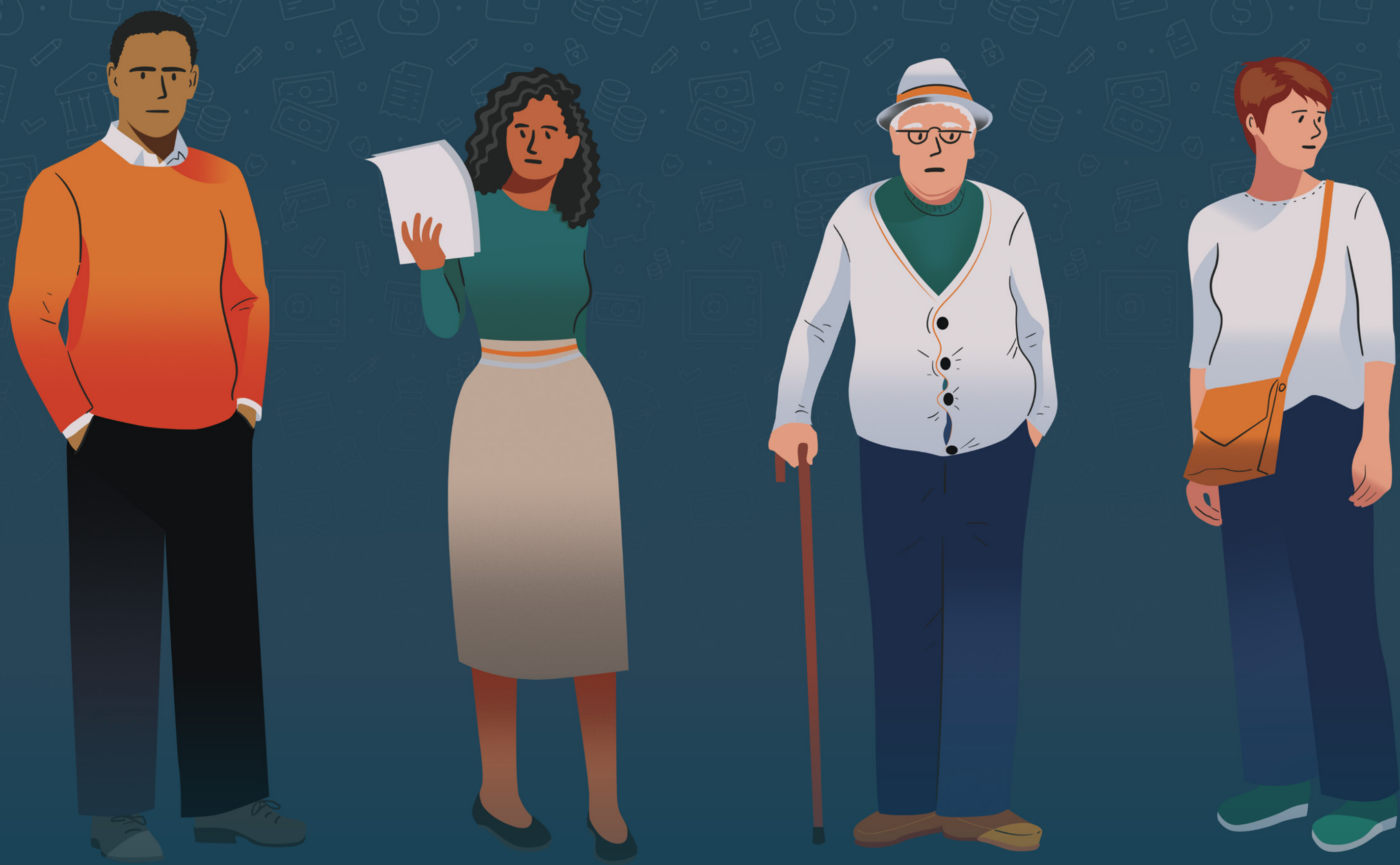

The Many Faces of Small-Dollar Loan Borrowers

How small-dollar loans are impacting a diverse set of consumers

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About ideas42

ideas42 is a nonprofit that applies insights from behavioral science—the study of how people make decisions and act in the real world—to improve lives and drive social change. Working globally, we reinvent the practices of institutions, and create more effective products and policies that can be scaled for maximum impact.

We also teach others, ultimately striving for a future where the universal application of behavioral science powers a world with optimal health, equitable wealth, and environments and systems that are sustainable and just for all.

