

From Financial Exclusion to Inclusion: Using Microfinance to Address Credit Invisibility

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ABSTRACT

Within the United States, access to financial credit is dependent on prior participation within these financial systems. This creates a frustrating paradox for many young people throughout the nation: individuals must signal credit worthiness through an established positive credit history to obtain credit but cannot obtain a credit history without previous credit. This article compares this issue of credit invisibility to financial exclusion within developing economies to explore how the principles of microfinance once applied to these populations may be extended to serve young people in the U.S. Using a literature-guided methodological approach, this study integrates economic theory in the form of information asymmetry and credit rationing with sociological theory by way of social capital and structural inequality. Looking specifically at credit-building tools, fintech and algorithm-based lending platforms, and informal peer-vetting systems, it explores the possibility of these alternative credit-vouching mechanisms. The findings from this literature review are mixed. On the one hand, such mechanisms expand access to individuals once excluded from financial systems, but it does so at a cost: by requiring young borrowers to assume financial risk and leaving the existing institutional structures unchanged. In essence, many microfinance tools reproduce patterns of economic oppression under the guise of greater inclusion. In light of these findings, this article argues that achieving true financial inclusion will require more than surface-level interventions. It will entail completely reimagining credit systems—as something more than score-based models—to produce more equitable and context-sensitive metrics for determining credit worthiness.

Keywords: *Microfinance, credit worthiness, financial exclusion, credit invisibility, lending*

INTRODUCTION

In most modern economies, a well-established financial credit history is a requisite for full participation in social and economic life. No longer is credit simply a financial tool for gauging lending risk. It is a gatekeeping mechanism that can prevent young people from securing a loan to fund their dreams of higher education, home ownership, and even small-business development. To make matters worse, once young people are initially prevented from accessing these economic opportunities, the financial disparities they experience tend to be compounded over time (Consumer Financial Protection Bureau, 2015).

In the United States, a significant portion of the population is excluded from credit-based systems due to the phenomenon of credit invisibility. Credit invisibility refers to those individuals who lack sufficient credit history to generate a credit score, or who have a low credit score due simply to a lack of credit history. Because young people have not yet had the opportunity to establish credit histories, this specific subset of the population is disproportionately affected by such barriers for economic advancement. In this way, the issue of credit among young people represents an important paradox: young people need credit to build credit, but they cannot obtain credit without already having it.

This paradox, in one shape or another, has been seen before. Microfinance solutions have been previously introduced in developing economies as a response to the barriers to financial institution access experienced by low-income individuals. Microfinance emerged as a solution for individuals deemed too risky for conventional lending (Armendáriz & Morduch, 2010) in that it leveraged group lending, collateral derived from social capital and extensive interpersonal networks, and alternative underwriting mechanisms to render various institutions more accessible. This article argues that the microfinance principles implemented in these developing economies can be applied to young people in the United States in much the same way. It uses the principles of microfinance to critically analyze the viability of credit-building tools for expanded access to financial systems. Yet, this argument is likewise careful to acknowledge that while microfinance tools may mitigate certain barriers, they do not completely negate longstanding and deeply entrenched structural inequalities already embedded within existing markets. Instead, microfinance systems have the capacity to reconfigure existing forms of exclusion by reallocating the risk onto borrowing while nonetheless preserving institutional norms for lending risk mitigation.

To advance this argument, this article draws upon economic theories of information asymmetry, adverse selection, and credit rationing and infuses them with a sociological perspective. The sociological principles to be applied here encompasses social capital, structural inequality, and institutional trust. This integrated economic-sociological framework sets this analysis apart from others like it, as rather than approach an issue from an exclusively economic lens or an exclusively sociological one, it attempts to understand the issue of financial exclusion from a more systemic position. By analyzing traditional U.S. credit-building mechanisms, such as secured credit cards and lines of credit, fintech lending platforms, credit-building loans, and peer-based financial programs, this article interrogates the effectiveness of such products for promoting financial inclusion. After carefully reviewing the literature on this topic, this article concludes that while microfinance-based systems offer valuable insights to alternative methods of lending, true equity involves reimagining existing financial structures.

