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Credit in Context:

Profiling Alternative Lending Use in MDI Communities

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Executive Summary

Minority Depository Institutions (MDIs) are mission-driven community banks that typically locate in and serve minority and low-to-moderate income communities. MDIs operate more than 1500 branches in nearly all 50 states, serving urban, rural, and suburban communities.

In previous analysis of TransUnion credit data, we found that communities with at least one MDI branch present have better credit health – as measured by factors like credit score, total credit available, credit utilization, and delinquency rates – relative to demographically similar communities that do not have an MDI branch.[1]

This report extends our TransUnion partnership to examine both mainstream and alternative credit use. We compare outcomes in communities both with and without MDIs, and provide a detailed profile of the typical alternative credit user in MDI communities.

Alternative credit is a high-cost and suboptimal replacement for mainstream credit. There is a long academic literature arguing that alternative financial services disproportionately target low-income and minority communities, draining limited resources and trapping the vulnerable in cycles of poverty and debt. Proponents counter that alternative products offer credit access to those who otherwise have no viable substitute.

While recognizing the value of choice, it is important to note that mainstream bank products offer critical consumer protections and a pathway to better financial health. MDIs in particular serve as community anchors, recirculating funds and investing in human capital to spark local development. Our research explores the potential impact of MDIs on limiting alternative credit use.

Overall, we find that:

There is credit health heterogeneity both within and across communities served by MDIs.

MDI presence is linked to modest declines in alternative credit inquiries, especially in majority minority neighborhoods.

Those using alternative credit typically have very poor credit scores, and are highly credit constrained.

The average alternative credit user appears to borrow out of necessity, rather than preference.

[1] Barr and Pietro. (2024). "The State of MDIs – 2024." National Bankers Association. https://www.nationalbankers.org/research-the-state-of-mdis-2024

Some implications and recommendations that follow from these findings:

Financial Education Around Credit Management is Vital – and particular attention should be focused on reaching young people, to ensure that they are placed on a positive financial trajectory, regardless of their background. MDIs, nonprofits, private sector entities, and lawmakers can all support initiatives to expand financial education programming.

Continued Innovation in Small Dollar Lending is Needed – it is expensive for banks to compete with alternative lenders. Off-the-shelf products from fintech companies provide smaller banks with low-cost options they can offer customers. New data sources and techniques, such as cash flow or technology-based underwriting, can also lower costs. Partnerships and pilot program funding allow MDIs to experiment with novel small dollar loan products.

Legislative and Regulatory Support is Critical to Scaling Bank Reach – especially to those most susceptible to alternative lending. Pandemic-era changes encouraged banks to make small dollar loans, in recognition that Main Street is the keystone of our economy. In a worrying trend, recent legislation would instead hamstring banks' ability to extend credit to the underserved. It is imperative that federal oversight balances the need for safety and soundness with the flexibility required to bring all Americans into the financial mainstream.

Because MDIs are a key partner in place-based development and economic mobility, growing the sector's assets will have a force multiplying effect in underserved urban, rural, and suburban communities nationwide.

This report is structured with the following sections:

Background and Methodology	Main Research Findings	Concluding Recommendations

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Background and Methodology

Background

Access to credit is fundamental for financial health. Mainstream credit such as a bank loan or credit card allows people to finance large purchases, cover unplanned expenses, and invest to build wealth.

Importantly, the terms of an individual's credit access are largely determined by their credit score, which is an estimate of repayment likelihood based on one's past credit history.[2] There are strict legal limits on the information that can be used to generate a credit score, in an attempt to prevent discriminatory treatment. Factors such as income or public assistance, education, criminal records, marital status, gender, race, age, and home address are all excluded from credit score calculations.[3]

Yet researchers consistently find sizeable disparities in credit scores by race.[4] The same structural inequalities and historical discrimination that affect every other aspect of the financial system – the banking deserts that leave entire communities underserved, the redlining that locked people out of an appreciating asset to fall back on, the lack of generational wealth that leads to disproportionate use of student loans – all conspire to perpetuate these race-based credit score gaps.[5]

New research finds that race and class disparities in credit health manifest early in life, and the gaps do not close over time.[6] A person's credit trajectory, the research suggests, is deeply rooted in their childhood environment and stems from both concrete economic factors (e.g., local labor market conditions) and social capital dimensions (e.g., cross-class connections that allow young people to learn good credit management).

Disparities can compound over time. Lenders attempt to manage the risk a low credit score signals by offering less credit at higher cost, while better credit scores yield products with more favorable terms. Poor credit health can also affect a person's ability to rent, buy a home, qualify for insurance, use utilities without a deposit, or even finalize a job offer.[7]

Credit gaps aside, most people are still able to access minimally sufficient credit through mainstream channels. Some, however, opt for alternative credit. These products – such as payday, pawn shop, or auto title loans – are part of the broader alternative financial services ecosystem that exists on the fringes of mainstream banking.[8] Characterized as short-term, high-cost, small dollar loans, alternative credit is deeply polarizing.

[2] Federal Trade Commission. (2024). "Credit Scores." FTC (Consumer Advice). https://consumer.ftc.gov/articles/credit-scores
[3] FICO. "What's Not in Your Credit Score." myFICO (Credit Education). https://www.myfico.com/credit-education/credit-scores/whats-not-in-your-credit-score
[4] Garon, Thea. (2022). "Young Adults' Credit Trajectories Vary Widely by Race and Ethnicity." Urban Institute. https://www.urban.org/urban-wire/young-adults-credit-trajectories-vary-widely-race-and-ethnicity, Karl et al. (2024). "Average Credit Scores by Race." Investopedia. https://www.investopedia.com/average-credit-scores-by-race-5214521
[5] Lee, Juhohn. (2022). "How Structural Racism Plays a Role in Lowering Credit Scores." CNBC. https://www.cnbc.com/2022/10/11/how-structural-racism-plays-a-role-in-lowering-credit-scores.html
[6] Bakker et al. (2025). "Credit Access in the United States." National Bureau of Economic Research. https://www.nber.org/papers/w34053
[7] Barroso et al. (2025). "What Is a Credit Score and Why Is It Important." NerdWallet. https://www.nerdwallet.com/article/finance/great-credit-powerful-tool
[8] Federal Deposit Insurance Corporation. (2009). "Alternative Financial Services: A Primer." FDIC. https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2009-vol3-1/fdic140-quarterlyvol3no1-afs-final.pdf

Critics see predatory lending that traps the vulnerable in an endlessly spiraling debt cycle, and are alarmed that alternative lenders seem to target minority and low-income communities.[9] Others argue that alternative credit meets a genuine market need and that the high fees and interest rates are justified by the heightened risk these borrowers represent.[10]

Yet MDIs are already working in these communities and are committed to empowering their customers. These mission-driven community banks offer less costly products that place people on a path towards building credit, and evidence suggests that consumers might prefer working with banks.[11]

Within this broader context, our research explores the potential impact of MDIs, and whether those living in MDI communities are less likely to use high-cost alternative credit.

