MAY 20, 2025

Block’s Modern Approach to Credit

Expanding Access While Managing Risk

Introduction

Economic empowerment means that everyone should be able to participate and thrive in the economy.

In 2009, Block (formerly Square) started by enabling anyone with a mobile device to accept card payments, anywhere, anytime. For one flat, clear rate, anyone could accept a credit card payment. The ease, speed, and transparency of the process was revolutionary. And Block's differentiated approach to risk management enabled millions of sellers who had previously been unable to accept card payments to now participate in a rapidly changing economy.

Most financial opportunities – from accepting credit cards, to securing a loan, to investing money – first require access to essential tools, services, and institutions. Unfortunately, entire segments of the population struggle financially not because of personal reasons, but because the system itself is not designed to serve them. Block's purpose is to build and leverage technology to expand access to these opportunities to more and more people. This commitment drives efforts across Block's ecosystem (including Cash App, Square, and Afterpay), especially in the realm of credit access, where individuals and small businesses are often overlooked or poorly served by traditional financial institutions.

Block's goal is to build a better credit system, not just iterate on the existing one. This white paper outlines Block's data-driven approach to expanding credit access, examines the limitations of the current credit system, and explores the outcomes and policy considerations that emerge from Block's model.

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1.0

The Case for a Better Credit System

Credit powers the modern American economy. It fuels homeownership, small business growth, education, and emergency resilience. For individuals and businesses alike, access to credit isn't a luxury — it's a gateway to financial mobility, economic security, and long-term opportunity. When people can borrow affordably and invest confidently, they can better support themselves and their families, drive greater consumer spending, create more local jobs, and further grow the economy. But when the credit system breaks down or shuts people out, the impact goes beyond just individuals — It slows growth for everyone.

That's what makes credit access so important — and so urgent. Millions of people and small businesses across the U.S. are shut out of mainstream credit markets or offered credit on expensive terms. These aren't isolated gaps. These are signs of deeper structural limitations in how we assess financial health and make lending decisions.

This paper explores a way to achieve a better future for credit: one that uses near real-time data, machine learning, and product design to responsibly expand access while preserving risk discipline. It's not just about who gets a loan — it's about building a stronger, fairer, and more responsive credit system for the economy we live in now.

2.0

Why the Traditional Credit System Falls Short

The reason so many Americans struggle to access affordable credit isn't a mystery. Today's dominant approach of creditworthiness — centered on credit reports and traditional credit scores — relies on static, backward-looking data that fails to capture near real-time financial health and fails to serve consumers with thin credit files or none at all.

As a result, entire segments of the population struggle to access affordable credit (or credit at all), facing barriers not because of true credit unworthiness, but because the system is not designed to evaluate them fairly.

When the FICO score was launched in the 1980s, it was originally intended to standardize and improve risk assessment. Now, 40 years later the credit score system acts as a gatekeeper to financial opportunity by determining access to everything from loans to housing and employment.[1]

Limitations of traditional credit models include:

- Overreliance on limited/outdated credit data
- Outdated data undermines accuracy
- Historical biases embedded in credit systems
- Lack of transparency for consumers
- Frequent errors and poor oversight
- Ongoing vulnerabilities in data security

The number of Americans this outdated system impacts is enormous: nearly 50 million Americans have insufficient credit history in the eyes of the credit bureaus, including 28 million individuals with no credit file at all (the so-called "credit invisible") and another 21 million whose files lack enough data for a score ("credit unscorable").[2]

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Americans have insufficient credit history in the eyes of the credit bureaus

Traditional credit models overlook key indicators like cash flow, income stability, and everyday financial behavior that can be more predictive of repayment ability than traditional credit reports, which are often updated monthly and may reflect outdated information. These gaps disproportionately impact Black, Hispanic, and low-income consumers, who are nearly twice as likely to be credit invisible or unscorable compared to White consumers.[3,4,5] Credit-invisible Americans are also more likely to lack consistent internet access, live farther away from banking institutions, and be younger, with adults under 25 making up 40% of credit-invisible customers.[6,7] Recent research from Block found that 62% of Gen Z customers distrust traditional credit cards, and 70% believe that credit products are designed to trap people in debt. **As a result, many young consumers are choosing to delay or avoid using credit altogether, behavior that, under traditional scoring models, often makes them invisible to the credit system. As this generation comes of age financially, the gaps in how credit is measured will become even more important to address.**[8]

Insufficient credit history has a number of known causes, such as not needing credit for a given period, not fully understanding the importance of establishing credit, being distrustful of credit, not having any recent credit history, or being too young and/or new to the country to have had the opportunity to establish a record. Social norms and pressures within families and communities where credit invisibility is common can make it even harder for individuals to engage with the credit system, further reinforcing patterns of exclusion.[9] Credit-invisible and unscorable individuals struggle to access credit cards, loans, and other traditional credit products, placing them at an economic disadvantage and hindering their ability to establish the credit history they need.

Even Americans who have a credit score struggle. As of February 2024, roughly 47 million Americans are considered "subprime," meaning they have a credit score between 300 and 600.[10] Having a poor credit score results in lower credit offers, which often leads to higher utilization rates, which further drives up the interest rates from lenders.[11] Low credit scores stem from a variety of sources, many outside an individual's control and not necessarily reflective of willpower or desire. Living paycheck-to-paycheck or losing one's income due to job loss or injury can make it difficult to make on-time payments on important bills or debt obligations, which negatively impacts credit scores. Worse still, credit ratings are increasingly used for non-credit purposes, further increasing risks associated with poor scores.[12] The opacity of the credit system, coupled with lack of public education about credit, means many Americans only learn about how the credit system and credit scores work later in their lives, sometimes when their scores have already been damaged (e.g., by missed or late payments on credit cards).

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Americans are considered "subprime," meaning they have a credit score between 300 and 600

Many do not understand the intricacies of the "rules" behind credit scores, including what can damage their score without them realizing it (e.g., delinquent payments, credit utilization, hard inquiries). A recent survey has also found understanding of credit scores has decreased in recent history.[13] Similar to the distribution of those with nonexistent or thin credit histories, lower credit scores are not evenly distributed. Lower credit scores are associated with a host of negative outcomes, including credit card or loan denials, predatory credit options (e.g., exorbitant interest rates, card activation fees), and even difficulty renting an apartment or securing employment. Social stigma and shame can also come with having a low credit score.

These systemic issues extend to small businesses as well. Traditional banks often require extensive credit histories, substantial collateral, detailed financial documentation, and multiple layers of approval. For small businesses, especially those seeking modest loan amounts or operating without formal financials, the process can be a nonstarter. These dependencies and processes tend to make it even harder for businesses in underserved communities. Only 26% of Black business owners who apply for financing receive the full amount requested, compared to more than 54% of White owners, even when controlling for business performance.[14]

The limitations of traditional underwriting go beyond issues of financial inclusion, but they also lead to inefficiencies that could result in mispriced risk. When credit models rely on outdated or incomplete information, lenders may overestimate or underestimate a borrower's true ability to repay. This misalignment can lead to loans being priced too high for creditworthy individuals, pushing them toward more expensive or predatory options. Conversely, it can also result in lenders underpricing risk and taking on risk they didn't anticipate.