To begin, the next section details the methodological approach guiding the collection, organization, and examination of scholarly sources. These sources were grouped according to three themes—economic implications, sociological entailments, and practical applications. These themes were then divided into the subthemes of information asymmetry and market failure for the economic implications, social capital and structural constraints for sociological theory, with the theme of practical applications being constituted by the subthemes of alternative credit-building methods, fintech backing, peer-based vetting systems. After detailing these themes, the article then proceeds to interpret the results of the literature review in the discussion section. It concludes with a critical interrogation of the use of microfinance tools for financial inclusion, and explores possibilities for building upon, reinventing, and reconfiguring such mechanisms for greater economic equality among young people throughout the United States.

METHODS

For this study, the researcher conducted a literature review and used thematic analysis to answer this study's guiding research question: How, and to what extent, can the principles of microfinance in developing economies be applied to a U.S. context to address credit invisibility among young people? The analysis relied on secondary sources, thus synthesizing peer-reviewed articles, policy reports, and other empirical studies in the fields of economics, sociology, and finance. As for why this particular methodology was selected, literature reviews are widely used within academic research to develop insights into existing concepts or theories (Snyder, 2019). The application of thematic analysis to this review is ideal for identifying recurring patterns across diverse sources and is therefore commonly used within qualitative research—i.e., research that analyzes non-numerical data—to engage with complex and vast bodies of literature (Braun & Clarke, 2006).

For inclusion in the analysis, sources were selected based on their relevance or ability to respond to the above-referenced research question, perceived credibility, and estimated contribution to the concepts under discussion. In this way, the present study's methodological approach adheres to “best practices” for qualitative research in that it prioritizes purposive sampling and conceptual relevance over exhaustive inclusion (Grant & Booth, 2009; Patton, 2002).

Once these sources were collected, they were organized into the three primary patterns (i.e., themes) identified: economic implications, sociological implications, and practical applications. As Nowell et al. (2017) point out, inductive thematic analysis like this allows themes to emerge from the data itself and resists applying pre-constructed themes in advance. Along these same lines, Thomas and Harden (2008) argue that organizing sources according to themes like this is particularly useful in interdisciplinary research—including studies like this one, which bridges economics, sociology, and finance—due to its integrative abilities, all while maintaining analytical clarity. This, in turn, works to mitigate the effects of research bias because the analyst is not applying the themes they determine to be important to the data but are instead letting these themes emerge on their own. Once established, these themes were then divided into sub-themes to allow for more precise analysis. The broader theme of economic implications, for instance, was refined into the subthemes of information asymmetry and market failure. The overarching theme of sociological implications, however, was divided into the subthemes of social capital and structural constraints. The discussion that follows interprets these results

according to their practical applications, exploring the advantages and disadvantages for microfinance principles such as alternative methods for credit-building, fintech-based backing, and peer vetting systems.

As mentioned above, the sources informing this study's analysis are exclusively secondary sources, meaning that no experimental procedures involving human subjects were utilized. For this reason, the current study was exempt from institutional review board oversight and approval. This design feature, however, represents one potential limitation of the study, as the lack of primary empirical data may limit the robustness of its conclusions. Future research may therefore wish to combine the takeaways derived here from analysis of secondary sources with nuanced insights from primary sources of data.

CONCEPTUAL BACKGROUND

Credit Invisibility

The concept of “credit invisibility” is integral to this study on financial inclusion for young people throughout the United States, but what all does this term entail? According to the Consumer Financial Protection Bureau (CFPB) (2015), credit invisibility occurs when an individual does not have a recorded history of credit with a nationwide reporting agency (e.g., Experian, TransUnion) and cannot be assigned a credit score as a result. Credit invisibility affects a wide swath of the U.S. population, with estimates from the CFPB suggesting that more than 26 million adults in the U.S. may be designated as “credit invisible,” whereas another 19 million have credit scores that are insufficient to generate a score. The very notion of credit, however, is meant to “level the playing field,” so to speak, by assigning a score of credit worthiness based on seemingly objective data points like credit use, debt-to-income ratio, and finally, length of credit history. Yet, the last of these criteria render young people a particularly vulnerable part of the overall population when it comes to financial access. Without an established credit history, these individuals become credit invisible, which in turn prevents them from accessing other financial opportunities like renting or buying a house, participating in employment screening, and receiving a favorable insurance premium (Bartlett et al., 2022). It is important to point out, though, young people are thus placed in a Catch-22: they cannot secure credit without a history of it; and they cannot obtain a history without securing it in the first place. In this way, what is meant to be an objective tool for assessing credit worthiness becomes one that is skewed in the favor of older segments of the population (i.e., those with established credit histories).