[9] Cyrus, Ramenda. (2023). "Predatory Lending's Prey of Color." The American Prospect. https://prospect.org/economy/2023-06-05-predatory-lendings-prey-of-color/

[10] Dubner, Stephen J. (2016). "Are Payday Loans Really as Evil as People Say?" Freakonomics Podcast. https://freakonomics.com/podcast/are-payday-loans-really-as-evil-as-people-say/

[11] Bakker et al. (2025). "Credit Access in the United States." National Bureau of Economic Research. https://www.nber.org/papers/w34053, Federal Deposit Insurance Corporation. (2008). "Building Assets, Building Relationships: Bank Strategies for Encouraging Lower-Income Households to Save." FDIC. https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2008-vol2-1/buildingassets.pdf,
The Pew Charitable Trusts. (2017). "Payday Loan Customers Want More Protections, Access to Lower-Cost Credit From Banks." Pew Charitable Trusts. https://www.pew.org/en/research-and-analysis/issue-briefs/2017/04/payday-loan-customers-want-more-protections-access-to-lower-cost-credit-from-banks

Methodology

Using credit data from TransUnion, we analyzed anonymized records on 58 million people in 7,140 zip codes across the United States. These include all zip codes with an MDI branch and socio-demographically similar zip codes without an MDI presence.[12]

Figure 1: Zip Codes by Bank Presence

No Bank	**57%**
Non-MDI Bank	**35%**
Asian	**4%**
Hispanic	**2%**
Black	**1%**
Native	**1%**
Mixed	**<1%**

As the figure above shows, in our sample 57% of zip codes lack a bank, 35% of zip codes have a non-MDI bank, and 8% of zip codes have an MDI. By MDI type, 4% of zip codes have an Asian MDI, 2% have a Hispanic MDI, 1% have a Black MDI, and 1% have a Native American MDI. A small number of zip codes have two different MDI types.

Besides MDIs and non-MDI banks, we also consider alternative financial service providers (AFSPs). These non-bank financial service providers include payday lenders, check cashers, pawnbrokers, rent-to-own stores, and international money transfer companies, among others. AFSPs are licensed at the state level, so no comprehensive database at the national level exists. The measure we use to identify AFSPs is also overly broad, capturing financial services that do not show up in the TransUnion alternative credit data.[13] It is included for illustrative purposes only.

Compared to the 8% of zip codes with an MDI, 19% of zip codes in our sample have an AFSP. This includes:

- 9% of zip codes with an AFSP but no bank.
- 6% of zip codes with both an AFSP and non-MDI bank.
- 4% of zip codes with both an AFSP and MDI.

[12] For detailed information on data sources and methodology, see Appendix.
[13] For example, check cashing and international remittances do not typically involve credit extension, and so would not show up in TransUnion data.

There is evidence that MDIs and AFSPs are co-locating in a way that non-MDI banks and AFSPs are not, supporting the idea that AFSPs are targeting similar consumer markets as MDIs.[14]

Some states, in response to the concerns over alternative credit outlined earlier, have taken legislative action to curb more excessive financial predation. A recent analysis classified state regulation towards payday lenders as restrictive, reformed, offering some safeguards, or offering few safeguards.[15] In the 18 states and Washington, DC categorized as restrictive, payday lending is prohibited either outright or in practice, due to very low interest rate caps.

Figure 2: Zip Codes by Payday Lending Regulations

Few Safeguards	**57%**
Prohibited	**35%**
Some Safeguards	**4%**
Reformed	**2%**

Zip codes in our sample are mixed in terms of state regulation stringency (see Figure 2) – 47% are in states with the most relaxed laws, while 30% are in states that prohibit payday lending. We find that the highest rates of alternative credit use occur in states with few safeguards, but there is still considerable alternative credit activity in states where payday lending is prohibited. Excluding the states that prohibit payday lending does not generally change the overall direction or magnitude of our findings, and so the analysis presented in this report includes all states, regardless of payday lending regulations.[16]

Finally, similar to past reports, we proxy socio-demographic information at the zip code level. In accordance with privacy laws, we do not have access to individual-level demographic data such as age, race, or sex. Importantly though, we do have access to anonymized data on people's mainstream and alternative credit use.

While alternative credit products do not impact one's credit score and are not included in official credit bureau reports, TransUnion's network of data furnishers include alternative credit lenders that report information on alternative credit product usage usage to a similar degree of detail as mainstream credit. This provides a unique window into how people manage their credit and allows us to explore connections between mainstream and alternative credit.

[14] Correlations between MDI and AFSP measures are positive and significant, while similar comparisons between non-MDI banks and AFSPs are negative and significant.
[15] The Pew Charitable Trusts. (2022). "How Well Does Your State Protect Payday Loan Borrowers?" Pew Charitable Trusts. https://www.pew.org/en/research-and-analysis/data-visualizations/2022/how-well-does-your-state-protect-payday-loan-borrowers
[16] The exception is some analysis on majority minority communities. There are relatively few majority Asian and majority Native American zip codes, and they tend to be concentrated in states that prohibit payday lending. Excluding these states significantly reduces the sample size and leads to a few notable shifts.

Main Research Findings

We first analyze the likelihood of alternative credit use at the neighborhood (i.e., zip code) level. Then, we consider how alternative credit use and credit health interact at the individual level.

