

## A QUICK TAKE ON SYNCHRONY FINANCIAL'S ACQUISITION OF VERSATILE CREDIT

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Admittedly, large-scale relationships between lenders and their merchant partners receive most of the attention in the market. However, behind the scenes, another ecosystem exists and has evolved over time where applicants that do not meet the underwriting criteria of the primary lender are systematically routed to other lenders/providers. In that ecosystem, technology companies now play a critical role by providing the functionality to seamlessly integrate those applicants with lenders often in real-time via the merchant's point-of-sale. Companies such as Versatile Credit, ChargeAfter, Skeps, LendingPoint, LendPro, Jifiti, Appressa, and others ("Multi-Lender Platforms") automate what was historically a rather manual process and one-dimensional offering, referred to as "second-look." Today, many merchants, especially those reliant on big-ticket financing, have enabled second-look functionality, but the market has evolved to include a range of alternative financing solutions via specialized technology providers using customized software to allow applicants to gain access to financing. It is prevalent in sectors such as jewelry, furniture, home services/improvement, elective health and auto service to name a few.

We believe that the trajectory of alternative/secondary lending suggests that, over time, alternative financing solutions will transition from optional "nice-to-have" to more of a foundational, embedded layer in card/financing partnerships. We also have conviction that there is meaningful opportunity in other verticals that are unpenetrated relative to retail, including the T&E segment. Multi-Lender Platforms are more dynamic than a standard waterfall of downstream providers or the legacy models of decades ago (e.g., faxing applications to consumer finance companies, the early days of kiosks). For example, current platforms can also serve as marketplace models across primary, secondary, and tertiary lenders coupled with rich functionality to pre-qualify accounts and remove friction for all stakeholders. Investors have taken

note: ChargeAfter has secured backing from Visa, Citi Ventures, and others; Versatile Credit received several rounds of funding from growth equity firms between 2023 and 2024; Skeps recently secured another round of funding; and others are engaging with banks and merchant partners to accelerate market adoption.

The acquisition of Versatile Credit by Synchrony (SYF) follows the bank's selection of Atlanticus as its preferred second-look financing provider in 2024. The SYF and Atlanticus (d/b/a Fortiva) relationship allows the parties to collaborate on opportunities and in some cases, directly integrate on certain programs. Like most acquisitions, especially when acquiring a service provider in its own value chain, one tends to point to cost take-out as the primary driver of the transaction. That is certainly a consideration, but we view the Versatile acquisition as more strategic in nature. Fundamentally, the Versatile acquisition strengthens SYF's position in point-of-sale financing in the broadest sense, including card and non-card partnerships given their mutual coverage of so many vertical markets. The acquisition could also allow Synchrony to bring a more customized and integrated solution to its current and prospective partners. To be specific, Synchrony may be in a position to further streamline the customer experience with its role as both primary lender and the enabler of alternatives. The bank's upfront sales process to partners can also unify what is often a decoupled decision which tends to complicate the partner decision and delay the important solutioning required to deliver the optimal configuration.

Of course, acquisitions of this nature introduce unique complexities as Versatile, a lender-agnostic player in the industry value chain, has relationships with merchants and other primary lenders that compete with Synchrony for partnership opportunities. That said, non-bank partners (e.g., retailers/merchants) are increasingly requiring primary issuers to support alternative lending solutions whether directly or indirectly via the likes of Versatile. Nonetheless, acquiring a service provider that plays a role in the value chain supporting direct competitors adds a degree of complexity/risk. Synchrony will inherit Versatile's relationships with over 30 other lenders and other retail partners. Synchrony has stated its intent to manage Versatile as a distinct business unit while retaining key elements of its existing business (strategy, management, and data integrity).

To be clear, we do not view specialized alternative lenders as direct competitors of Synchrony although Fortiva could benefit from the acquisition given its established relationship with SYF. At the same time, we do not view the acquisition as a means for Synchrony to deepen its own underwriting. It is more about bringing a full credit spectrum solution to its partners. From our perspective, this is a technology-driven

acquisition that could allow SYF to control its own destiny as point-of-sale financing becomes even more specialized and more deeply integrated into the purchase path/process. Having Versatile and its proven solution in the Synchrony toolkit could unlock value – Synchrony’s market coverage spans verticals and nearly 500k merchant locations in fragmented industries so having a standardized off-the-shelf engine to support alternative lending has its advantages now and in the future.

Finally, the acquisition of Versatile is a positive development for the industry and its stakeholders. Alternative lending and the software companies that power multi-lender arrangements are highly specialized, but often not well understood. The Versatile transaction brings a degree of credibility to alternative lending and the range of enhanced underwriting opportunities that are available across the industry. It is important to note that Versatile Credit is an established company and has evolved from the early days of second-look offerings to the current fintech era often below the radar screen and without the hype surrounding anything in proximity to the mention of embedded finance. Having a regulated financial institution, with a wide range of partners across the POS financing landscape, acquire Versatile bodes well for the industry as a whole. Historically, some banks (and their merchant partners) struggled to embrace having an alternative lending solution stand behind their primary partner relationships. Concerns such as compliance, cost, customer experience, privacy, PII treatment, reputational risk and competitive exposure have been part of the journey. These concerns are not erased by the Versatile acquisition but should be a step forward and help advance the dialogue given the role we believe alternative lending can play in certain situations now and in the future.

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