Age is not the only determinant of credit invisibility, though; this phenomenon is deeply intertwined with broader patterns of socioeconomic inequality. Individuals from a low socioeconomic (SES) background, first-generation college students, and racial and ethnic minorities represent a higher proportion of the overall subpopulation of “credit invisibles” (CFPB, 2015). When one considers how credit is necessary to obtain access to other avenues that promote economic equality—such as higher education, employment, and home ownership—it is easy to see how the disparities created by credit invisibility may be compounded over time, worsening the divide.

Microfinance

In many ways, microfinance was created by the financial exclusion brought on by credit invisibility. “Microfinance” refers to the practice of offering small-scale financial products and services (e.g., loans, savings accounts, and insurance) to individuals who have historically been unable to access traditional financial systems (Armendáriz & Morduch, 2010). Traditional financial institutions often declined lending to low-income applicants due to a lack of collateral, income documentation, and, of course, credit history. To address this barrier to economic inclusion, microfinance institutions (MFIs) were created to develop alternative lending models that delivered small loans to those populations unserved by the larger banks. These lending models relied on alternative methods for assessing credit worthiness, such as peer-vetting systems and group lending practices. Both elements are designed to mitigate risk for the lender in the absence of traditional indicators of credit worthiness. Under such a framework, borrowers must form a group, which collectively takes out a loan. Because the group as a whole is borrowing, the group as a whole is equally responsible for repayment. This approach taps into tight-knit social structures and collective accountability mechanisms. The empirical research investigating the efficacy of the microfinance lending model reports on its success, showing that it produces high repayment rates (Banerjee et al., 2015).

Admittedly, however, much of the research on microfinance programs has been conducted in developing economies. Its applications in sub-Saharan Africa (van Rooyen et al., 2012), India and Pakistan (Khan et al., 2021), as well as South America (Berger, 2006) have been well-documented. Comparatively fewer studies have sought to apply it to a U.S. context, and even fewer have used it to examine credit invisibility among young people. This is where the present study enters.

RESULTS

Theme 1: Economic Theory

To better understand why young people are often excluded from participating in formal credit systems, it is necessary to first examine the economic principles underpinning current lending decision-making. Credit systems rely on assessments of perceived riskiness, degree of uncertainty, and expected repayment or default rate. All of these individual determinations, however, depend on both the availability and reliability of information. When this information is incomplete, restricted, or reduced, access to credit often results.

Subtheme 1: Information Asymmetry

Information asymmetry plays a large role in young people’s restricted access to credit. Information asymmetry refers to a situation in which one party possesses ample information but the other does not. In the context of lending, specifically, it is usually the borrower who possesses information (about their intentions for the money, the likelihood they will repay it, and so on) and the lender who is not privy to such matters. Because of the lender’s comparative lack of information, they are forced to rely on observable indicators of riskiness, which often assumes the form of credit scores.

This information asymmetry often leads to what Stiglitz and Weiss (1981) describe as “credit rationing.” With credit rationing, the lender treats credit as a finite resource that should only be allocated to the least risky individuals. So, rather than simply raising interest rates for those deemed riskier, lenders often choose to deny credit to these groups of people altogether. The economic principle of adverse selection is also at play here. Adverse selection occurs when the people most willing to take out loans with high interest rates are often those who are the least likely to repay them. In contrast, safe borrowers often determine that the cost of the loan makes borrowing not worth it. The trouble is that lenders attempt to account for adverse selection, but due to information asymmetry, one of their only means of distinguishing high-risk from average-risk borrowers is a credit score that is based in large part on credit history. So, even if young people are otherwise financially responsible, their credit invisibility makes them difficult to separate from riskier borrowers.

Subtheme 2: Market Failure

The second subtheme generated from this analysis is market failure. Information asymmetry can be regarded as a factor that occurs at the individual level of decision-making, but market failure attends to broader economic patterns that occur when resources are not fairly or evenly distributed. As it concerns credit systems, market failures happen when the people capable of and willing to repay loans are denied access to them. Recent research into this area shows that even highly developed financial systems and robust economies are susceptible to these market failures, particularly among those with limited or short credit histories (Bartlett et al., 2022).

One key driver behind market failure is the inability to distinguish between actual and recognized credit worthiness. Theoretically speaking, credit decisions should be based on an individual’s actual ability to repay a loan and the probability that they will do so. However, theory and practice do not always align. Credit scores thus represent borrowers’ recognized credit worthiness, even though these scores may not correspond with their actual worthiness.