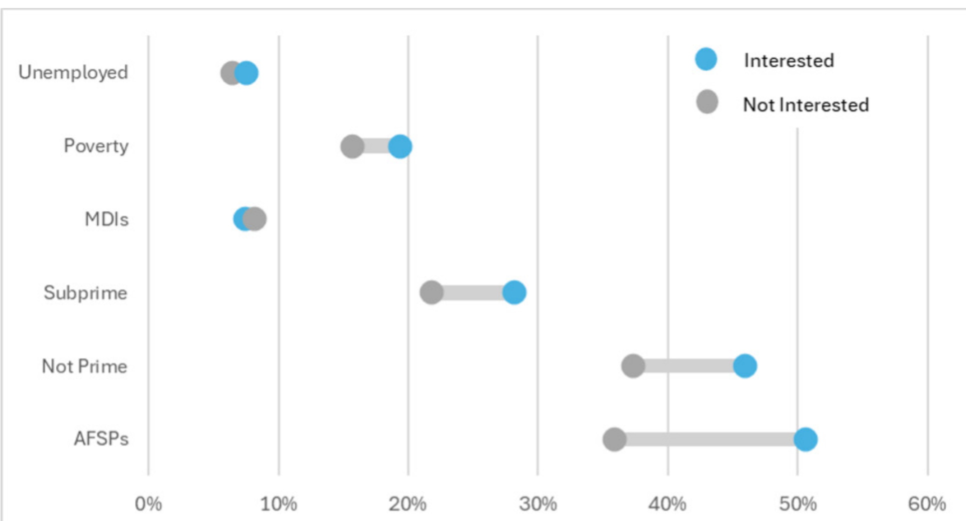
Alternative Credit Use Likelihood

In our sample, 17% of people have expressed interest in using alternative credit.[17] This includes:

- 11% who have inquired about using alternative credit,
- 6% who have used or are currently using alternative credit, and
- 4% who have currently open alternative credit products.[18]

Perhaps unsurprisingly, those interested in alternative credit live in neighborhoods with higher unemployment and poverty (see figure below). They have somewhat less access within their neighborhood to MDIs, although significantly more access to AFSPs. Many of their neighbors have poor credit.[19]

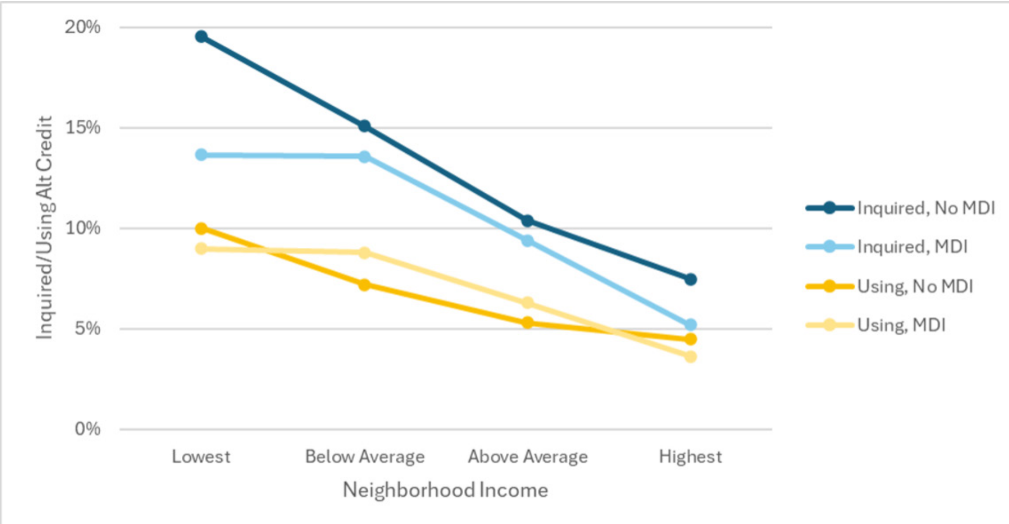
Figure 3: Neighborhood Characteristics, by Alternative Credit Interest



Income differences are sizable, with an average neighborhood median income of $61,000 for those interested in alternative credit versus almost $74,000 for those not interested. Interest in alternative credit decreases as income increases (see figure below), but not as much as might be expected.

[17] Interest in alternative credit means that someone has inquired, used, or is currently using alternative credit.
[18] This is consistent with the Federal Reserve's 2024 Survey of Household Economics and Decisionmaking, which found that 6% of adults had used a payday, pawnshop, auto title, or tax refund anticipation loan.
[19] A credit score of 300-600 is considered subprime, 601-660 is near prime, 661-720 is prime, 721-780 is prime plus, and 781-850 is super prime. We define not prime as either subprime or near prime.

Figure 4: Alternative Credit Interest, by Neighborhood Income and MDI Presence[20]



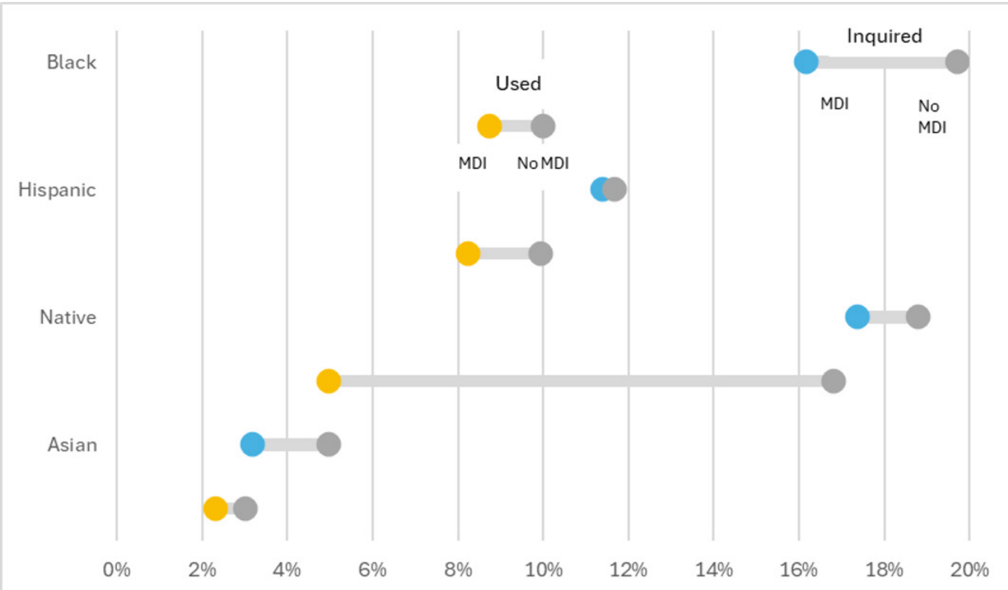
Almost 10% of those living in neighborhoods with the lowest income are using alternative credit, compared to 6% of the entire sample. Yet even in the highest income neighborhoods, 4% of people are using alternative credit. Having access to an MDI within the neighborhood seems related to lower inquiries in alternative credit, but the relationship on the usage side is more mixed. We return to this finding later.