Block is at the forefront of solving these challenges by offering products to consumers and businesses using near real-time financial data. Block's underwriting leverages daily transaction activity, cash flow patterns, and spending behavior to evaluate risk more accurately and fairly. Unlike traditional models that rely on 30- to 60-day-old data from credit bureaus, Block's system updates in real time, capturing financial shifts as they happen, and can enable more timely, precise credit decisions. **This approach enables Block to expand access to credit for underserved consumers and small businesses responsibly, demonstrating that modernizing underwriting is not just a fairness issue but also core to Block's business.** Throughout the paper, real customer stories and quotes surfaced by Block's research and insights teams will be included to help bring this impact to life.

2.1
Overreliance on limited credit data

Traditional models consider a limited set of factors including one's history of loan repayments, self-reported or verified income, amounts owed, length of credit history, new credit applications, and mix of credit types. And notably, they exclude many important behaviors that can reliably demonstrate a borrower's financial responsibility, such as regular payment of bills, savings habits, or responsible use of alternative credit like short-term installment products. By ignoring these indicators of a borrower's ability to pay, traditional underwriting can mislabel consumers as "risky" or "uncreditworthy" when in reality they manage their finances prudently outside credit bureau visibility. This narrow focus tends to favor those with long-standing financial footprints: people who have benefited from generational wealth, owned homes, or already had consistent access to traditional banking products.[15] As a result, many financially responsible people are left out of the picture. Young adults just starting to build credit, immigrants establishing themselves in a new country, and communities historically underserved by financial institutions often find themselves excluded even when they consistently meet their financial obligations.[16]

2.2
Outdated data undermines accuracy

Credit bureaus typically update consumer credit reports on a monthly basis, resulting in delays in capturing both positive financial behaviors and changes in a borrower's circumstances. This lag prevents credit scores from promptly reflecting key improvements such as on-time or early repayment or changes to credit usage. This can create scenarios where borrowers are incorrectly assessed and/or unable to access credit when they most need it.

Negative credit marks often remain on a person's record long after the issue is resolved, with many consumers feeling like they are paying for their past behavior for a long time. One Cash App customer, who didn't realize the importance of making credit card payments on time when she first got a credit card around the age of 18, reflected that "it's really kind of hard to come back from a mistake" and how "you have to be kind of perfect" to get access to credit for things like a car or a house. She has since struggled to get approved for another credit card. Most derogatory records (e.g., late payments, collections) stay on file for seven years, and bankruptcies can remain for up to 10 years.[17] This persistence means that even individuals who have regained financial stability may continue to be penalized, keeping their credit scores lower than they would be if the data were fully current and reflective of their present behavior. This delays their ability to access affordable credit as needed.

Research shows that these long-lasting flags can unnecessarily limit access to credit. In one academic study, removing outdated bankruptcy information from credit reports significantly improved access to credit and overall financial well-being for formerly bankrupt consumers, with little effect on default risk.[18] In other words, when lenders stop penalizing borrowers for years-old financial troubles, people can recover more quickly without increasing risk to the financial system.

2.3
Biases that are baked into credit systems

Traditional credit scores claim to be neutral, but in practice, they reflect and reinforce longstanding inequalities.[19] These systems reward financial behaviors more common among affluent and historically advantaged groups, such as long credit histories, homeownership, and frequent use of low-interest loans. As a result, individuals from marginalized communities, including Black, Hispanic, and low-income Americans, are often penalized, even when their financial behaviors mirror those of higher-scoring peers.[20,21] One Cash App customer reflected on how the credit system seems "stacked against people who are already not doing the best," sharing how based on their upbringing and family's socioeconomic status, they "didn't have the best start" and "didn't have backup money" that may have allowed them to get started on a good credit path.

Immigrants face a different, but equally significant, barrier. Many arrive in the U.S. with strong financial habits but lack a U.S. credit file altogether. Others come from cultures where avoiding debt is a sign of financial responsibility — yet U.S. credit models often view the absence of borrowing as a negative. **By centering on a U.S.-specific norm that treats regular borrowing and repayment as a key signal of creditworthiness, traditional models exclude people who may be highly**

capable of managing credit but simply operate outside the default assumptions of the system.

In majority-Black communities, the median credit score is nearly 100 points lower than in White and Asian communities.[22] Only 26% of Black business owners who apply for bank loans receive the full amount requested, compared to over 54% of White owners.[23] This gap isn't strictly about creditworthiness but about unequal access to credit and financial products. This disparity exists because the credit system rewards behaviors and financial tools that haven't been equally accessible in all communities. Many people simply haven't had the same opportunities to build strong credit profiles. In fact, the Consumer Financial Protection Bureau (CFPB) found that Black and Hispanic adults are significantly more likely to have no credit score at all, simply because many haven't had access to credit cards, mortgages, or other products that build traditional credit history.[24] Some have suggested the inclusion of alternative data to help rectify racial injustice present in the current credit system, though some have cautioned that such measures would not, by themselves, be enough to address the scope of the problem.[25]

Traditional credit models are outdated and continue to reinforce the very biases they were designed to fix. This means many creditworthy individuals are excluded, and the system reinforces historical inequalities that influence who gets approved, how much they can borrow, and at what cost.

Large financial institutions and traditional lenders have little reason to change. Their models focus on low-risk, high-score borrowers from whom they can generate reliable profits through interchange, interest, and fees. When faced with economic uncertainty, lenders often tighten credit even more, raising cutoffs and pulling back from those they may (incorrectly) assume to be "higher risk." This approach has slowed innovation. Why invest in better models or alternative data when the current system is profitable?

The result is a credit system that prioritizes legacy assumptions and profit margins over inclusion.

2.4

Lack of transparency for consumers

Credit reporting agencies collect detailed information about consumers' financial behavior and then sell that data to lenders, insurers, and other institutions. This process largely happens behind the scenes, with little visibility or control for the people being evaluated. The credit bureaus don't work for individuals as their revenue comes from fees paid by lenders. Their business model relies on collecting consumer data (sometimes without explicit consent) and selling it to lenders.[26] Consumers usually aren't clear on how to opt out, can't control how their data is used, and have limited ability to correct errors. Historically consumers have had to pay just to see their own credit information, and even today, in many cases, they have to pay to access their information on a more regular basis.

Consumers rarely know how their data is being used, who's buying it, or how decisions about their creditworthiness are being made. Most people don't know what specific actions raise or lower their score, or how to improve it in a reliable way, though many Americans are trying.

Many customers report not understanding how credit works on a basic level until they experience the negative consequences of their actions, like one Cash App customer who recounted his early credit experiences:

> "I was given my first credit card in freshman year of college, and I overspent, not knowing you have to pay a certain percentage each month."