A second related feature of market failure involves the standardization and fixed costs that characterize present-day credit systems. Offering credit is very involved; it requires underwriting, verification, and monitoring, no matter how big or small the loan is. Because of this, lenders have a built-in incentive to give preference to borrowers and loan products that are both standard and scalable (Philippon, 2015). In short, individuals with brief or absent credit histories are believed to be not worth the cost of evaluation and assessment relative to the expected return on that investment.

So, unlike information asymmetry, even when lenders could gather more information about a prospective borrower, they may consider doing so not worthwhile given the time and monetary costs. As a result, the market as a whole fails to serve those individuals with financial profiles that may require a more personalized assessment. Current research into this market dynamic supports the claim that barriers associated with cost represent a primary reason why lenders often opt not to extend credit to those without traditionally extensive credit histories (Beck & Demirgüç-Kunt, 2006). Therefore, the credit market fails this population not due to information asymmetry alone, but due to this uncertainty, coupled with economic incentives that reward low-cost decision-making.

Theme 2: Sociological Theory

Shifting to the second theme, which adopts a sociological perspective, credit invisibility can be seen not just as the product of market dynamics and economic forces, but of longstanding institutional marginalization. Young Americans' exclusion from certain financial systems is not a neutral fact; instead, it simultaneously reflects and reinforces prevailing power structures that privilege some forms of economic participation over others.

Subtheme 1: Social Capital

The sociological concept of social capital heavily influences who gets access to credit and who is denied such access. The notion of social capital originates with the work of Bourdieu, who defined it as the resources that are embedded within social networks that individuals can access for their own benefit. Looking at credit markets, specifically, social capital may assume the form of financial knowledge, trust-based relationships, and individuals willing to serve as co-signers or financial guarantors. In this way, credit visibility is not just a result of individual financial behavior, but also one's position within broader social networks. For example, a young person with extensive familial or social support could be added to their friend or family member's credit card as an authorized user. This would help to incrementally build their credit but would also reassure the lender of repayment since it is the account holder, not the user, per se, who is responsible for repayment. In this way, the relational trust derived from extensive social capital can serve as a proxy for institutional data where it is absent.

Social capital is also integral for facilitating financial knowledge. Individuals are not born knowing how to navigate financial systems; they are taught. Several studies have shown that individuals with families and social networks experience better economic outcomes, in large part due to the informal teachings they receive from their social networks (Laila et al., 2025; Zhao & Li, 2021). By interacting with other individuals who have working financial knowledge, young people can learn the essential principles of debt, including principal balances, compounding interest, and even how credit-building tools function. In fact, it is precisely because of the lack of informal financial knowledge garnered from social networks—in other words, the lack of social capital—that prevents first-generation college students and those from low-SES backgrounds from witnessing financial parity with their peers (Lin, 2002).

Subtheme 2: Structural Constraints

While social capital represents a barrier to credit access that is generally external to financial systems, there are nonetheless many that exist within these structures themselves. One such constraint pertains to the standardization of credit systems. Contemporary scoring models use the same criteria—repayment history, credit use, and length of credit history, to name a few—to generate a uniform, quantifiable measure of someone's credit worthiness (i.e., their credit score). This system has been around for more than 30 years, and its longevity has contributed to further cementing these criteria as the gold standard for assessing risk (Hurley & Adebayo, 2016). So, while young borrowers may offer alternative indicators of credit worthiness, because those indicators lie outside of the established system, they fail to be accounted for (Fourcade & Healy, 2017). Education level and evidence of cash flow and current liquidity would offer alternative, and presumably equally convincing, indications of credit

worthiness, but these factors are discarded due to their incompatibility with these longstanding data systems (Kleinberg et al., 2018). It is in this way that the nature of existing data structures represents a salient structural constraint.

Another structural constraint is regulatory pressure. Regulations applied to the lending industry meant to protect consumers of loan products have inadvertently negatively affected certain borrowing populations. In a U.S. context, the Equal Credit Opportunity Act (ECOA) and its corresponding regulatory measure known as Regulation B requires lenders to prove that credit decisions are based on empirical data and are not influenced by discriminatory biases (U.S. Department of Justice, 2023). These regulations are therefore essential for preventing discriminatory lending practices, but to adhere to such policies, institutions will often resort to established assessment models (i.e., credit scoring systems) that are easily defensible when placed under review. Due to concerns for charges of biased decision-making or non-compliance with this regulation, lending institutions may therefore adopt more conservative borrower evaluation practices. Federal regulation emphasizing transparency, accountability, documentation, and defensibility in lending decisions implicitly encourages lending institutions to value regulatory adherence over financial inclusion (Board of Governors of the Federal Reserve System, 2011).