As Figure 5 illustrates, in majority minority neighborhoods MDI presence is linked with small reductions in alternative credit inquiry rates, and even smaller reductions in alternative credit use. The exception is Native MDIs, where statistical anomalies drive the observed difference in alternative credit use.[21]

[20] The lowest income quartile ranges from approximately $2,500 to $43,000. Below average income is $43,000 to $56,000. Above average income is $56,000 to $73,000. The highest income bracket ranges from $73,000 to $233,000. Quartiles are calculated from our sample of zip codes.

[21] In neighborhoods where a majority of residents are Native American, the presence of a Native MDI is linked to a 12 percentage point lower use of alternative credit. This is because only a handful of zip codes both have a Native MDI and are majority Native American, and these zip codes are significantly different from the comparison group in terms of financial well-being.

Figure 5: Alternative Credit Interest in Majority Minority Neighborhoods, by MDI Presence[22]

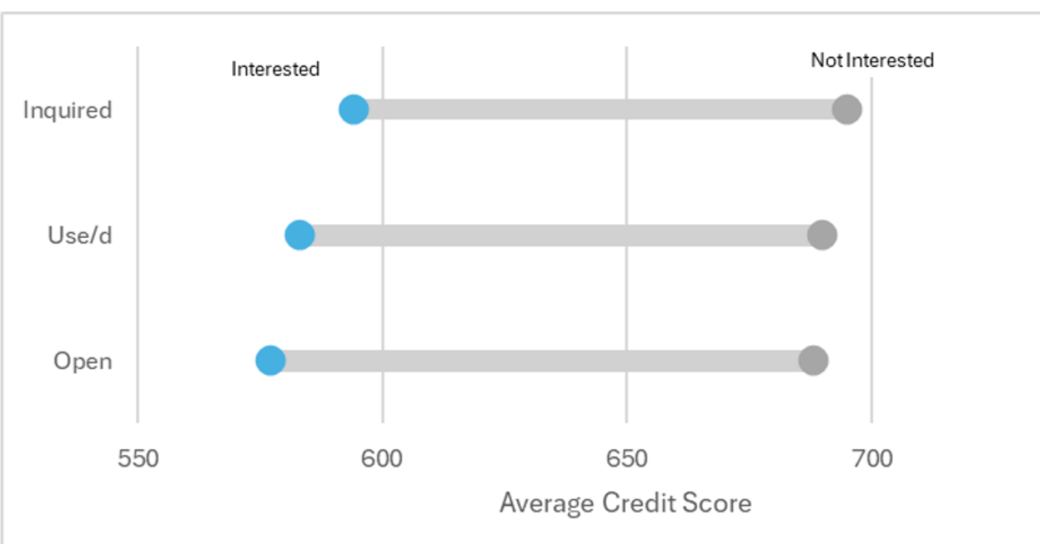


Implications for Credit Health

Credit Scores

Across our sample, those interested in alternative credit have poorer credit scores and poorer credit health more broadly. For those with any level of interest in alternative credit, average credit scores are in the subprime range (see Figure 6). Meanwhile those not interested in alternative credit have, on average, prime credit scores.

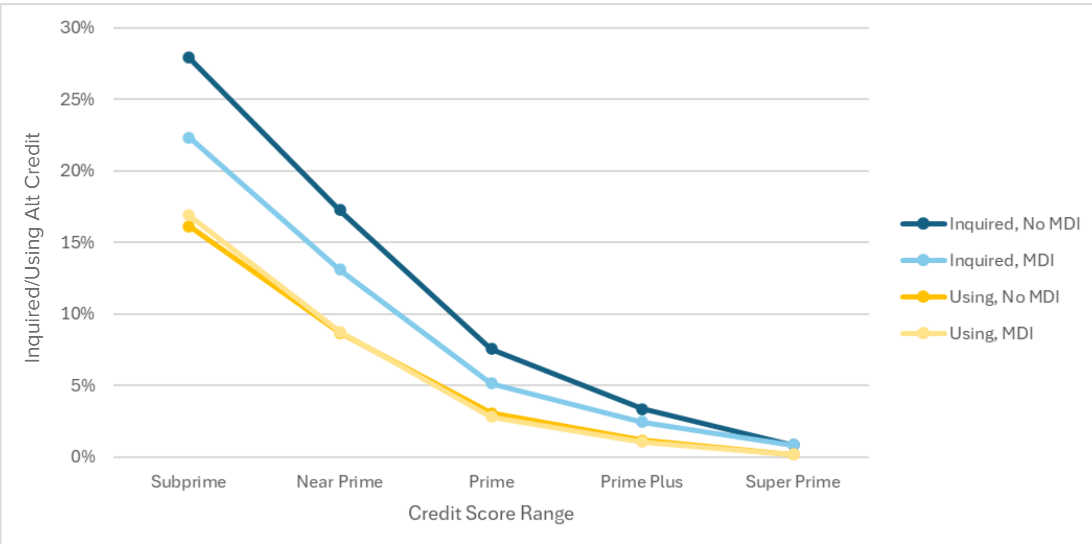
Figure 6: Average Credit Scores, by Interest in Alternative Credit



[22] For example, we look at neighborhoods where 50%+ of residents are Black and compare neighborhoods with a Black MDI to those without.

In fact, the likelihood of alternative credit interest is much higher for those with the poorest credit scores, and decreases as credit scores improve (see the figure below). We again see that access to an MDI within the neighborhood appears related to lower inquiries in alternative credit, but the effect disappears when looking at usage.

Figure 7: Alternative Credit Interest, by Credit Score and MDI Presence



Compared to the earlier analysis of neighborhood income (see Figure 4), it seems that credit score is a better indicator of alternative credit interest. Equating individual-level credit score to neighborhood-level estimated income is not a perfect comparison – for example, a person might have both a high credit score and an unusually high income for their neighborhood. The evidence suggests, however, that credit score is more related to interest in alternative credit than income is.

Further credit score analysis of those with less than prime credit – where interest in alternative credit is highest – reveals that average scores are virtually the same across interest level in alternative credit. For those with subprime credit scores, scores are all approximately 540, regardless of interest in using alternative credit. For those with near prime credit, scores are all roughly 630. This implies that while low credit scores are related to alternative credit interest, some additional factor (or factors) pushes those who actually end up using alternative credit.