Another Cash App customer reflected on the intricacies of how credit scores move and the hidden rules embedded within bureau policies: *"I just know they tell me, you make a late payment you're down 2 points, make payments and [have] less than 40% utilization and you're up. They're just deducting and adding. Why is everything so hidden? With credit scores, who makes these decisions?"*

This lack of transparency makes it especially hard for people without access to financial education or trusted guidance to navigate the system, and even harder to build or maintain strong credit.

2.5

Frequent errors and poor oversight

The credit reporting system that traditional underwriting relies on is notoriously imperfect. **In a 2023 Consumer Reports study, 44% of consumers who checked their credit reports found at least one mistake (from incorrect personal information to accounts that don't belong to them), and over a quarter found errors serious enough to potentially affect their scores.**[27] One customer disputed car loan payment activity on her credit report because she was no longer in possession of the car after her divorce, which required sending in divorce documentation. Another customer noticed that there was activity on his credit report from more than seven years ago, which he had to dispute. Under traditional underwriting, consumers bear the burden of disputing errors and waiting out long penalties. Many never see relief, effectively locked out due to past issues or mistakes on their record.

Credit reports are often inaccurate, disputes go unresolved, and security breaches expose sensitive personal data (more below). Meanwhile, the industry continues to grow, generating billions in annual revenue. In 2024 alone, Equifax, Experian, and TransUnion reported a combined $16.96 billion in revenue, up 7.9% from the previous year, driven primarily by data sales and credit scoring services.[28,29,30]

2.6

Ongoing vulnerabilities in data security

Data security is another major weakness in the traditional credit system. Credit bureaus hold sensitive financial information on nearly every American despite consumers having almost no control over how that data is stored or protected. When breaches happen, the impact is widespread and lasting, affecting not just credit scores but also rippling across the broader financial system. Because so much identity verification and creditworthiness checking relies on this same pool of breached data, criminals are now able to exploit it for fraud across payments, lending, and onboarding flows. It has created a pipeline of risk that starts with credit bureaus and flows downstream into every part of the financial ecosystem.

The 2017 Equifax breach exposed personal data of over 147 million Americans, putting millions at risk of identity theft, financial fraud, and long-term credit damage.[31] Yet consumers had no ability to prevent the breach and little recourse afterward. These failures have deeply eroded public trust and highlighted the lack of accountability built into the system.[32]

The path forward

These consequences are real. Millions of consumers and small businesses are denied access to credit (or pay more for it) because of factors outside of their control. A strong credit score has become a gatekeeper for economic opportunity. Those without one end up turning to predatory alternatives or delay major life decisions. The system is outdated, insecure, and slow to evolve. What's needed is a more inclusive, accurate, and resilient approach: one that reflects real financial behavior of consumers in real time and expands access to opportunity.

3.0

How Block Is Expanding Access, Responsibly

3.1

Near real-time underwriting designed to reflect consumers' real financial behavior

Block began offering credit products in 2013 to solve this problem: too many individuals and small businesses are poorly served or excluded from the traditional credit system. Through Square Loans, Cash App Borrow, and Afterpay, Block is building a suite of customer-centric lending products designed to meet people where they are — whether that's a gig worker needing $200 to cover a short-term gap, a small business owner investing in inventory, or a consumer looking to split a purchase into manageable payments. These products were designed not just to expand access but to do so responsibly by using technology to better match credit to financial health. **The goal isn't to re-create the credit system, it's to build a better one.**

Block is reimagining credit underwriting by using near real-time data and technology to create a more inclusive and responsive platform. Across products like Square Loans for small businesses, and Cash App Borrow and Afterpay for individuals, Block's models move beyond traditional credit bureau thinking. Instead of relying solely on outdated or narrow metrics, Block's models incorporate timely financial signals to assess a person's current ability to manage credit. As a result, consumers and small businesses with limited or no traditional credit history can still be eligible for meaningful and timely credit offers. Block's lending portfolios have been able to maintain low loss rates even as the company has grown originations significantly across some of these underserved segments.[33]

Block's underwriting models are intentionally built to serve customers who have been overlooked by traditional financial institutions. Many of its customers are young, new to credit, or come from communities with less access to traditional banking. Block looks at patterns such as steady paycheck deposits, responsible spending, or consistent payments — indicators that can reflect financial health. For example, Cash App's first-party data includes near real-time transactional data including peer-to-peer (P2P) payments, prepaid debit card and ACH transactions (including paycheck deposits, bill payments, unemployment payments), retail investing, and more. Because this data reflects how customers are actually earning, spending, and saving in the moment, it serves as a powerful macroeconomic signal for the Cash App customer base. When a consumer or business shows signs of improving financial health, such as building savings or successfully repaying a loan, Block can proactively offer larger credit lines or new opportunities without relying on delayed updates from traditional credit bureaus. This creates a lending experience that adapts to a person's progress, rather than remaining fixed based on outdated information. Block also avoids penalizing people for not using certain financial tools. For example, those who choose not to carry credit card debt (like many Gen Z shoppers) or who rely more on digital wallets may be overlooked by traditional credit models.[34]

By grounding its approach in near real-time data and inclusive design, Block is expanding access to credit in a way that reflects how people actually live and manage money — making it possible to responsibly serve those the legacy system often leaves behind.

3.1.1

Square: Serving small businesses overlooked by traditional institutions

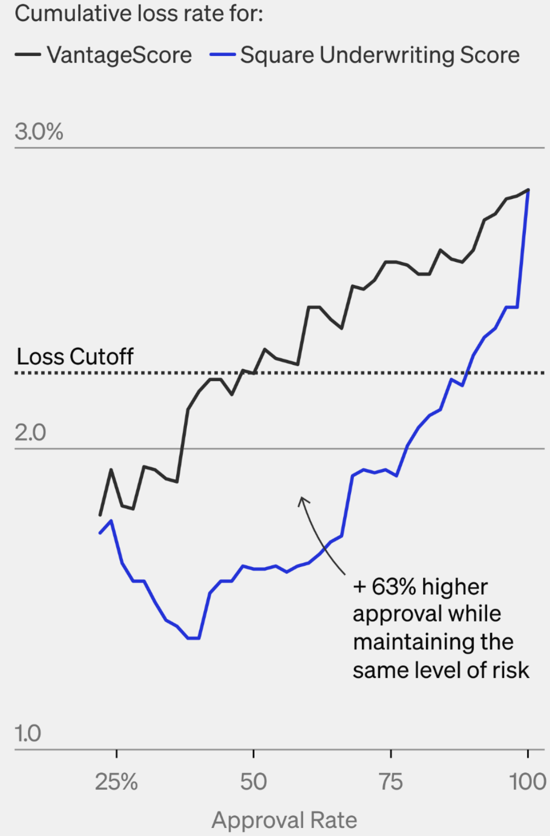
Square Loans was created to provide funding to businesses using Square, many of whom have no alternate access to business credit. A lot of these businesses either use personal credit or even are forced to rely on family and friends for financing. Small business owners often face barriers when seeking traditional financing — especially women, minority entrepreneurs, and those just starting their businesses. Many are denied loans because they lack a long credit history or do not meet conventional collateral requirements. It is common for a bank to require at least $100,000 in annual revenue and a personal FICO score of at least 690, both metrics that Square's small businesses rarely meet.[35]