For the past 15 years, we've been at the forefront of applying behavioral science to create a more equitable world. And as we've developed our expertise, we've helped to define an entire field. Our efforts have so far extended to 50+ countries as we've partnered with hundreds of governments, foundations, NGOs, private sector entities, and philanthropic leaders.

We want to hear from you—contact us at financialhealth@ideas42.org with questions.
Visit ideas42.org/financial-health/ to learn more about our work.

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In March 2020, as the COVID-19 pandemic was straining household finances, five federal regulators urged banks and credit unions to launch or expand small-dollar loan programs.

The goal was clear: provide consumers, especially those with low to moderate incomes, an accessible tool to navigate financial challenges. Five years later, this call to action has yielded significant growth, with hundreds of financial institutions—including six of the eight largest banks and over 450 federal credit unions—now offering these products.[i]

Given this rapid expansion, how have small-dollar loans impacted consumers? Our research, a collaboration between ideas42 and SaverLife, with support from The Pew Charitable Trusts, explores how a diverse range of consumers are using these loans and how they are shaping financial health.

To develop our insights, we analyzed transaction data from SaverLife members who utilized small-dollar loans and conducted in-depth qualitative interviews with a subset of these borrowers.[ii] This report is divided into two parts: Part one offers preliminary insights into small-dollar loan borrowers based on our transaction analysis. Part two constructs personas of various borrowers, drawing from our qualitative interviews.

[i] This report generally uses a definition of small-dollar loans as short-term installment loans or lines of credit, which primarily leverage cash flow underwriting and are usually under $2000 dollars. For other more detailed definitions and standards, see The Pew Charitable Trust's standards on small-dollar loans and the NCUA's guidance to credit unions.

[ii] SaverLife analyzed the transaction data of 123 members who borrowed a small-dollar loan between July 2021 and August 2024 from six major U.S. banks. ideas42 conducted semi-structured interviews in September and October 2023 and August 2024 with 14 small-dollar loan borrowers with loans from four major U.S. banks. While borrowers in the transaction data and in the qualitative research sample vary by race, age, location, and other characteristics, they are not necessarily representative of the full population of small-dollar loan users.

PART ONE

THE RIGHT FIT? SMALL-DOLLAR LOANS FOR SHORT-TERM LIQUIDITY GAPS

PART ONE

To assess the relationship between small-dollar loans and consumer financial health, ideas42 and SaverLife identified 123 members who had used a small-dollar loan between July 2021 and August 2024 from one of the six large banks that offer them. All of these banks structure their loans as lines of credit or installment loans and give borrowers at least three months to repay. Borrowing $500 for 3 months costs $30 or less, compared to borrowing from a payday lender that would generally cost hundreds of dollars in fees.

We compared borrowers' financial situation in the three months prior to using a small-dollar loan to their financial circumstances during the three months after they borrowed a small-dollar loan. For some of our analyses, we supplemented these findings with insights from SaverLife's financial health survey data of the small-dollar loan users we identified in our transactional data and compared their responses to members who did not use small-dollar loans.

Table 1: Features of major U.S. banks' small-dollar loan products

Bank and Product	Year Introduced	Loan Size	Payment Structure	Pricing
usbank Simple Loan	2018	$100 - $1,000	3 equal monthly payments	$6 per 100
BANK OF AMERICA Balance Assist	2020	$100 - $500	3 equal monthly payments	$5 flat fee
Huntington Standby Cash	2021	$100 - $750	3 equal monthly payments	5% flat fee per advance
Regions Protection Line of Credit	2022	$50 - $500	Minimum payment of 10% of outstanding balance	12% APR
TRUIST Cash Reserve	2022	$5 - $750	4 equal monthly payments	18% APR
WELLS FARGO Flex Loan	2022	$250 - $500	4 equal monthly payments	$12 - $20 flat fee

Sources: ideas42 compilation of publicly available information from bank websites, research reports and news releases as of May 2025

By blending this data, we found that small-dollar loans may be a beneficial solution for consumers struggling with short-term liquidity challenges. In particular, we identify two key insights from our data: Banks appear to be lending to households facing short-term liquidity challenges, and those who used the loans have stronger financial situations in the three months after borrowing a small-dollar loan than they had in the three months prior to the loan.

1) A Financial Tool for Those In Need of Short-Term Liquidity

Small-dollar loans are indeed reaching people who need short-term liquidity. In the three months leading up to their first small-dollar loan, SaverLife members who used a small-dollar loan had negative cash flow, as defined by subtracting the total withdrawals in a month from the total deposits in the month. This indicates that banks were lending to borrowers who needed help with their cash flow.

