it implies, in the third quarter, I think it implies a pretty sequential increase in expenses below the RLTC line. What's driving that and where should we see that show up? Is it a marketing thing? Is it technology? My rough math was almost $20 million of sequential increase. I am not sure if that is right or not, but if you can comment on that a little bit that would be helpful.

Michael Linford

We do not provide a specific guidance number for that. Sometimes the way in which we build our guidance can lead to a little bit of exaggeration on that as you calculate it.

There are a couple of factors to think about. This will sound very trivial, but I promise you it does actually end up becoming pretty big. We do expect there to be a lot more payroll tax associated with stock-based compensation in our first calendar quarter, both because people have reset their tax obligations with the new year, but also because the share price is higher. Both those two things will create a little bit of the sequential bump from quarter-to-quarter.

Then we remain really excited about the opportunities that are ahead for us. We are continuing to be thoughtful around where we should be adding resources to build new products and chase the new opportunities. I think the strength in this quarter’s results with respect to our unit economics and operating efficiency, give us license to be willing to add a little operating expense, whereas I think we have been very cautious to do that until we could demonstrate it.

Reggie Smith

Understood. Congratulations. Great quarter.

Michael Linford

Thank you.

Operator

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

Dan Dolev

Hey, guys. Great results. Congrats Max, Mike, and team. I have two questions. The first one is on the guide. Obviously, the knee-jerk reaction, which we disagree with, was that the GMV guide is conservative. You "beat by $700 million." You are increasing the guide by $1 billion for GMV, you sound very upbeat about the macro. Is it just conservatism?

Michael Linford

Yes. Just like we have all year long for the full year, we are only providing a floor for our full year guide. We did take our floor up by $1 billion, which we think is a big step up in what we would expect for the year. We remain very upbeat and excited about the opportunity.

Dan Dolev

Got it. Yes, that is what it seems like. Then maybe one other question on the direct deposit opportunity. You have had tremendous success with the card. Can you talk a little bit about what you're seeing in terms of the usage and frequency for the people that are doing the direct deposit into the card or into the Affirm app?

Max Levchin

It is a little early. We gave the feature a name about 60 something days ago. It is a little early to brag about the results. But we feel very good about it. It has done, in the early versions that it is, about as well as we could hope for. We have a lot more things coming for that product, working on a couple of very specific things that are just required before you can really call yourself an account. But feel great. I mentioned this before, but there’s three stages of Affirm usage. If you are a not cardholder, not account holder, regular user, frequencies 4.5 transactions a year and grew again 20% plus year-on-year. But if you have a card that goes up quite a lot, grows about 4x, and then it grows again, fairly significantly if you are an account holder. We are very excited to give more accounts to people because that’s ultimately a frequency driver for us as well.

Dan Dolev

Got it. It sounds like a huge opportunity. Congrats again.

Max Levchin

Thank you.

Operator

Our next question comes from the line of Rob Wildhack with Autonomous Research. Please proceed with your question.

Robert Wildhack

Hey guys, I will ask a question on volume in a different way. I think the Shareholder Letter called out three quarters of accelerating volume growth and then within the December quarter each month, accelerated too. The updated outlook for the rest of the year seems to point to a pretty healthy slowdown in the second half, half-over-half. I wanted to get your thoughts on what might be driving that slowdown if there is anything specific that you're seeing?

Michael Linford

Again, the full year outlook for us is just a floor. We have not given even a range or a ceiling to where we'd expect. Any calculation being done on Q4 is probably not getting to a midpoint. Any math you are doing on that number inclusive of our Q3 range is probably squeezing that number quite a bit. Separate from that, we had a good Q2, right? The strong second quarter isn't something that we would ever take and say that's a fundamental change of business. That is something we would take credit for, be very happy with, but we'd be pretty cautious about how we would build up the outlook for the balance of the year and want to be mindful of all of the factors that can go into that. But there is nothing in our business that would suggest that we're slowing down right now.

Robert Wildhack

Okay. Thanks. Then bigger picture, and I appreciate this may not be in play for this fiscal year, but how would you expect potential interest rate cuts to flow through to funding costs? Then strategically, would you want to drop those savings to the bottom line via higher RLTC margin or do something different?

