Block Investor Day 2025 Transcriptions

Brian Boates

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All right, everyone's coming back in. I hope you all had a chance to use the restroom. We're going to talk about underwriting. So you've already heard a little bit about our lending products, including cash out borrow and what that drives for our business. So I want to take a step back and talk a little bit more about why we think that risk, and credit risk, specifically, is something that we're really good at, and how it's something we've been able to take advantage of in creating and scaling a number of successful products over the years. So this isn't new for us. We've been successfully managing credit risk for lending products for more than 10 years now. Seems like forever ago, but I remember shortly after joining the company in 2013 how we were starting to pilot what was square capital at the time. Is now square loans, and it was a merchant cash advance product for square sellers. And the idea was kind of born from within Square's risk team, based on the insight that we could use real time card processing data to successfully underwrite sellers without relying on external credit report data. I was fortunate enough to be a part of building out the early underwriting models and framework as we scaled that product to billions of dollars in originations, which allowed us to establish a really strong track record and ultimately begin selling these loans to institutional investors. Since then, we've developed and scaled a number of lending products within Cash App, including borrow and we acquired the Afterpay business this year across Square Cash, app and after pay, we are on track to originate over $50 billion so this tremendous growth, obviously, is enabled in large part by our ability to successfully manage risk and expand our lending offerings responsibly. So just as an example, this chart shows how over the past year, we've been able to double the average customer borrow limit with no significant increase in loss rates, not to mention that the borrow portfolio has more than doubled in each of the past two years. So this green line, this flat, very flat green line here, that is the loss rate as we've continued to scale the portfolio, which is a very incredible achievement. So keep in mind, borrow customers are generally considered subprime. 70% of borrow customers have a FICO score below 580 So how have we been able to achieve all this. Well, for starters, risk is not just a back office function at block. Over the years, the risk team has been a tremendous source of innovation, and our expertise is a core part of how we design and build new products. So for the square loan side, this was recognizing Square's unique position in our seller's card processing funds flow and using that to seamlessly service repayments instead of relying on customer initiated bulk ACH repayments. On the borrow side, it's the shorter loan duration which gives us the ability to tune underwriting dynamically with near real time data and credit scoring. So the average loan duration is about 21 days, meaning that even with a small fee, our book turns over about 17 times per year, generating cash and really strong returns, and each borrowing event triggers an updated credit decision instead of longer duration loans or open credit lines that typically rely on lagged credit report and data. And then lastly, afterpays, down payment requirement for BNPL transaction level underwriting and the ability to pause access to the product when customers become delinquent. But of course, beyond the product constructs, there is also an incredible amount of sophistication and technology within our credit models and how we underwrite our customers. So I want to take a minute to share more about what makes our credit models and our approach so unique. First, we have a massive amount of incredibly rich proprietary data about our customers and their financial act. Activity. In the case of Cash App customers, this can include any number of things ranging from peer to peer transactions, Cash App card spend, paychecks deposited via ACH, investings and savings balances, among many other things. Most other lenders rely on lagged third party data. Even our peers that offer similar products don't have this kind of breadth of financial activity data, and we believe the high quality of our data, or the quality of our data, is incredibly high. So we're able to aggregate all of this data train proprietary in house credit models, using millions of historical credit decisions and repayment outcomes across all of our lending products, and then in near time, near real time, compute credit scores for every single one of our customers. Internally, we started to refer to this as the customer's Cash App score, and it's something we've been able to use successfully across a number of our consumer lending products. So in contrast, traditional credit scores suffer from a reliance on lag data that can make other lenders slow to react to developing macroeconomic trends. So for example, this chart shows that while credit card delinquencies nearly doubled from 2021 to 2024 the average traditional credit score remained largely unchanged, missing out on these swings entirely. And the results speak for themselves. So with our internal data and credit models, we're able to approve 38% more customer customers than we otherwise would if we relied only on traditional scores, while achieving the same loss rate. And this is not limited to cash app, so we take a very similar approach on the square side, which enables us to approve 63% more sellers than we otherwise would if we relied only on traditional credit scores, and again, achieving the same loss rate. So our unique approach in technology drives how we're able to expand access to financial services and credit for our customers and for our sellers. Okay, so zooming out a little bit, we can start to look at and manage our entire loan portfolio as a function of the Cash App score with every customer and every loan mapped directly to an expected loss. Our goal is to maximize variable profit dollars. It's plain and simple. So this is real cash app score data as of September 2025 and everything right of our credit threshold we deem as good underwriting risk, and everything left would be too risky. So it looks very simple, but there is a lot of technology and data that goes into this, and not to mention, obviously the high degree of expertise and talent and technical ability within our credit team as well. So the Cash App score gives us a powerful level lever for managing risk and enables us to dynamically manage exposure and profitability along an efficient frontier that aims to optimally balance both growth and risk. And under the hood, there are other powerful levers we can use as well, whether it be how we think about treating first time borrowers or repeat borrowers, as well as individual customer level dynamic credit limits. So we can even use this as a framework to stress test our portfolio and underwriting strategies by running simulations under different macroeconomic conditions. So you can see now this white dashed line shows the Cash App score distribution under a stress scenario where you can see the mass of the distribution shifts left and thus the optimal credit threshold shifts to the right. Given the near real time nature of our technology and our approach, coupled with the shorter loan duration of cash at borrow, we can easily react quickly to shifting conditions by tuning credit risk thresholds and customer level limits, and this recalibration enables us to target positive unit economics, maximizing variable profit under various macroeconomic scenarios. We're also innovating in how we explain credit decisions and scores to our customers by using AI to translate technical internal system details into easy to understand recommendations that both educate and guide customers towards positive behaviors that over time, can help customers improve their scores and gain access to more credit. I'm also very excited to share that we've just started piloting the very small number of customers, showing customers their cash app scores directly inside cash app for the first time. So here you can see how the score is visualized for customers, alongside actionable recommendations and transparency into how their score is changing over time. So this is a really great example of how we can start to productize the risk team's internal, proprietary models. So early feedback still early, early. Feedback has been extremely positive, and as customers see their score and take action, it can drive positive behaviors and deepen engagement with cash app. And we're just getting started here, so the Cash App score presents a number of significant opportunities for us to transform how customers understand and access credit. We want to give customers not just more transparency, but also more control over their data and their credit scores, and potentially even be able to take that with them and qualify for credit products that maybe block doesn't currently offer. The traditional credit ecosystem has many multi billion dollar players, but we believe it also has a lot of room for improvement, especially when it comes to transparency and control for consumers. So while still very early, the Cash App score shows potential to be a distinctive revenue generating offering for block, not just a powerful internal tool for first party products. So we're exploring how it might create additional value for customers and the broader ecosystem over time. So a lot more to come on that front. So in closing, block has a proven track record and foundation for lending for both businesses and consumers, and the ability to scale lending products with responsible growth and strong returns. Our proprietary data technology and expertise gives us a unique edge at assessing risk and expanding access, and we're well positioned to innovate across new lending products and more. That's it for me. Thank you for your time. See you later.