2) A Steadying Force on Borrower's Finances

Bank-offered small-dollar loans also seem to have a steadying influence on borrowers' finances. Borrowers' cash flow turned from negative in the three months prior to their first small-dollar loan to positive during the three months after taking out the loan. We found that only about a third of the increase in cash flow can be attributed to the small-dollar loan. This suggests that the financial benefits of small-dollar loans may go beyond the initial investment and can play a steadying force in borrowers' financial lives. The shift from negative to positive cash flow was most pronounced for the borrowers with the lowest incomes—less than $25,000. This may indicate that small-dollar loans provide the greatest financial benefit to the lowest-income borrowers, though we cannot be certain because it is possible that the accounts linked are not members' primary accounts and most of their financial transactions take place elsewhere. Further investigation can help determine whether the lowest-income borrowers are truly the most likely to see benefits to their cash flow.

Benefits of small-dollar loans may go beyond the initial investment and can play a steadying force in borrower's financial lives.

Although we observe financial benefits to small-dollar loans, there is concern that small-dollar loans could contribute to a cycle of debt if repayment proves financially challenging for borrowers. However, transactional data show that borrowers are devoting less than 3%, on average, of their monthly observable income toward repaying their small-dollar loan. This suggests that, at least in isolation, small-dollar loans are not likely to be a financial burden for borrowers to repay.

All told, we find evidence that small-dollar loans appear to be a financial product with the "right fit" for addressing the liquidity needs of households facing cash flow challenges. While our insights around the benefits of small-dollar loans on consumer financial health are directional, these findings should encourage stakeholders, including financial institutions, to undertake similar analysis using internal data to measure the impact of these loans on the financial health of their customers.

PART TWO

BORROWER PERSONAS, BEYOND STEREOTYPES

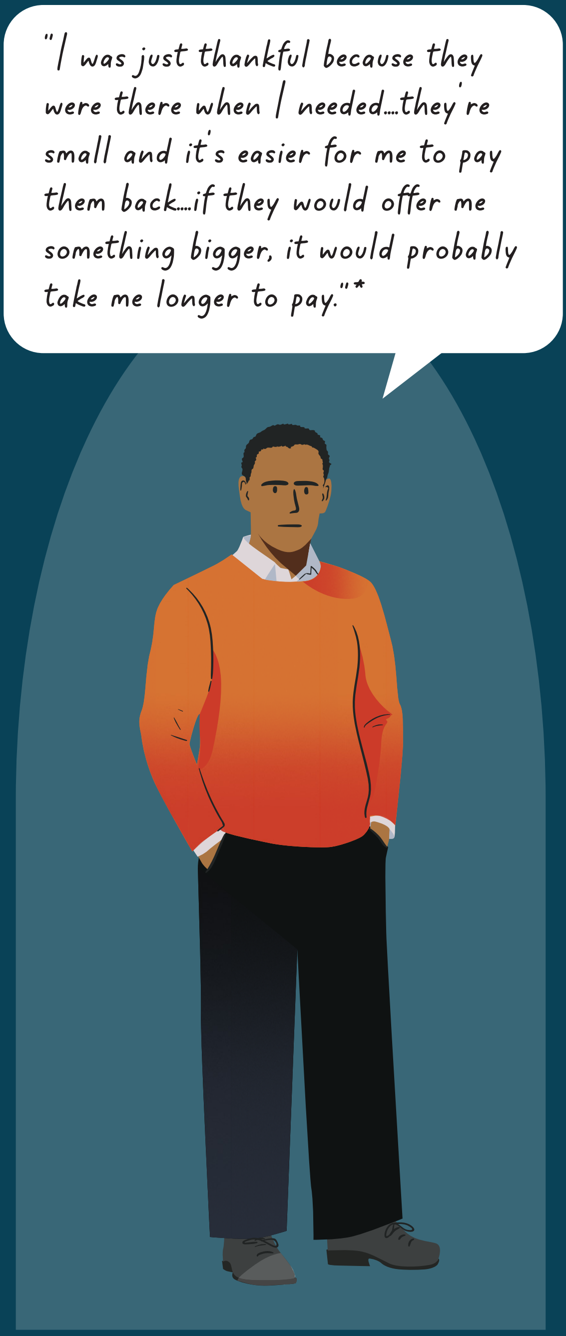
While some believe that small-dollar loan customers mostly have low incomes or are poor credit risks, a broad range of individuals with a variety of financial situations use these loans. Our qualitative research, based on semistructured interviews with 14 small-dollar loan borrowers, reveals some of these diverse financial situations and borrowing needs. The four personas highlighted below are based on composites of these borrowers that emphasize similar and recurring borrower backgrounds and behavior. The personas do not constitute an exclusive or exhaustive list of borrower profiles, but they do illustrate a selection of the varied types of borrowers benefiting from small-dollar loans.