Square Loans addresses this gap by using near real-time business data to assess creditworthiness, evaluating metrics such as transaction volume and revenue patterns to offer short-term loans — with repayment on average in 8 months.[36] This allows for a more accurate and timely understanding of a business's capacity to borrow and repay. And loan repayments are higher during periods when business is stronger and reduced when sales are lower. Over time, repayment history is included to better help calibrate future loan offerings. Due to Square's deep understanding of the businesses on its platform and innovative product structures and underwriting process, many of the same entrepreneurs who are shut out of business credit at traditional lenders show very strong repayment behavior when served by Square Loans.[37]

Square's internal machine learning models do an excellent job of rank-ordering losses. This allows Square Loans to open up credit to more businesses, as well as to increase the credit amount to low-risk businesses graded by Square's proprietary underwriting models. The chart below shows that while traditional credit scoring (VantageScore) is not especially predictive of Square Loans losses, Block's proprietary machine learning models built on near real-time small business data is very strong at identifying low-risk borrowers. This allows Square Loans to offer fair, consistent loan offers to eligible small businesses that process consistently on Square.

As a result, Square Loans has opened credit to populations who traditionally have had less access to business loans. As of the third quarter of 2024, approximately 58% of Square Loan customers are women-owned businesses, compared to the industry average of 19%.[38] And 15% of Square Loans go to Black/African-owned businesses compared to an industry average of 6.6%, while 14% of loans go to Hispanic/Latinx-owned businesses compared to the industry average of 11.3%.[39]

At a fixed loss threshold, Square's underwriting model approved 88% of applicants compared to 54% from the bureau



Source: Represents an analysis. Block internal data, Experian data.

The model identifies low-risk borrowers more accurately by using near real-time behavior rather than static credit files.

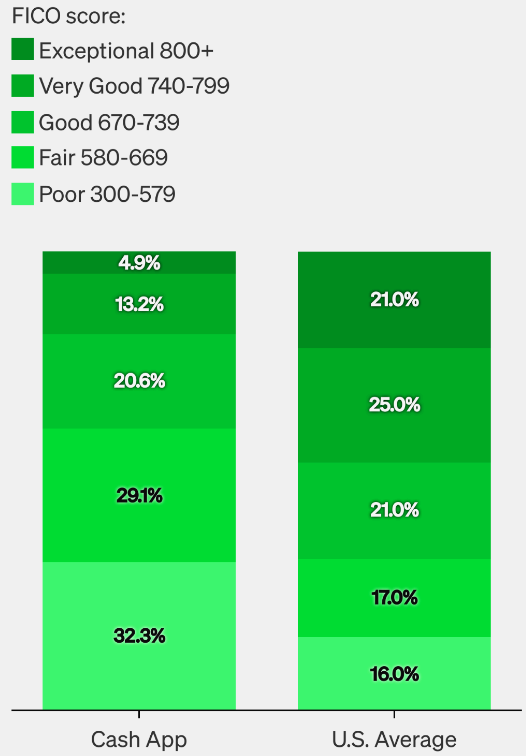
3.1.2

Cash App: Credit access that meets people where they are

Cash App Borrow launched in 2020 with the goal to redefine consumer lending through simple, fair, accessible short-term credit products. The Cash App Borrow credit models analyze the nuances of a customer's current financial behavior on the Cash App platform to assess creditworthiness with greater accuracy than the credit bureaus, as we show below. These models consider a wide range of first-party data, including account balances, paycheck deposits, spending activity, and saving habits, to form a more complete picture of a person's ability to repay than traditional credit models. This approach is particularly effective for customers with little or no traditional credit history. Someone without a FICO score (making them invisible to traditional lenders) can still qualify based on steady paycheck deposits or consistent cash flow.

Cash App Borrow serves customers who are often excluded from mainstream credit offerings. Approximately **70% of Borrow actives have a FICO score below 580, which is considered "poor" by conventional standards.**[40] Despite this, the product performs exceptionally well with average repayment rates exceeding 97%.[41]

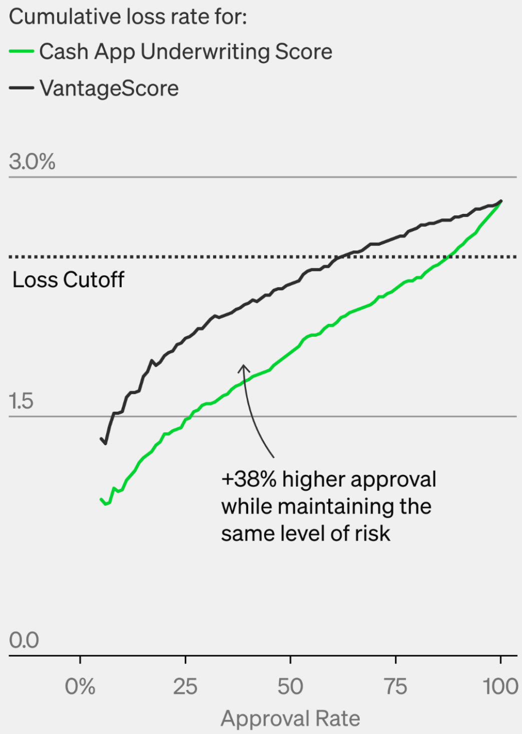
Cash App serves a significantly higher proportion of individuals with lower credit scores



Source: Block internal data. Experian data.

This inclusivity doesn't come at the expense of risk management, as this approach is more predictive than traditional credit scoring. Internal testing showed that removing reliance on a major credit score actually increased approval rates without increasing losses.[42] In other words, the legacy credit score was filtering out borrowers that the Cash App Borrow model otherwise identifies as creditworthy.

At a fixed loss threshold, Cash App's underwriting model approved 88% of customers, compared to 64% from the bureau

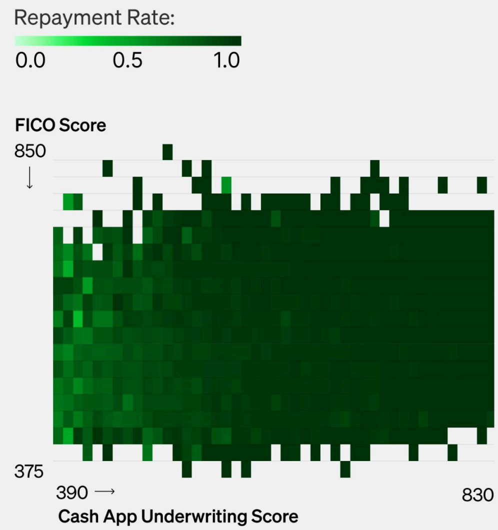


Source: Represents an analysis. Block internal data, Experian data.