Michael Linford

That is a great question. Whenever we think about a change in rates, we need to understand why the rates are moving. Certainly, if the rates are moving in response to other stress in the economy, specifically employment, then it is not a one-for-one benefit. But if you hold all other factors constant, then a decline in rates would help us on the RLTC line. We would seek to continue to run the business in the 3% to 4% range that we have talked about really since we've gone public. If we were able to be earning at the high end or above that, we would seek to reinvest that in products to acquire new users and reengage them.

Robert Wildhack

Okay. Thanks, guys.

Operator

Thank you. Our next question comes from the line of Jason Kupferberg with Bank of America. Please proceed with your question.

Jason Kupferberg

Thank you. You highlighted in the Shareholder Letter that two-thirds of the revenue growth in the quarter was from interest income. Is it fair to say that is also the revenue line item that surprised you most to the upside relative to your guidance? Just curious how much of the revenue guidance range for the fiscal year is coming from the interest income line. You guys have obviously been doing a really good job on that side of the equation.

Michael Linford

Certainly, we are happy to have the unit economics we do have, but I think we are probably more surprised with the healthy merchant fee growth. Whenever merchant fees outpace GMV growth, it creates pretty good flow through to the full P&L in a way that's outsized. I think some of the strong performance we had above our expectations around RLTC and the flow-through for the full P&L was actually driven by the really healthy merchant fee line. Yes, the total aggregate revenue growth was not there, but remember, against that, interest income growth is a pretty steep rise in funding costs. That is driven by both the balance sheet growth as well as the higher benchmark rates that we're in this year.

In fact, interest funding costs grew faster than interest income. While that was important for us to be able to get the business where it is, it is also the case that we don't see that as the real tailwind here. We are still managing through a rate environment that's substantially lower last year than this year. As those things abate, then we will begin to see the benefit then to the future.

Jason Kupferberg

Okay. No, that makes sense. Then just a two-part question on GMV. What is your latest expectation for Affirm Card GMV this fiscal year? Then any comments you might have around January GMV trends. I am curious because we heard from others that card present volumes suffered because of the severe weather. Just wondering if your business benefited at all from that? Thank you.

Michael Linford

We have not given any outlook for the card, and I won't now. What I would say - in the letter, we talked briefly about the seasonality of the card, and this is a really important thing for everybody to pay attention to: the card had really strong growth from Q1 to Q2. We would estimate that about half of that growth in card volume was actually underlying seasonality and the other half was growth in the card which just means as you think through where the volume should be for the card in the balance of the year, just keep in mind the Q2 starting point is benefited by a pretty big step up from Q1 to Q2 from the seasonality as consumers do spend more in the holiday season.

We are still early enough with the card. Fortunately, we are not seeing things like weather impact our card performance.

Operator

Thank you. Our next question comes from the line of Jill Shea with UBS. Please proceed with your question.

Jill Shea

Good evening. Thanks for taking the question. I was wondering if you could provide us an update on the Shopify partnership and any stats that you could share with us. That would be great. Thanks.

Max Levchin

Hi. It is one of the highlights of this last quarter, is going unbelievably strong. It accelerated for the fourth consecutive quarter. The program is over three years old and the fact that it is still picking up steam is just great. They have been extraordinary partners to us and nothing but wonderful things to say about Tobi and Kaz and Harley and the entire team there, and they have just been nothing but excellent in both our execution and the partnership that we had.

I think I already dropped that stat, but the program at Shopify grew twice the speed of the overall Affirm growth on the GMV side of things. They have aspirations offline that they're going after quite strongly and there's still a lot of synergies and what we're doing now there, we have a whole host of programs we're contemplating going forward. Lots of with the job, feeling very good. The fact that it is accelerating suggests that there's just more growth to be had for both of us there.

Jill Shea

Very helpful. Thank you.

Operator

Thank you. Our next question comes from the line of James Faucette with Morgan Stanley. Please proceed with your question.

James Faucette

Great. Thank you very much this afternoon, guys, for all the time. I wanted to ask on 0% promotions. It seemed like, at least anecdotally, those increased some, particularly towards the end of the December quarter. I think in your supplement, you showed that 0% long duration merchant rates had picked up. Can you talk a little bit about what is driving that merchant rate tick up? Is it just longer duration within that long group?