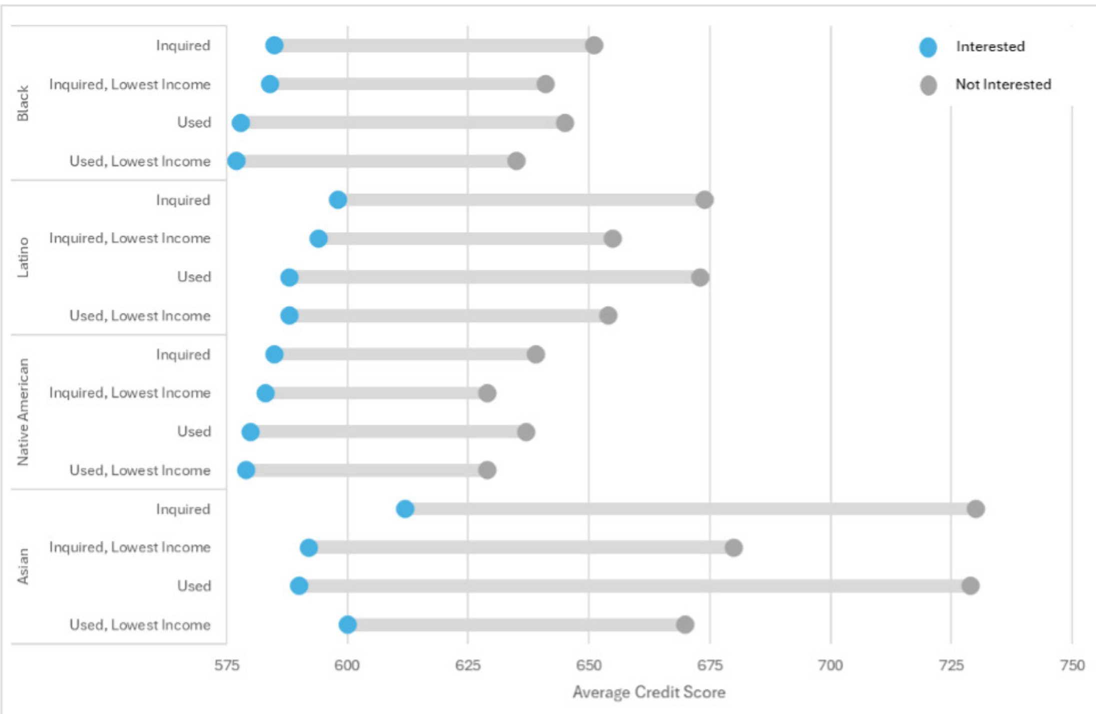
For those using alternative credit, the presence of different financial institutions – whether MDIs, non-MDI banks, or AFSPs – has no real effect on average credit scores (~580). This is also true in majority minority neighborhoods and those that overlap with American Indian, Alaska Native, and Native Hawaiian Areas.[23] In these neighborhoods, for those using alternative credit, the presence or absence of an MDI has no material effect on average credit scores (~580 to 600, depending on MDI type), which are almost all subprime.

[23] Defined by the Census Bureau, American Indian, Alaska Native, and Native Hawaiian Areas include both legal and statistical geographies.

In general, though, those living in neighborhoods with an MDI have a 15 point higher average credit score than those in similar neighborhoods without an MDI (694 versus 679). And average scores in majority minority neighborhoods are notably higher for those who are not interested in alternative credit (see Figure 8).

Once again, those interested in alternative credit almost all have average credit scores in the subprime range. Meanwhile average scores for those not looking for alternative credit are 50 to 100+ points higher, and either well into or close to prime range. These trends are evident even in the lowest income majority minority neighborhoods.

Figure 8: Average Credit Scores in Majority Minority Neighborhoods, by Interest in Alternative Credit



15 Those living in neighborhoods with an MDI have a **15 point higher average credit score** than those in similar neighborhoods without an MDI.

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A few key points emerge:

- **Those using alternative credit have very poor credit scores.** We cannot establish causality – it is possible that poor credit scores lead to alternative credit use, alternative credit causes poor credit scores, or some third factor results in both outcomes. However, it is indisputable that alternative credit use drops sharply as credit scores improve.
- **MDIs appear linked to modest declines in alternative credit inquiries, especially in majority minority neighborhoods.** Again, we cannot assert that MDIs are causing this lower alternative credit interest. Something about these neighborhoods though, and the people living there, is resulting in modestly lower odds of considering alternative credit. Still, at some point the presence or absence of an MDI stops bearing any relationship to both credit scores and the decision to use alternative credit. This may represent a subset of people who would use alternative credit regardless of their options, or might have such poor credit health that mainstream banking – even with an MDI – is no longer an option.
- **There is credit health heterogeneity both within and across MDI communities**. While generally outside the scope of this report, we note that there is evidence of sizeable gaps in credit score and alternative credit interest by neighborhood racial composition. On a more positive note, we also find that within a given community there is a relatively wide range in credit scores, and this is true even in the poorest neighborhoods. This indicates that credit trajectories are not only determined by race and place, and that individual actions are affecting credit scores.

We explore credit health in more detail in the following sections.

Mainstream Credit Health

While alternative credit exists on the fringes of the banking system, it still requires a connection to traditional financial institutions; payday lenders, for example, require that borrowers provide a bank account.

We find that 87% of those currently using alternative credit have an open mainstream credit trade.[24] Some 53% have an open credit card and 16% have an open bank installment loan. This is comparable to mainstream credit use in the full sample, and is higher than mainstream credit product uptake among those with less than prime scores.

Because alternative credit use is concentrated among those with less than prime scores, in this section of the report we examine the mainstream credit health of those with less than prime credit scores specifically and make comparisons based on alternative credit interest.

On average,[25] those interested in alternative credit have had several more mainstream credit trades than those uninterested in alternative credit (12 versus 5). Both typically have 2 to 4 open trades, including an average of 1 credit card.

These individuals, on average, opened their oldest trade roughly 9 years ago, and their most recent trade within the last year or so – 18 months ago for those not interested in alternative credit and 8 months ago for those using alternative credit.

[24] Trade refers to a credit account. For example, someone with two credit cards and a loan has three trades.
[25] For the following three sections on individual credit health, average refers to the median unless otherwise specified. Calculated statistics are derived from the non-missing values).

Unsurprisingly, mainstream credit access is a challenge for those with less than prime scores. Their total credit line (excluding mortgages or home equity) on average is in the low to mid $20,000 range. Across the full sample, the average total credit line is almost $32,000. Meanwhile the average total balance for the full sample is $9,000 versus $17,000 to $19,000 for those with less than prime scores. This results in a utilization rate that is double the overall utilization rate – 80%+ versus 40%. Lack of credit affects everyone with less than prime scores, and there is no meaningful difference by interest in alternative credit.