This 38% increase in approvals demonstrates the advantage of underwriting based on near real-time income, spending, and repayment signals, rather than lagging credit report data.

This is a win-win. Borrowers previously denied credit gain access, and Block maintains strong repayment outcomes that meet or exceed industry standards, as shown in the graphs below. It's compelling evidence that modern, data-rich underwriting can unlock credit for millions who were unfairly denied, all while managing risk better than traditional, outdated methods.

Cash App's Underwriting Score can better predict loan payment success than traditional FICO scores



Source: Represents an analysis. Block internal data. Experian data.

FICO scores show a scattered pattern with no clear link to repayment outcomes. In contrast, the Cash App underwriting score shows a strong left-to-right gradient, where higher scores consistently align with stronger repayment — even among borrowers with low or no FICO scores. This illustrates the power of Cash App's near real-time, behavior-based model to more accurately predict credit risk and expand access to responsible lending beyond the limits of traditional credit scoring.

3.1.3

Afterpay: Flexible credit for the next generation's spending habits

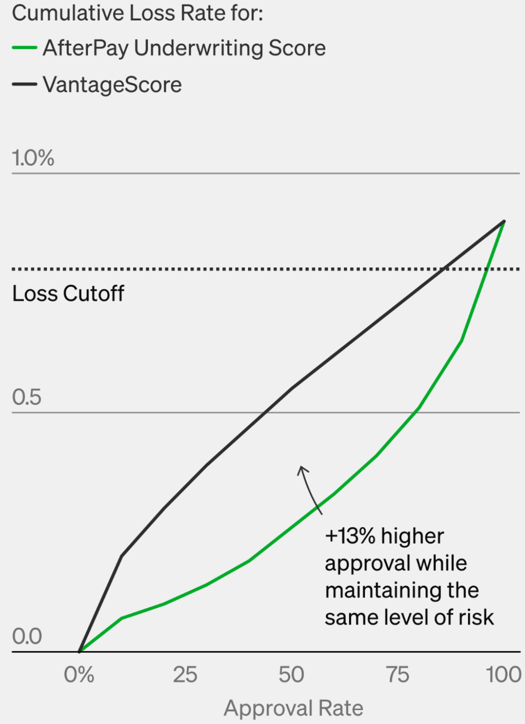
Afterpay, a leading Buy Now, Pay Later (BNPL) company, was founded in response to Millennials turning away from traditional credit cards that caused trouble for their own parents.[43] Preferring to avoid traditional credit structures that can lead to revolving in debt, Millennials embraced the BNPL model, which offered a transparent, interest-free payment solution that divides purchases into four equal installments.

As part of Afterpay's built-in customer protections, new customers typically start with smaller spending limits, which increase (and can decrease) over time based on their payment history. This model rewards responsible behavior and allows customers to build their credit limit gradually, without requiring a traditional credit history.

Afterpay uses a dynamic, behavior-based approach to underwriting and its internal risk models consistently outperform traditional credit scores in predicting repayments.[44] In a recent analysis, Block found that relying on a major credit bureau alone would have excluded approximately 13% more customers to maintain the same level of risk.[45] By contrast, Afterpay's proprietary data and machine learning models approved more customers with no increase in losses, which have consistently averaged below 1% over the last few years.[46]

In March 2025, Block launched Cash App Afterpay in the U.S., allowing eligible customers to have access to BNPL through their Cash App account, including a pay over time product while shopping online at Afterpay's partner merchant sites. This means Afterpay can now leverage Cash App's advanced underwriting models to enhance credit decisioning.

At a fixed loss threshold, Afterpay's underwriting model approved 95% of customers, compared to 84% from the bureau



Source: Represents an analysis. Block internal data, Experian data.

This allows Afterpay to expand access without increasing risk, by using live behavioral signals that traditional scores do not capture.

3.2

Responsible growth through near real-time underwriting

Block's approach to underwriting goes beyond approval rates and default prevention, but also delivers meaningful value to customers. By using near real-time data and efficient risk models, Block is able to offer credit products with terms that are more affordable and transparent than many traditional financial institutions or alternative lenders.

Square Loans offers competitive pricing and repayment flexibility designed specifically for small businesses. Instead of fixed monthly payments, repayment amounts adjust automatically based on daily sales, thus easing pressure on businesses during slower periods.

Cash App Borrow provides short-term credit with a simple, transparent flat fee, making it significantly less expensive than many small-dollar credit products, which often come with high interest rates or hidden fees.[47] Customers cannot open new Borrow loans if they are delinquent, so that customers manage credit responsibly and avoid overextension.

Comparing Total Cost of Consumer Credit: Block Products vs. Traditional Alternatives[48]

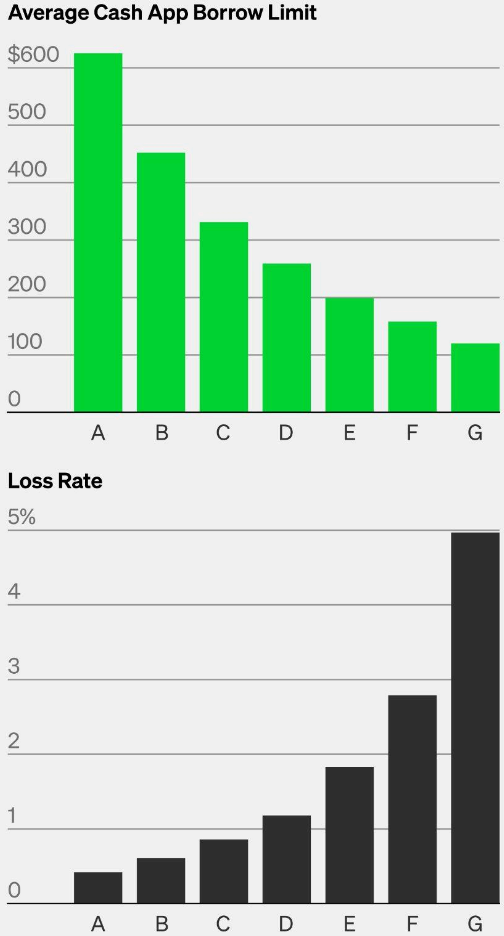
	Cash App Borrow	Pay-in-Four
Example Loan Amount	$100	$200
Term	~4 weeks	~6 weeks
Total cost of credit	$5 (5% fee)	$0 if paid on time; capped late fees if missed
Key alternative	Payday loan	Credit card revolving balance
Total cost of alternative credit	$10-30	$20-25

Cash App Afterpay's Pay-in-4 offering (historically Afterpay's original product, which is now also available through Cash App) takes a different but equally customer-focused approach. It charges no interest and caps late fees at modest amounts. Customers who pay on time pay no fees. Similar to Borrow, customers cannot open new Afterpay installments if they are delinquent. This structure helps customers manage purchases without falling into cycles of revolving debt or accumulating interest, which are challenges often associated with traditional credit cards.