How should we think about that both in terms of impact on RLTC margin, but also in terms of the type of customer that you are bringing in with those promotions? Just wondering if that is enough to move the needle on some of these other metrics.

Michael Linford

Yes. It is a good question. As rates have gone up, any of our longer-term 0% programs have needed higher merchant fees and I really think there is really not much more to it than that. It is the mix and tied to benchmark rates. In terms of the customers that we bring in, it does skew a little bit higher on the credit spectrum when you do those kind of products. But given the high levels of repeat customers, it's not really going to change the average as much at Affirm.

We, of course, have been meeting our merchant partners where we could, in providing anything promotionally in the second quarter, and we continue to do that. But it did not change an awful lot from the prior quarter in terms of the total mix. I don't really think there's a fundamental trend there.

James Faucette

Got it. Then wanted to ask, maybe it's a little bit convoluted question, but you're obviously growing the Affirm Card really nicely on that run rate that you talked about, seems to be around 100,000 cards a quarter or I'm sorry, a month. I am wondering how we should think about the availability or the credit pool available and how that's growing by comparison, right? Because as you send out cards, people will use it. You said most of that is interest bearing. Some of that available credit gets absorbed, but then there's new credit growth in that pool as you add more cards.

Just how should we think about that potential the buy pool growing vis-à-vis the growth in cards? Hopefully, that question makes sense.

Max Levchin

I am going to try to answer, but feel free to tell me that I'm answering the wrong question, James. I think you are asking—the way I'm interpreting this overall, at least try to answer is, does the card availability to consumers create new pools available transactions for us to take on? The answer is yes.

James Faucette

Yes, that is it. Correct.

Max Levchin

Our offline usage with the card versus without the card is drastically different. All of those transactions are entirely incremental. It is not really all that magical why transactions of the cardholders are significantly higher than average transactions for non-cardholder from user. It is because these people are they're more committed because they requested a card. Two, they are bringing it to stores. It just touches a larger open field opportunity.

In terms of underwriting and our exposure on the credit side, etc., there's no change in the sense that we—and we talked about this before, but for the longest time, our calling card in the underwriting world was this thing called ITACS, which is the internal transactional Affirm credit score. That allowed us to do really precise underwriting at the transactional level.

Some number of quarters ago, we have augmented that with a user credit score which allows us to underwrite both a more holistic consumer in addition to every individual traction. We still underwrite every transaction; we still reserve the right to say we cannot lend money to you. But we have a score that we feel very good about in our ability to say, what's the overall capacity to borrow and pay us back and willingness to do so.

We lend on the card and off the card using the same set of scores and the same set of variables and limits. You can borrow from Affirm using an integrated point-of-sale solution, you can borrow on the card with two different modalities of borrowing on the card, but all of it goes against the same set of variables and the same set of observed behaviors that governs our ability to approve the next transaction.

The thing that is great about the card is that it's optimized for convenience in everything like multi-lane checkout environments all the way to online shopping. It is an expansion of opportunity, but not an expansion of our willingness to take on more risk. I think that answers it, but I'm happy to provide a lot more details if you like.

Michael Linford

One, I think the other thing to say is I do not think we're anywhere near the limits on what we would think about exposure limits for these users and we're nowhere near some sort of cap there for the population. We think there is a lot of frequency that we can drive with the existing users.

James Faucette

Yes. Great. Appreciate that, Max. Thanks, Michael.

Operator

Thank you. Our next question comes from the line of John Hecht with Jefferies. Please proceed with your questions.

John Hecht

Afternoon, guys. Thanks for taking my questions. Just thinking about the appetite for selling versus retaining the loans that you guys generated this year, you have interest rate, at least the curve is going down. It looks like sales execution is getting better. You guys had an ABS transaction, I think, yesterday and the execution there was good. How do we just think about balance sheet movement versus marketplace movement over the course of the year?

Michael Linford

Yes. Thanks for the question. We did price an ABS deal, and we did so at an all-in cost of capital, 100 basis points lower than a deal we did in December. In a very short period of time, you're seeing the market really give us credit for that. That, we think, is a really healthy sign for the capital system and ecosystem

overall. We think it is a reflection of both an improved macro outlook for everybody, but for us, more specifically, the disciplined approach to credit that we've taken over the past year is getting valued we think, in the debt capital markets.