1 The Price-Conscious, Mass Affluent Borrower

Manuel, a father of two, enjoys a stable real estate career and access to various credit products. Despite his good income, he finds navigating the high cost of living and family expenses is sometimes challenging, and he often carries high credit card balances.

Manuel has used small-dollar loans twice: once for a modification to his car and again for travel related to his daughter's soccer tournament. Though he had sufficient income and credit card space, he chose the small-dollar loan for its timeliness, affordability, and minimal credit impact. He discovered the product through a timely email from his bank, surprised by the same-day application, approval, and funding—a stark contrast to what he assumed was his bank's more leisurely pace. Concerned about high interest rates and his credit card's utilization, the small-dollar loan felt like a more affordable and predictable short-term solution. He knew he would fully repay his small-dollar loan in three months, while repaying his credit card balances felt more uncertain. Learning the loan required no credit check and would not harm his hard earned prime credit score also provided peace of mind.

According to SaverLife transaction and survey data, twice as many small-dollar loan users have household incomes of $100,000 or more than SaverLife members who do not use SDLs. This indicates that Manuel is not an anomaly and that even relatively affluent customers strategically use small-dollar loans. For Manuel, the small-dollar loan was immediately accessible, matched his specific need, and offered a predictable repayment process, making it a viable option for managing liquidity challenges.



* All quotes come from actual small-dollar loan borrowers ideas42 spoke with.

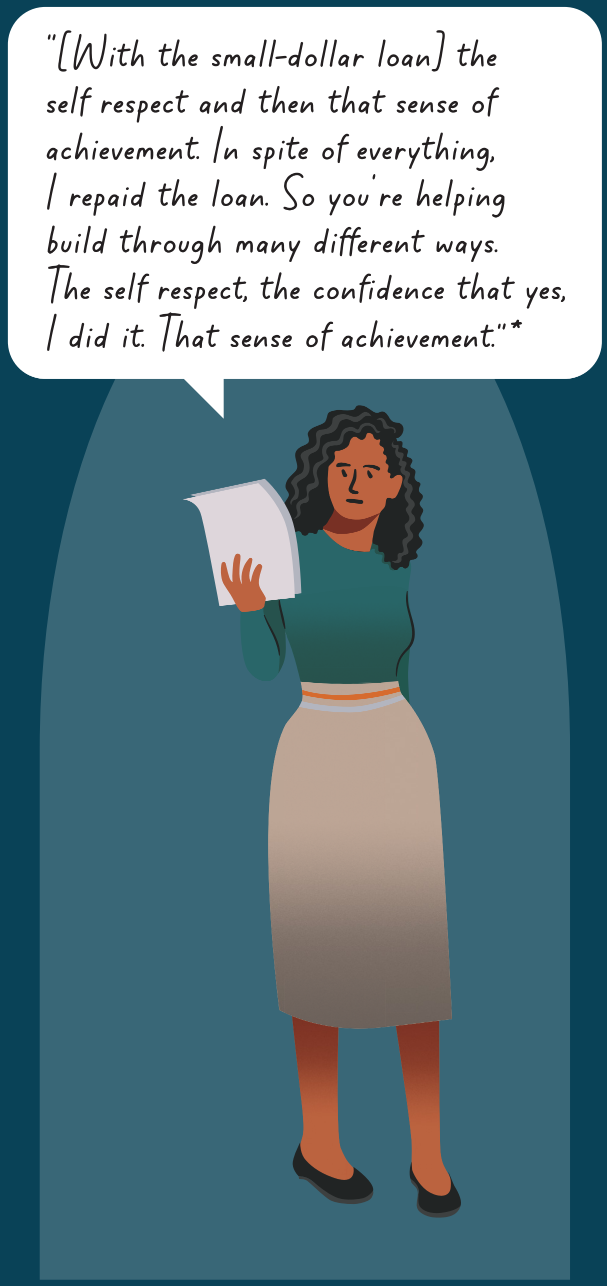
2 The First-Time Borrower

Nafisa, a recent immigrant, is starting to build her financial history in her new country. She recently started working as a caregiver and opened a checking account at a local bank to deposit her income. While she generally covers basic expenses, she struggles with legal bills related to her citizenship application. With no prior credit history, she lacks access to traditional borrowing options.