At the heart of Block's product design is a commitment to helping customers succeed. Underwriting is not separate from product experience; it is built into how repayment works and limits are set. For each product, customers can't take out new loans while existing ones are overdue, a safeguard that helps encourage responsible borrowing. Block's underwriting models are designed to grow responsibly with the customer. Credit offers start small and expand only as customers demonstrate positive repayment behavior and healthy financial activity – across both BNPL and broader Cash App usage.

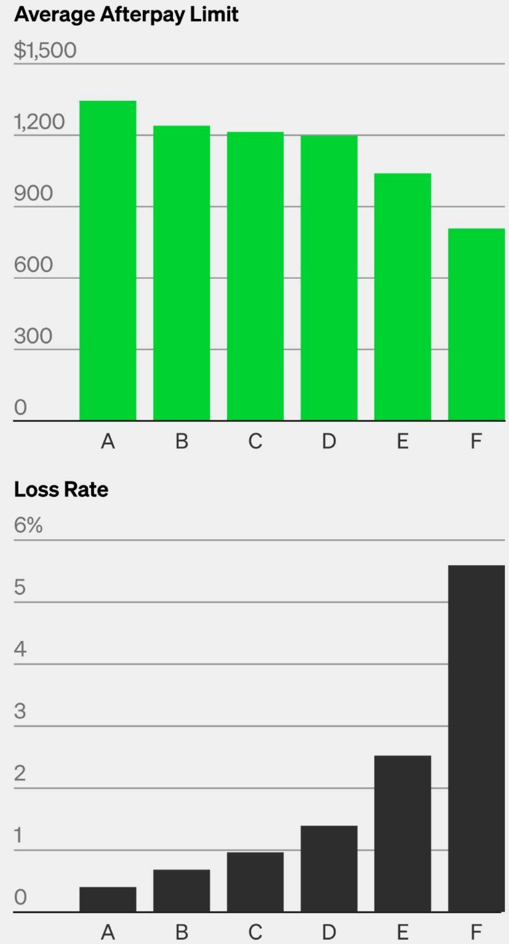
Based on millions of near real-time data signals observed across its ecosystem, Block has found no evidence that customers are overexposed to credit risk in a way that affects their ability to repay. Internal data from Cash App Borrow and BNPL shows that customers with higher credit offers – assigned based on near real-time risk scoring – maintain the strongest repayment behavior. **This suggests that customers are not being overexposed to credit, even at higher offers, and that Block's step-up model effectively calibrates access based on demonstrated ability to repay.**

Loss rates are lowest for Cash App cohorts with highest limits



Source: Block internal data. Credit limit and performance data is based on 2024 data and underwriting scores are determined by Block's internal underwriting models.

Loss rates are lowest for Afterpay cohorts with highest limits



Source: Block internal data. Credit limit and performance data is based on 2024 data and underwriting scores are determined by Block's internal underwriting models.

Block has evaluated external data sources and found that they do not consistently enhance underwriting capabilities. However, the company recognizes that limited visibility across providers remains an industry-wide challenge. Block is committed to working with policymakers and industry partners to establish frameworks that protect consumers while maintaining access to affordable, flexible credit.

3.3

Adapting credit safely in a changing economy

Block's underwriting models are built to respond quickly in dynamic economic environments. Unlike traditional lenders that depend on delayed credit bureau updates, Block draws on near real-time signals across its ecosystem — providing a more current, nuanced view of financial health for both consumers and small businesses.

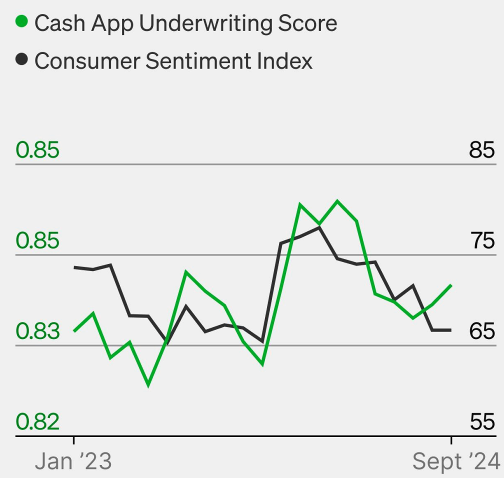
Credit scores, by design, reflect lagging indicators. They often don't register financial stress until it's too late, when someone has already missed payments or taken on excess debt. During the COVID-19 pandemic, for example, credit scores rose artificially due to stimulus and forbearance programs, masking underlying risk. As those programs expired, delinquencies climbed while scores remained elevated, demonstrating how traditional models can misread rapidly evolving conditions.[49]

A study by TransUnion showed that median credit scores steadily increased from 2016 through 2021, with a sharp acceleration during the COVID-19 pandemic due to stimulus and forbearance programs, reaching their peak in Q1 2022. However, these artificially inflated scores masked the true risk, delaying lenders' ability to detect emerging financial strain. As stimulus effects wore off, against a backdrop of artificially inflated credit scores, delinquencies began to spike. The TransUnion study showed that many borrowers who took out loans in mid-2021, when scores were at their peak, **defaulted at rates similar to borrowers with scores 25 points lower.** Scores didn't start to fall until delinquencies were already rising. This kind of lag makes it harder for lenders to respond in time, only reflecting rising defaults after the fact.[50]

In contrast, Block's models monitor live financial behavior, which allows its risk teams to detect early signs of strain and adjust credit offers accordingly — helping to tighten eligibility or lower offers before problems escalate. These forward-looking signals function as early economic indicators, providing a more responsive and accurate lens into borrower resilience. This advantage has been especially valuable in the small business space, which is often hit hardest in uncertain markets. While many lenders pulled back entirely from commercial lending during COVID-19, Block was able to reopen Square Loans access more swiftly and selectively, guided by near real-time performance data rather than static credit scores.

Block has not yet experienced a full economic downturn or recession in this new credit environment. But the performance of its models to date — and their ability to adapt quickly — suggests that near real-time underwriting provides a more effective framework for navigating uncertainty, balancing access and risk with greater precision.

Cash App's Underwriting Score correlates with broader consumer sentiment



Source: Block internal data, University of Michigan Consumer Sentiment Index

Many traditional lenders respond to downturns by broadly pulling back credit, especially from low-credit-score borrowers. Due to the dependence on inherently lagged credit report data, and because traditional lenders lack access to near real-time data, they often can't distinguish between consumers who are actually at risk and those who remain financially sound. This dynamic was especially clear in 2020–2021: as described above, credit scores continued to rise even as delinquencies began to climb and failed to register risk until defaults were already happening.

4.0

Demonstrating Impact at Scale for People and Businesses

Block's modern approach to underwriting creates real, measurable value for the people and businesses it serves.

By expanding access to credit responsibly, Block is helping customers reach financial milestones, manage short-term needs, and grow their operations. This section highlights the outcomes, along with real-world examples that show how inclusive, data-driven lending can unlock opportunities where traditional systems can fall short.