We feel very strong about that. When we do the revolving ABS deals like the one we just did, our 24-A deal, those do end up on the balance sheet. While we do think about that as an important funding channel, it is not off-balance sheet. Our off-balance sheet strategies involve mostly selling whole loans, although we do some non-revolving, some term securitizations.

With respect to the whole loan sales, we feel really excited about both the existing partners expanding and the pipeline of new opportunities that we have. Those conversations have gone very well. I think very consistent with the reaction that the ABS market has had. There's real value being given to us for the credit outcomes that we have driven. Frankly, the yield that we put into the asset has allowed us to continue to be able to sell at prices that are really good for us.

As is always the case, and we have said since day one, we don't have one strategy that's better than the other. The things that we do are first and foremost, enable the growth in the business, and I'm extremely proud of the way the team has been able to support the capital program over the past year through all the volatility remaining, enabling all the growth that we've delivered.

The second priority is to deliver our unit economics. Clearly, if we're running in the 3% to 4% range like we did this past quarter, we feel very strong about that. Then we begin to want to manage the capital efficiency of the program. That is the third piece. Obviously, whole loan sales are more efficient but it is the third of the three priorities. We would not really want to overuse that lever. The last comment is each of our capital strategies really exist and reinforce one another. You really will not see us pivot to one or the other. We are going to continue to scale all of our channels. That means continued ABS execution, continued forward flow, and continued use of our warehouse lines.

John Hecht

Okay. My other question was answered, and I appreciate the color. Thanks very much.

Operator

Our next question comes from the line of Kevin Barker with Piper Sandler. Please proceed with your question.

Kevin Barker

Thanks for taking my questions. There was a little bit of a tick up in the net charge-off rate in the quarter. It seems like you built reserves last quarter that may have pre-empted the charge-off coming through or could be partially seasonality as well. Is there anything to point out there? Would you expect that charge-off rate to drift lower just given you are seeing a larger portion of GMV being driven by Affirm Card? Thanks.

Michael Linford

No. I do not think the card is going to drive different credit outcomes for the whole portfolio. I think the level of repeat usage might, where you do see better credit outcomes on repeat users overall, but I do not think the card is big enough really to affect the total portfolio numbers yet. Obviously, when it gets much larger, it will begin to have a more material impact. But for now, I think it is small enough.

Yes, there is really nothing to point to specifically on the charge-offs. Again, to think about our charge-off policy, we charge off at 120 days. Delinquencies once they get to—past 60 or 90 days are overwhelmingly likely to go towards charge-offs. We have a pretty good sense of that and full allowance at all times to handle the future charge-offs that we estimate.

Kevin Barker

I think you mentioned that you were leaning in a little bit last quarter. Are you opening up the credit box to attract more users? It seems like it is an opportune time to do that just given your acceleration here and profitability that's being generated.

Michael Linford

Yes. I think the strong units give us permission to do that more than anything. We talked about 3% to 4% in the revenue less transaction cost as a percentage of GMV. That is the real constraint for us. If we are in that range, we can continue to be very aggressive on acquiring and reengaging new users. That is really the constraint much more so than anything else.

Kevin Barker

Thank you.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Michael Ng with Goldman Sachs. Please proceed with your question.

Mike Ng

Hey. Good afternoon. Thanks for the question. I just have two. First, a housekeeping question. Could you just help explain the uptick in the merchant fee rates for the long core 0% APR product? Are there any initiatives or mix dynamics that may affect that going forward? Then second, just a bigger picture question, transactions per active have obviously been growing 4.4% this last quarter. You are also seeing really strong repeat customers.

What does that tell you about the loyalty or engagement of customers and the durability of the installed base of users? Are these customers using this because it has become more habitual and it's a better experience or is it out of a necessity of credit? Thank you.

Michael Linford

On the first question, it really is just a function of the mix in our business. That has always been true for merchant fee rates. We always talk about merchant fee rates as being mix driven. That is why we began breaking it out in the supplement. The slight tick-up you see on one of the categories is just a function of mix within that category, but also as duration goes up, so does the price, especially in this rate environment, where it is pretty duration sensitive in terms of the price that you charge. Again, I do not think there is a broader trend to be read into there.