There is more of a divergence when specifically considering credit cards, however. Across the full sample, the total credit line for open credit cards is $17,000, and $7,300 for those with less than prime scores who are uninterested in alternative credit. For those with open alternative credit trades, the average total credit line for credit cards is only $2,250. Utilization rates correspondingly range from an average of 18% for the full sample to 88% for those with low credit scores who are uninterested in alternative credit and 95% for those with open alternative credit trades. And again, only half (53%) of those currently using alternative credit have an open credit card.

Timely repayment is another challenge for those with less than prime scores, with 70% having ever been delinquent on an account (versus about 40% for the full sample). For those who have been delinquent, it was most recently within the last two months on average.

Among those with less than prime scores, higher delinquency rates are associated with greater interest in alternative credit. Those uninterested in alternative credit have been delinquent on 20% of their accounts compared with nearly 40% for those who are interested.

A large majority (86%) of those with balances 90+ days past due do not have prime credit. Even so, this group is evenly split by alternative credit interest, and only 13% have an open alternative credit trade.

On average, those who have used or are currently using alternative credit have had 2 accounts charged off, with the most recent occurring on average about 1.5 years prior. In contrast, their less than prime counterparts who are not interested in alternative credit average zero charge offs.

Taken together, these patterns provide some insight into subprime score drivers in our sample: high utilization rates and persistent repayment challenges. These factors likely reinforce one another – high utilization rates both limit access to new credit and can make debt repayment difficult, since carrying large balances on revolving credit lines (e.g., credit cards) triggers additional interest payments. Without more granular data, it is impossible to pinpoint what is causing poor repayment rates. Contributing factors, for example, may include circumstances outside of one's control, such as unexpected medical expenses, or instead poor individual financial choices.

It is interesting that on average, our less than prime sample is not new to credit (having almost a decade of credit history) and does not appear to immediately require mainstream credit (having opened their most recent accounts within the last year or so), although this may reflect inability to access credit rather than lack of demand. Regardless, those turning to alternative credit are especially credit constrained. We explore their alternative credit health in more detail on the next page.

Alternative Credit Health

Those using or inquiring about alternative credit report an annualized average income of almost $39,000, which puts them in the lowest income bracket of our sample. On average, alternative credit users have had 3 inquiries and 1 trade, with the most recent origination occurring approximately 3 years ago.

For those with open alternative credit trades, their average total balance is $1,400, and $500 on open single-payment products. The average single-payment product user has had zero rollovers. And the average user has not been delinquent or defaulted on their payments.

These statistics contradict the stereotype of alternative credit users as either financially irresponsible or victims of perpetual debt cycles. Instead, it seems that the average user is someone who needed to cover a one-time expense and was unable to get sufficient mainstream credit, in large part due to their poor credit history. Alternative credit does not appear to be preferred, since using it does not become a habit.

Top Alternative Credit Users

Averages aside, there is a subset of people who are highly interested in alternative credit. At the maximum, these are people who have taken out hundreds of alternative credit products. We briefly study the credit health of these top alternative credit users, defined as those with 20+ inquiries, 5+ trades (open or closed), or 4+ open trades. These thresholds are all above their respective 90th percentile, and the combined subset of top users represents 11% of those interested in alternative credit, or 2% of the full sample.

In terms of average mainstream credit health, top users look very similar to more casual alternative credit users. Notably, 90% of top users have been delinquent on a mainstream account (versus 70% of those with less than prime scores who are interested in alternative credit), and on average it was within the last month.

For alternative credit, top users have on average 12 inquiries and their most recent origination was about 1.5 years ago. They have had 10 trades, and 2 are currently open. The total balance on their open accounts is $1,800, and $600 on single-payment products. On average, they have had zero rollovers of single-payment products in the last year, and have had 1 delinquent account, reported almost 2 years ago.

The most prolific alternative credit users – those with 4+ open trades – have on average 20 inquiries and 16 accounts, 6 of which are open with a total balance of $3,700. These users, on average, have not been delinquent in the last 12 months.

Even among this subset of top users, we do not find that the overall trends support the stereotypical image of catastrophic alternative credit use. Alternative credit, for the vast majority of our sample, does not appear to be a preferred option, and those who use it could be better served with mainstream products. We discuss recommendations in the following section.

“These statistics contradict the stereotype of alternative credit users as either financially irresponsible or victims of perpetual debt cycles. Instead, it seems that the average user is someone who needed to cover a one-time expense and was unable to get sufficient mainstream credit.”

Recommendations

Our analysis of alternative credit use in MDI communities is consistent with existing literature that finds racial gaps in alternative credit use, and evidence that use is driven by mainstream credit constraints. To decrease alternative credit use, we identify three broad areas of focus: financial education, small dollar lending innovation, and appropriate regulatory support. We explore each in more detail below.

1) Expand Early Financial Education, Especially Around Credit Management

Given that gaps in credit score drive alternative credit use, and that race and class-based gaps emerge early and persist over time, equipping young people with strong credit management knowledge is critical.

MDIs can partner with nonprofits and the private sector to expand financial education programming – whether in-person or online – that is tailor-made for preteens, teens, and young adults. Mentoring programs and other opportunities to learn from community leaders can expand young people's horizons and contextualize financial education in a way that better resonates with them. Besides in-person programming such as library workshops, popup booths at community events, or faith-based financial counseling, financial education needs to meet young people online. The youngest generations spend an inordinate amount of time on media platforms like YouTube, TikTok, and longform podcasts. MDIs can pair this education with specific products for younger demographics to give them low-risk, early exposure to banking and credit building.

In addition to young adult financial programs, MDIs' ongoing work with all adults helps break cycles of poor financial health. For many MDIs, this includes a mix of educational initiatives, high-touch services, and credit-repair products. Other community organizations and private sector entities can assist by sharing resources, such as augmenting sometimes limited MDI staff capacity with referral partnerships or dedicated one-on-one credit counseling services.

Finally, policymakers should mandate financial education beginning in middle school, so that all young people have the opportunity to learn healthy habits. Half of states require personal finance be included in the high school curriculum, but for a variety of reasons this may be too late.[26] In many states, students can legally drop out of school starting at age 16. And in some households, children begin helping their parents manage financial matters at a very young age – for example, if the parents do not speak English or struggle with addiction or the justice system. Starting financial education early ensures that everyone has access to at least some baseline information.

Policymakers should mandate financial education beginning in middle school, so that all young people have the opportunity to learn healthy habits. Half of states require personal finance be included in the high school curriculum, but for a variety of reasons this may be too late.