Nafisa preferred not to borrow from friends or family to avoid social pressures. When her employer suggested she check with her bank, Nafisa was skeptical about qualifying at a traditional institution. However, with help from her employer, she discovered her bank might approve her based on account history, even without a credit score.

Nafisa successfully applied for and received her small-dollar loan—her first "yes" for credit from a traditional bank. She emphasized the loan's value beyond its monetary sum; it boosted her self-respect and confidence and it felt like her bank trusted her. Successfully repaying the loan also gave her a sense of achievement.

Nafisa's story illustrates how small-dollar loans can bridge a wide range of borrowers into the traditional credit market, including students, immigrants, and many other groups.



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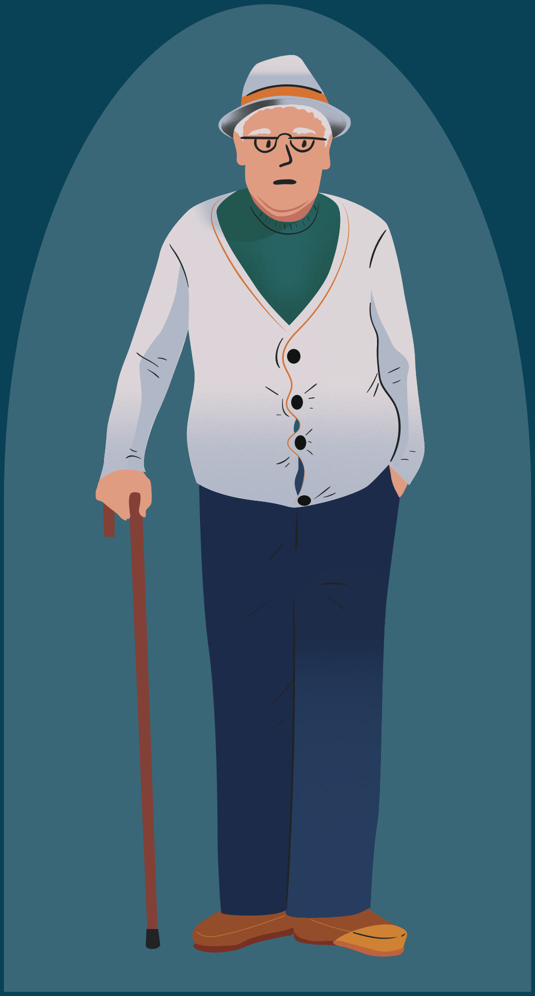
3 Fixed-Income Borrowers

Gary, a retired Oregon state employee, lives in a remote area, relying entirely on his state pension, which sometimes arrives late. While he lives within his means, delayed pension payments sometimes leave him scrambling to meet obligations.

Gary first used a small-dollar loan for a minor house repair. Initially seeking a personal loan, his bank teller directed him to their newly launched small-dollar loan. He found it manageable, more affordable than expected, and, despite past credit issues, he qualified.

Since his first loan, Gary has borrowed multiple times from his bank to bridge cash flow gaps, consistently repaying without issue. On his tight budget, he values this reliable and affordable solution. His consistent pension and spending habits show he, like many individuals with fixed-incomes, poses a better credit risk than his credit score suggests. By leveraging cash flow underwriting, banks provide a much-needed option for borrowers who prefer to stay with their existing financial institutions.

Gary's experience reflects that of many Americans on fixed incomes. Because his bank offers an accessible in-house solution, he can now rely on his bank’s small-dollar loan to navigate cash flow issues.