On the frequency question, I will let Max answer that.

Max Levchin

I think it is a reflection of the fact that the product is becoming more widely available more than anything. I think as we sign up some of the partnerships and expand them, like the Shopify reference I made earlier, it does result in wider availability. The product is popular. It is well liked by the users. One of our top questions in customer service is, why isn't Brand X supporting Affirm right now, and we work very hard to make sure there are fewer and fewer of those. As we become more available, also as we become available offline in the form of the card as well as some of the integrations that we have done, you'll naturally see more transactional velocity and frequency increase.

The product is a better product, in my highly biased opinion, than that of a credit card and as credit utilization goes up broadly, I think we are the unfair beneficiaries of that usage given the chance or choice, consumers opt in for more Affirm spend than credit card spend and they're rewarded by having no late fees, no compounding interest, all the good things that we bring.

Mike Ng

Thanks, Max. Thanks, Michael.

Operator

Thank you. Our next question comes from the line of Andrew Bauch with Wells Fargo. Please proceed with your question.

Andrew Bauch

Hey. Thanks for taking my question. Excuse me, if this has already been asked, but I just want to get an update on what you have seen with Affirm Card usage. Anything that surprised you another three months into its evolution around behaviors or categories? Just anything broadly around that would be great.

Max Levchin

It is going really well. You can see in the supplement that we are continuing to grow it. From my point of view, for what it is worth, we are growing it cautiously for a couple of good reasons. One, it is a new mode of operation, which means that the downstream services such as customer service, dispute resolution, merchant disputes, et cetera, also has to scale. We are going to grow it deliberately for a little while longer before we feel that we've learned all the important muscle memories of how to handle various conflicts that inevitably occur in commerce, et cetera. We feel very good about the growth. We just have many, many more turns on potentially increasing that.

In terms of surprises, things have generally gone to plan. There is plenty more to do on reasons to use the card more often. We talked about at the investor event last year, we are dangerously close to actually making good on it. We have reward programs in mind that give people reasons to use the card for all transactions, not just considered purchases. There is plenty to do with tight integration between Affirm Card and Affirm Account, which we have done a couple of things with, but there's still more features to come.

From my point of view, the card is still very early. There is just a long roadmap of things to do there, both on the frequency of use basis as well as modalities of making sure that consumers really understand the full power that it brings. Then once we feel that that is really all figured out, we have a lot more growth to enable there when we see that is the right time to do.

Andrew Bauch

Is that next leg of growth just a function of finally getting the green light to put the extra leg of sales and marketing dollars into the card?

Max Levchin

I do not anticipate any marketing dollars allocated towards distributing the card in any foreseeable future. There is not any budget. That is not how it will grow.

Today, to get the card, you must have been in an Affirm transactor before. You must be in good standing, you have to be fairly far down the Affirm journey and then you have to react to one of the fairly visible adverts when we say, hey, do you want to use the Affirm Card? We really think you should try it. You are eligible.

We have marketed it without too many restraints, although it's still being kept to a higher credit quality standard than the overall Affirm. We are still tilting the scale a little bit in our favor in terms of consumers that get the card offers; they are not quite at the same level of cutoff as everybody else. That is one obvious way of opening up the funnel. But you can imagine a much more aggressive approach for example, right now, you have a choice between taking out a loan on a onetime virtual card number or you can go down the rabbit hole of applying for a card.

Obviously, taking away the former will naturally increase the latter. There are several non-dramatic with meaningful levels of growth that we have chosen not to pull on just yet. Then ultimately, if you sign up for Affirm, at some point, you just got to get a card. That is certainly not a thing we're going to do tomorrow, but that is a meaningful trajectory changer.

Andrew Bauch

It still sounds like it is going to be pretty targeted for a while here. Great. Thank you.

Max Levchin

I am not forecasting any time that growth stops or slow. I feel very good about the card growth for now.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to Zane Keller for closing comments.

Zane Keller

Thank you, everybody, for joining the call today. We look forward to speaking with you again next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.