4.1

Square: Enabling business growth through accessible capital

Since launch, Square Loans has extended more than $22 billion in financing to small businesses, often to those that banks would consider too small or too risky.[51] Square Loans opens the door for entrepreneurs who run strong businesses but don't meet traditional credit requirements. Tens of thousands of businesses have used that capital to buy inventory, hire staff, or open new locations. According to customers, the most common uses of a Square Loan are to purchase inventory or equipment, add new product lines, and cover marketing expenses.[52] And it's working for them. Sellers who take a Square Loan grow revenue about 10 percent faster than similar sellers who don't.[53]

One example is Team Shear Obsession, a salon in Virginia owned by Lora Abate. After being denied by a traditional lender, she used a Square Loan to relocate and expand her business. That financing helped her grow, hire more staff, and serve more customers. It's a clear example of what access to credit can do for the business, the employees, and the local economy.[54]

How Square Sellers Use Loans

Source: Square research conducted by Harris Poll, January 2023

Internal feedback from Block's customers reinforces the positive impact it's had. For example, a pet grooming business owner and Square customer shared how Square's unique approach to assessing creditworthiness allowed them to purchase essential new equipment:

"It's ugly, when you try to get a traditional loan. Square's got that beat. They're looking at just my business. They know I'm able to pay them back in X amount of time, and it's going to be one flat fee. We used that money to buy that hydrogen maker. We had the money and we kept our revenue coming in."

Beyond the actual extension of credit itself, small businesses also appreciate the peace of mind these loans offer. A popular bakery and Square customer shared how access to a Square loan minimized the financial stress associated with not knowing how they would be able to manage their profit margins: *"We have to spend a lot of money on packaging to be at the profit margins that we need to be at. And sometimes it's a hefty step to take.* ***To have that nest egg available that if needed, we can dip into — that is exactly what it's there for.*** *I don't have to stress her out or worry about where that's going to come from. We know that's a security. We're gonna use what we know we have. And we know this amount of money is gonna make us this amount of money.* ***It gives us the ability to grow at the speed that we always wanted to grow."***

4.2

Cash App: Helping more people access and manage credit

Through Cash App Borrow, more than 9 million actives have accessed nearly $15 billion in loans.[55] These short-term loans are between $20–$1,000, and the majority of Cash App Borrow customers report using the product for bare necessities like bills and groceries during tough times.[56]

Cash App Borrow has approved customers who would likely be ignored by traditional lenders, often in times of great need. One Cash App customer noted how Cash App Borrow allowed him to cover important bills when his paycheck was unpredictable (such as reduced hours during a union strike).

"Say I got a bill that needs to be paid and I ain't got the money ... they let me borrow it ... I like to use it for emergencies. Sometimes, I just let it sit there knowing I can get it, but if I really need it, it's there."

He also appreciated how his Cash App Borrow offer had increased over time as he used it more.

Overall, Cash App Borrow provides an alternative to informal borrowing, high-cost lenders, and other less accessible or less consumer-friendly credit options. It even protects them from shame.[57] One Cash App customer put it this way:

"[Cash App is] not [as] intimidating as going somewhere, sitting down, doing the application, looking at somebody and telling them 'Hey, I want to borrow this amount of money'... It's intimidating meeting with somebody because I know where I'm coming from and I know that my credit is not that great. It's embarrassing sometimes."

Internal research highlights the reciprocal nature of Cash App Borrow: When Cash App trusts customers to borrow money, they in turn trust Cash App more as their financial services provider, creating a virtuous cycle that allows customers to feel like Cash App has their back, which isn't the norm in the credit market.[58]

4.3

Afterpay: Interest-free payments with high repayment rates

Today, more than 20 million people use Afterpay worldwide, many of them Millennial or Gen Z consumers and in the U.S.[59] Research conducted by Morning Consult in February 2025 revealed 63% of Gen Z have moved away from credit cards in favor of alternatives as hidden fees, high interest rates, and financial stress drive demand for more transparent options.[60] Further, 82% agreed that using credit cards can be financially dangerous, and 68% of Americans said they struggled with credit card debt at some point.

For many, Afterpay is one of the only affordable ways to access credit. It's built to be transparent, with clear terms and guardrails that help people stay on track. And it works: more than 95% of installments are paid on time, and 98% of purchases have no late fees at all.[61] This repayment rate is much higher than on-time payments for the overall BNPL market in the U.S. in 2024.[62,63]

Block's internal research shows that Afterpay customers appreciate the flexibility that the service unlocks, allowing them to do more with their money on their own terms.[64] Specifically, customers value what they can do when they split up their payments: keep money in their account for other purposes, feel less burden when making larger purchases, and purchase products/services they want (vs. just need). One Afterpay customer shared how Afterpay offers a key financial advantage in spreading the cost of purchases, for example, *"when I don't want to take on the financial burden of purchasing it all at once."*

Customers also appreciate the mechanics of how Afterpay works: Not only is access granted without fees, interest, or credit checks, but there is also transparency about the outstanding payments for which customers are responsible. One Afterpay customer described how Afterpay provides clear visibility into his payments:

> "I always know where I'm at in terms of how much I owe, and can keep track of how much money I'm spending."

The impact validated by external parties also continues to grow. New Zealand, the first country in the world to enact bespoke BNPL regulations, now requires all BNPL companies to report to credit bureaus. Given Afterpay is represented in multiple countries, it has been reporting to NZ credit bureau Centrix since August 2024. In that time, Centrix reported, "people with little or no credit history have seen their credit scores rise by as much as 80 points simply by making on-time payments on their BNPL accounts." New Zealand's credit reporting approach has been adapted to reflect how BNPL products work. Most markets, including the U.S., do not have modernized frameworks. That is why Block believes new approaches are needed to ensure modern credit products are represented fairly.

4.4

Strengthening financial health through product design

Traditional credit can feel like a black box. People do not know what drives their score or how to change it. Block takes a different approach. Block is committed to a future of credit grounded in transparency, fairness, and consumer agency. Its models are based on near real-time financial behavior and not backward-looking credit scores. **Block believes customers should have a clearer view of how their financial habits, beyond just borrowing and repayment, shape their credit journey.** Block can create a feedback loop that rewards positive actions and customers can see how their actions unlock more credit. When someone sets up direct deposit, keeps money in their account, or repays a Borrow loan on time, we take that into account. It is a system that rewards healthy financial habits with greater access.

That kind of transparency builds trust and keeps people engaged. A Cash App customer might start with a $50 Borrow offer. As they continue to use the app, keep healthy financial habits, and repay on time, their offer can grow. As they repay and continue using Cash App, they could see that offer rise to a few hundred dollars, opening more possibilities for them. Afterpay adjusts limits based on on-time payments and responsible borrowing. When customers use the product as intended and make payments on time, their access can grow. That reinforces good habits and gives people more flexibility over time. Sellers who consistently repay their loans and/or maintain steady sales could see expanded credit eligibility. They see the progress, and they stay in control. That transparency matters. It gives customers a path forward, and it helps us serve more people fairly. It's good for our customers and good for our business.