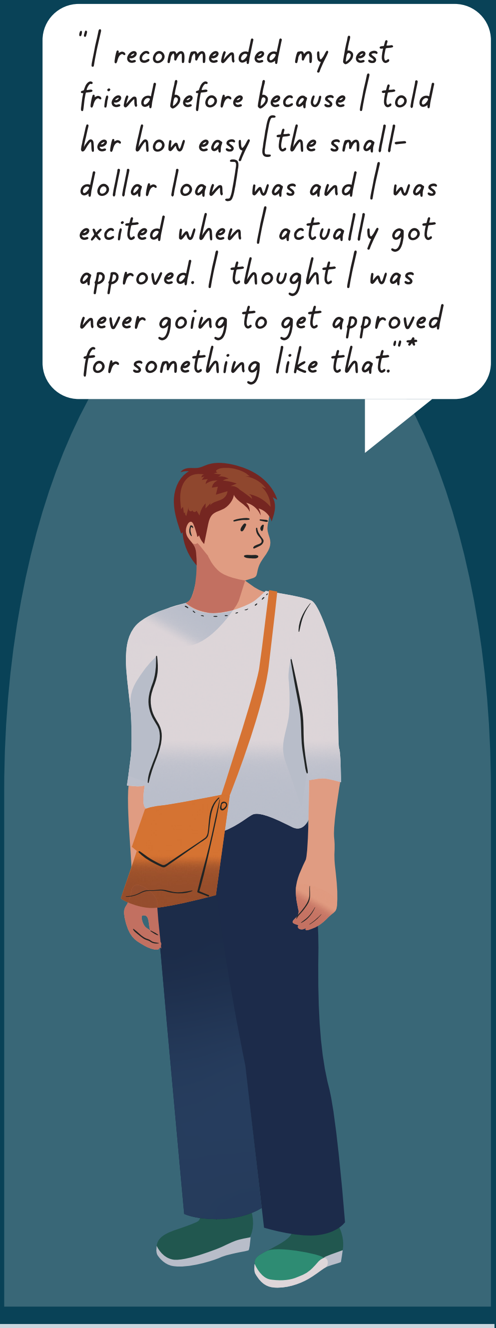


4 The ALICE Borrower

Michelle embodies many ALICE ("Asset Limited, Income Constrained, Employed") individuals who require access to timely credit. Her irregular shift work creates cash flow challenges and makes unexpected expenses difficult to manage. Although she has access to high-interest credit cards, her balances are already too high. She also actively tries to improve her credit score and prefers to pay down existing debt rather than add to it. In the past, she reluctantly relied on overdrafts and even payday loans, despite knowing the risks. Overall, she felt deeply dissatisfied with her limited options for both unexpected costs and more routine cash flow issues.

When Michelle learned about her bank's small-dollar line of credit, she applied cautiously, expecting rejection due to her credit score. Her approval came as a pleasant surprise. Only during her interview with ideas42 did she learn about cash flow underwriting, expressing genuine gratitude that her bank assessed her creditworthiness more holistically. According to SaverLife transactional and survey data, fewer than a quarter of small-dollar loan borrowers self-reported that they had a "good" credit score or better. This suggests that small-dollar loans with cash flow underwriting can be a helpful tool for supporting the financial inclusion of consumers like Michelle.

Michelle has since used her small-dollar line of credit for several unexpected expenses and during income dips. She shared with her sister that the product was not only easy to access and repay but also changed her perception of her bank. For years, despite being a long-time customer, she felt her bank did not care about her. Other financial apps offered her credit, but she could not access anything from her own bank until the small-dollar line of credit.



Michelle, like many ALICE consumers, has often borrowed from nonbanks. Even long-term deposit account holders frequently turn to non-bank providers for critical financial needs, and express that they feel taken for granted by their primary institutions. By expanding credit access, a small-dollar loan can redefine the relationship between these borrowers and their banks. Michelle's story also highlights how banks are using innovations like cash flow underwriting and automation to expand credit access.

* All quotes come from actual small-dollar loan borrowers ideas42 spoke with.

LOOKING AHEAD

EXPANDING ACCESS, BUILDING STABILITY

Small-dollar loans are supporting a wider spectrum of consumers than many initially predicted, from the mass affluent to those building credit or managing irregular incomes. Our data suggests bank-offered small-dollar loans meet genuine liquidity needs, improve cash flow, and remain affordable. The data also indicates that banks are reaching consumers who need help, some of whom would be unlikely to qualify for conventional bank credit products. Banks reflecting on these insights would do well to more broadly consider the role that these products can play in terms of long-term customer acquisition and relationships. Small-dollar loans can help those with poor credit scores navigate an unexpected expense, but they could also kickstart a relationship between college graduates and their banks or strengthen the bond of customers who may otherwise be attracted to fintech credit offerings.

Looking ahead, we believe financial institutions should not only expand their small-dollar loan offerings but also emphasize when they are embracing innovation or expanding access, such as with the increased use of cash flow underwriting. The borrowers we spoke to were deeply appreciative of their bank's small-dollar loan and spoke to others about their positive experiences. Leveraging and building upon this goodwill has the ability to further both business and mission outcomes.

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