[26] Next Gen Personal Finance. (2024). "NGPF's 2024 State of Financial Education Report." Next Gen Personal Finance. https://d3f7q2msm2165u.cloudfront.net/aaa-content/user/files/Files/NGPF_Annual_Report_2024.pdf

2) Encourage Innovation in Small Dollar Lending

Our research suggests that many turn to alternative credit because of a one-time expense that they are unable to cover. Mainstream small dollar lending products are a better alternative, but are costly for banks to offer, and especially to those with subprime credit.[27] On the demand side, common reasons given for opting out of banking are the fees or minimum balance requirements, distrust or other misapprehensions, and the convenience and familiarity of AFSPs.[28]

MDIs are well-positioned to compete for these customers. MDIs, more than big banks, can offer the high-touch, culturally-informed, relationship-based services that build trust over time. To make small dollar products a sustainable line of business though, MDIs need help lowering costs. Funders such as foundations or federal agencies can provide resources to offset the costs.[29] Small dollar lending innovations can also assist.

Off-the-shelf technology-based solutions allow smaller banks to offer low-cost products to consumers. CashPlease, for example, has been adopted by a number of MDIs to facilitate small dollar lending.[30] The automated program extends loans ranging from $200 to $1,000 based on an applicant's checking account activity with the MDI. The application is always available online, and loan funds are deposited within hours of approval.

Other fintech solutions offer early paycheck access or monthly loans to cover rent payments, typically for a fee.[31] These innovations help people manage short-term liquidity challenges, such as when bills are due before payday. For an additional fee, some of these services will report borrower payments to the major credit bureaus, to help people build their credit history.

The rise in new small dollar products has been matched by advances in data sources and techniques. So-called alternative data (e.g., rent payments, payroll data, or cash flow accounting) and open banking (i.e., sharing bank account data with third party service providers) generate more data points that allow MDIs to better understand an applicant's risk profile and offer appropriate credit products.[32] Technology-assisted risk scoring and underwriting continue to lower bank administrative costs.

[27] Reiling, David. (2016). "A Revolution in Small Dollar Lending." Ford Foundation. https://www.fordfoundation.org/news-and-stories/stories/a-revolution-in-small-dollar-lending/

[28] NYC Department of Consumer Affairs, Office of Financial Empowerment. (2013). "Immigrant Financial Services Study." NYC.gov. https://www.nyc.gov/assets/dca/downloads/pdf/partners/Research-ImmigrantFinancialStudy-FullReport.pdf, Federal Deposit Insurance Corporation. (2008). "Building Assets, Building Relationships: Bank Strategies for Encouraging Lower-Income Households to Save." FDIC. https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2008-vol2-1/buildingassets.pdf

[29] CDFI Fund. "State Small Dollar Loan Program (SDLP)." U.S. Department of the Treasury. https://www.cdfifund.gov/programs-training/programs/sdlp, Rainwater Charitable Foundation. (2025). "An Alternative to Small-Dollar Predatory Lending: Capital Good Fund's Impact Loans." Rainwater Charitable Foundation. https://rainwatercharitablefoundation.org/an-alternative-to-small-dollar-predatory-lending-capital-good-funds-impact-loans/, Lazorchak, Madelyn. (2021). "Solution Spotlight: Using Small-Dollar Loans to Fight Predatory Lending." NeighborWorks America. https://www.neighborworks.org/blog/solution-spotlight-using-small-dollar-loans-to-fight-predatory-lending

[30] Texas National Bank. "Cash Please." Texas National Bank. https://texasnational.com/personal/loans-credit/cash-please/, OneUnited Bank. "For Emergencies, There's CashPlease." OneUnited Blog. https://www.oneunited.com/blog/for-emergencies-theres-cashplease/, CSI. "CSI Intelligent Limit System and CashPlease." CSI Web. https://www.csiweb.com/what-to-know/brochures/ils-cashplease/

[31] Munk, Cheryl Winokur. (2025). "Earned Wage Access is Growing." American Banker. https://www.americanbanker.com/payments/news/how-banks-can-tap-demand-for-earned-wage-access, Nicoll, Alex. (2021). "These 8 Startups Want to Make Paying Rent Suck Less." Business Insider. https://www.businessinsider.com/rent-flexible-payment-rewards-credit-fintech-proptech-startups-2021-9https://www.businessinsider.com/rent-flexible-payment-rewards-credit-fintech-proptech-startups-2021-9

[32] Bradford, Terri. (2023). "Give Me Some Credit: Using Alternative Data to Expand Credit Access." Federal Reserve Bank of Kansas City. https://www.kansascityfed.org/research/payments-system-research-briefings/give-me-some-credit-using-alternative-data-to-expand-credit-access/, Bennett, Karen. (2025). "What Is Open Banking, and How Will It Affect Me?" Bankrate. https://www.bankrate.com/banking/what-is-open-banking/

Partnering with community organizations can also help MDIs reach those with limited credit options. In Albuquerque, New Mexico, a local credit union partners on a unique microloan product with over 20 different community based organizations including business incubators, immigrant service providers, Native American loan funds, and the state's Black Chamber of Commerce.[33] These community partners review and approve loan applications of up to $10,000 from those they work with, drawing on their existing relationships to provide an in-depth credit evaluation. This model comes with built-in wraparound services, since the community organizations are on hand to counsel borrowers through the full loan cycle. Over time, borrowers can graduate into qualifying for credit products directly from the credit union.

For MDIs, operating in the small dollar lending space is a long-term investment in their customers and communities, more than anything else. As one MDI president described her bank's small dollar loan product,

"We won't lose money [but] we didn't implement this for the revenue. We tried to identify ways that won't cost us money but will allow our customers to avoid practices that put them in the red in a way they can't come back from."[34]

Innovation ensures that mission-driven MDIs can continue reaching out to those who need these products and services most.

3) Support MDIs through Better Legislation and Regulation

While well-intentioned, banking oversight can become overly burdensome, not fit for purpose, or otherwise removed from the ways in which people actually bank.