Over time, Block sees an opportunity for Cash App to power a more modern alternative to traditional credit scores: one that is more dynamic, more actionable, and better aligned with how people actually manage their financial lives, even beyond Block. Block is building toward this vision, with the goal of setting a new standard for transparency in credit – going beyond the limited clarity of credit reports and empowering customers to build financial confidence in real time.

Ultimately, Block envisions a system in which consumers actively participate in their financial stories – where decisions are made with the full understanding of their implications and consumers are rewarded for responsible behavior. This approach would allow individuals to carry their financial story with them and unlock access across the financial system, even beyond Block.

5.0

Block's Role in Shaping the Future of Credit

5.1

The call for a fairer credit system

This work is happening at a critical time as regulators and advocates are asking hard questions about how credit works, who it serves, and how to make it fairer. The CFPB has called out high error rates, long-lasting penalties, and the lack of control consumers have over their own data.[65] Across the board, there is growing recognition that the industry needs to make underwriting more reflective of the customer's real ability to repay and the innovation seen across the sector — while making scoring less punitive to those who have historically been marginalized.

Block is already demonstrating what a more inclusive credit system can look like. Its products are powered by near real-time financial data rather than lagging credit histories, enabling Block to responsibly extend credit to individuals who may not be visible to traditional models. Block's underwriting adapts dynamically as customers' financial circumstances evolve, and performance data shows that expanding access can be achieved without compromising credit quality or business outcomes.

Some propose improving credit access by expanding the types of data reported to the credit bureaus. While this may offer incremental benefits, it doesn't fully address the core challenge: **the traditional credit reporting system was built for a different era.** Reporting on new products like Cash App Borrow or Cash App Afterpay's Pay-in-Four under outdated categories can end up hurting customers, not helping them. FICO has struggled to show consistent benefits from adding new credit data. In previous studies, they showed that reporting BNPL caused customers' credit scores to go down.[66] More recently, FICO published that there may be modest FICO score increases through a proprietary treatment of one lender's data.[67]

Block believes helping customers build financial health must evolve beyond traditional credit bureau models. Block, through its Cash App product, has simulated reporting for Borrow (which serves as a proxy for short-term loans like BNPL) in partnership with a major bureau and analytics provider. Results confirm what others have observed: current reporting frameworks are not designed to reflect the positive impact of short-term credit. In many cases, reporting on-time repayment for Borrow leads to lower credit scores — not due to risk, but due to outdated models that misinterpret the signal.[68] Since the traditional credit system was built around outdated products and assumptions, it struggles to adapt to new forms of financial behavior – even when those behaviors reflect strong financial health. The infrastructure is rigid, deeply embedded with technical debt, and designed primarily to serve lenders, not consumers.

Efforts to modernize the system through alternative data have been underway for more than a decade. In 2017, the CFPB issued a Request for Information on using alternative data in credit decisions, recognizing both the promise and the risks.[69] Yet, despite years of discussions and pilot programs, there has been little meaningful change. Credit reporting, scoring, and interpretation still largely operate under legacy frameworks, and full system modernization could take another decade or more. By then, financial behaviors may have evolved again – and a new generation of consumers will still be underserved by a system that wasn't built for them.

Having said that, Block is open to participating in credit reporting once frameworks evolve to more accurately reflect responsible behavior. At present, reporting products like Borrow or Afterpay has not been shown to deliver clear consumer benefit. As a result, Block is not currently reporting BNPL activity to the credit bureaus and is instead focused on delivering value through its own models, which are based on near real-time financial behavior.

Block is exploring ways to help customers have their financial behavior recognized. Models supported must reflect everyday financial behavior (e.g. cash flow, income stability, savings) and create meaningful benefits for consumers, while also respecting customer privacy and control. **Block believes people should have the option to use their financial history to unlock opportunity, on their terms.**

As it considers the future, Block is intentionally avoiding paths that would reinforce the same systemic limitations that created exclusion in the first place. The company remains open to working with partners – whether through improved bureau frameworks or entirely new alternatives – to drive meaningful progress.

5.2

The role of regulation in building modern credit systems

In light of the structural limitations and challenges of the traditional credit reporting system, it becomes increasingly clear that regulatory frameworks should evolve to keep pace with advancements in data and technology. **To foster a more inclusive and accurate credit system, regulators should consider the following actions:**

1. Acknowledge the value of alternative data sources, such as near real-time transaction data, cash flow patterns, and spending behaviors, as integral components of credit decision-making. The success of data-driven models, like those employed by Block, illustrates that these signals can provide a more accurate assessment of creditworthiness than traditional credit scores.

2. Provide guidance that underscores the limitations of relying solely on traditional credit scores, which often fail to serve the diverse market of creditworthy individuals and businesses. The data indicates that millions are unjustly excluded or poorly served when lenders depend primarily on conventional credit metrics.

By aligning regulatory expectations with the realities of modern data capabilities, the industry can create conditions that reduce the likelihood of creditworthy borrowers being unjustly denied access to financial opportunities simply because they fall outside the confines of traditional credit scoring. This shift is not merely an adaptation to technological progress but a necessary step toward a fairer and more inclusive credit system.

5.3

Designing for consumers, not just institutions

Block has taken a different approach. The answer is not feeding more data into a system that was never built for consumers. **It is building models that reflect real life.** Models that prioritize transparency, financial inclusion, and near real-time adaptability are already improving access without increasing risk.[70] That is the direction everyone should be moving.[71] The future of fair credit access depends not on feeding an outdated system but on building a better one. Because Block has a direct relationship with its customers, it can evaluate them in ways that are more accurate and more personal. If someone is earning, saving, and repaying, Block's models reflect that not years later but now.[72]

Because Block has rethought how credit works, the data shows lower default rates by looking at the full picture and updating it continuously. The result is a credit system that is fairer, more accurate, and more resilient. And it is already at scale while still growing. Across Square Loans, Cash App Borrow, and Afterpay, Block has extended tens of billions of dollars in credit to businesses and consumers that traditional lenders would normally overlook.[73]

Credit access is not just a financial problem. It is a fairness problem. Too many people are locked out for reasons that have nothing to do with their real financial lives. Fixing that requires better data, better tools, and better models for evaluating risk. Block's approach shows what is possible. Higher approval rates. Strong repayment. Clearer outcomes for customers. As the industry and regulators look ahead, we believe this is a blueprint for how credit can work — for more people, on better terms, and with more transparency.

And this is just the beginning. Over time, Block sees opportunities to give customers greater control over their financial information and unlock even broader access to opportunities across the financial system. Building near real-time visibility into financial health – and empowering customers to use that information on their terms – can reshape how credit works in the years ahead.

Block remains focused on delivering great products for its customers today, while continuing to lead the way in building a better, more inclusive system for tomorrow.

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