For example, those with low or volatile income may effectively use overdraft fees as a form of credit, opting to pay the overdraft fee in exchange for the bank covering a payment that they otherwise would not be able to pay. Researchers have found that, as in our analysis, it is people's credit scores, rather than socioeconomic characteristics, that predict overdraft likelihood.[35] But rather than recognizing overdraft fees as the makeshift emergency line of credit it effectively is for many people, some lawmakers attempt to regulate these fees out of existence, perhaps unaware that they may push the most vulnerable out of the financial mainstream.[36]

[33] Nusenda Credit Union. "Microloan Program." Nusenda. https://www.nusenda.org/about/community-impact/economic-opportunity/community-development/microloan-program/, Partnership for Community Action. "Co-op Capital Loan Series: Norma Casas." Partnership for Community Action. https://www.forcommunityaction.org/2023/07/25/co-op-capital-loan-series-norma-casas/

[34] Reosti, John. (2022). "'CashPlease': Small Bank Debuts Alternative to Payday Loans." American Banker. 'CashPlease': Small bank debuts alternative to payday loans | American Banker

[35] Leonard et al. (2025). "Who's Paying Those Overdraft Fees?" Federal Reserve Bank of New York. https://libertystreeteconomics.newyorkfed.org/2025/05/whos-paying-those-overdraft-fees/

[36] Lewis, Cora. (2024). "The White House is Cracking Down on Overdraft Fees." Associated Press. https://apnews.com/article/overdraft-fees-cap-cfpb-rule-0c15f3cb489ca2d37544ad66c524ce73

Similarly, bipartisan legislation to cap credit card interest rates at 10% is pending in Congress. This policy is routinely panned by economists across the ideological spectrum; as one recent report notes, average effective credit card interest rates ranged from 14.5% to 22.8% for all except those with super prime credit scores.[37] While interest rate cap legislation is understandably popular, it would result in a sharp reduction in credit access for most people.

Not all regulatory changes are bad, however. At the onset of the COVID-19 pandemic, federal regulators issued a joint statement encouraging responsible small dollar lending to help individuals and small businesses weather the economic shocks.[38] Additional guidance provided the clarity banks needed to begin creating small dollar credit products.[39] The products have proven popular, with one study finding that banks' share of small dollar loans increased over 3.5 times in just four years, with total outstanding balances of $319 million in 2023.[40]

MDIs know their customers and communities better than anyone, and can safely provide this low-cost credit to those who need it most. As noted previously, this is a tough market for banks to compete in. Legislators and regulators can support MDIs by striving for oversight that balances the need for safety and soundness with the flexibility required to bring all Americans into the financial mainstream.

Conclusion

Life's surprises will affect us all – a lost job, a car accident, a medical emergency, a home repair, or some other unforeseen circumstance. But for those with poor credit and limited resources, the only option for managing unplanned expenses may be high-cost alternative credit.

While our research has demonstrated that MDI presence in a neighborhood is linked to modest declines in alternative credit interest, there is room to expand MDIs' impact. These mission-driven banks already work with those underserved by the broader financial sector, and their products offer better financial terms that can put people on a path towards stronger credit health. Supporting MDI small dollar lending is one way to protect the most vulnerable from predatory lenders and promote community wealth building.

Ultimately, because MDIs are a key partner in place-based development and economic mobility, growing the sector's assets will have a force multiplying effect in underserved urban, rural, and suburban communities nationwide.

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[37] Fung et al. (2025). "Cutting Credit: How Rate Caps Undermine Access for Working Americans." Progressive Policy Institute. https://www.progressivepolicy.org/new-ppi-report-warns-credit-card-rate-caps-could-limit-access-for-working-class-borrowers/, Zuluaga, Diego. (2019). "AOC and Sanders' Credit Card Interest Rate Cap Would Be Disastrous." Cato Institute. https://www.cato.org/commentary/aoc-sanders-credit-card-interest-rate-cap-would-be-disastrous, Litan, Robert E. (2010). "Proposed Limits on ATM Fees and Credit Card Interest Rates: Counter-Productive Punishment." Brookings Institution. https://www.brookings.edu/articles/proposed-limits-on-atm-fees-and-credit-card-interest-rates-counter-productive-punishment-that-goes-too-far/

[38] Consumer Financial Protection Bureau. (2020). "Joint Statement Encouraging Responsible Small-Dollar Lending in Response to COVID-19." CFPB. https://www.consumerfinance.gov/compliance/supervisory-guidance/joint-statement-encouraging-responsible-small-dollar-lending-response-covid-19/

[39] The Pew Charitable Trusts. (2023). "Banks Are Transforming the Small-Loan Market – And That's Good for Consumers." Pew Charitable Trusts. https://www.pew.org/en/research-and-analysis/articles/2023/05/16/banks-are-transforming-the-small-loan-market-and-thats-good-for-consumers

[40] Flagg and Hannon. (2024). "Small-Dollar Loans in the U.S.: Evidence from Credit Bureau Data." FEDS Notes. https://www.federalreserve.gov/econres/notes/feds-notes/small-dollar-loans-in-the-us-evidence-from-credit-bureau-data-20240719.html

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About the National Bankers Association

Founded in 1927, the National Bankers Association champions minority depository institutions, advocating for mission-driven banks that serve underserved and low-to-moderate-income communities. Representing community banks across 43 states and territories, the Association promotes economic empowerment, capital access, and financial inclusion.

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Appendix. Data Notes

Both mainstream and alternative credit data was generously provided by TransUnion, and is as of December 31, 2024. All data was anonymized prior to delivery to the NBA. To maintain confidentiality, data for individuals living in zip codes with fewer than 50 credit-active consumers was excluded.

Zip codes in this sample were selected based on MDI bank branch location, where MDI designation is based on the Federal Deposit Insurance Corporation (FDIC) year-end 2023 list. Branch location data is from the FDIC as of spring 2024. We exclude MDI branches located outside of a U.S. state or Washington, D.C.

Demographically similar zip codes were identified using 2022 five-year American Community Survey (ACS) data from the Census Bureau. We also use the 2022 five-year ACS data for zip code demographics.

AFSP data comes from the Census Bureau's 2022 County Business Patterns Tables. North American Industry Classification System (NAICS) codes 522390 (Other Activities Related to Credit Intermediation) and 522291 (Consumer Lending, primarily engaged in unsecured cash loans to consumers) were used. Provided illustrative examples for the first include check cashing, money order issuance, loan servicing, travelers' check issuance, money transmission, and payday lending. Illustrative examples for the second include finance companies, personal credit institutions, loan companies, and student loan companies.

State payday lending restrictions data comes from a 2022 study by the Pew Charitable Trusts (citation included in the relevant report section), but as discussed in the report we opted not to segment the analysis by state restrictions.

As noted in footnotes, in the Mainstream Credit Health, Alternative Credit Health, and Top Alternative Credit Users sections reported average values are medians calculated based on non-missing observations.