It is important to point out, however, that despite formal regulation designed to prevent discriminatory practices, the literature indicates that discriminatory lending decisions influenced by considerations for race and gender are nonetheless commonplace. Contemporary lending practices' reliance on credit scoring models informed by accrued wealth, employment status, and participation in financial systems can perpetuate existing disparities because these opportunities are not evenly distributed across all segments of the population. Looking specifically at gender inequalities, one may note that prior to the passage of the Equal Credit Opportunity Act of 1974, women were prohibited from accessing credit on their own; to open a credit card, for example, they would need their husband's approval and signature. Similarly, racial and ethnic minorities have historically experienced restricted access to obtaining mortgages and other forms of wealth-building (O'Neill & Roscigno, 2023; Rothstein, 2017). So, while these discriminatory practices are no longer legally sanctioned, their legacy is nonetheless acutely felt, as credit worthiness draws heavily from past financial behavior.

Considered side by side, these different structural constraints underscore the fact that young Americans' exclusion from financial systems and credit markets is not based solely on individual factors. Rather, such exclusion is deeply entrenched within these institutional structures themselves. These constraints manifest in the form of data standardization, regulatory pressures, and a legacy of discriminatory lending practices. Understanding these constraints, as well as how they intersect with the individual-level factors of social capital described above is essential for exploring if and how microfinance principles could work in the interest of greater financial inclusion.

DISCUSSION

Can Microfinance Offer a Viable Solution for Credit Invisibility?

The results of the literature review conducted for this study point to the multilayered problem of credit invisibility among young people in the United States. The present discussion section attempts to

respond to this problem, as it has been laid out, to explore the extent to which existing microfinance models may offer a feasible solution.

Existing and Alternative Credit-Building Mechanisms

Within the U.S., several credit-building tools already available adopt a logic similar to microfinance. Secured credit cards for instance involve the user paying the lender the amount they will charge up front as a gesture of good faith. The prepayment may be thought of as a security deposit to protect against default, which is later released to the borrower. Such a system is comparable to microfinance in that small loans equals small risk. Furthermore, both approaches offer the borrower a chance to prove their ability and willingness to repay the loan but uses collateral to shield the lender from unnecessary risk. Furthermore, by repaying faithfully and fully over time, the user of these secured credit cards and lines of credit can demonstrate a consistent credit record that counteracts their credit invisibility (Ratcliffe & Gallagher, 2020).

One promising alternative to evaluating applicants based on credit history is cash-flow underwriting, which instead evaluates applicants' likelihood of on-time repayment based on a combination of factors like income, spending history, and account balances. Sources providing this information may include rental payments, subscriptions, and other recurring financial commitments, which can provide insight into a borrower's ability or intention to repay—much more than a credit score could. In this regard, such alternative sources of data mirror microfinance's commitment to using nontraditional indicators to establish trustworthiness (Jagtiani & Lemieux, 2019).

The problem with applying this tool on a larger scale lies with the collateral users must supply. This assumes that the borrower has sufficient funds to allocate up front. Individuals from low-SES backgrounds may lack such financial capital and may therefore fail to benefit from these credit-building tools. In this way, microfinance lending tools designed to build credit, such as secured credit cards and line of credit, may actually exacerbate existing financial inequities by excluding those without the funds necessary for the secured deposit. Furthermore, it does little to remove the burden of proof placed on borrowers by credit histories. In both cases, it is up to the individual borrower to demonstrate their credit worthiness, while institutional and structural barriers remain uninterrogated.

Fintech and Algorithmic Decision-Making Approaches

Microfinance solutions to financial exclusion have also looked to advances in the finance technology (fintech) sector to devise alternative means of assessing credit worthiness. Analysts working in this area have attempted to leverage machine learning technologies to harvest alternative sources of data to better include individuals historically excluded from traditional scoring systems (Jagtiani & Lemieux, 2019). In theory, this approach sounds promising. However, when one applies a more critical lens, the problems inherent in this approach become apparent. Using algorithmic models to identify other indicators of credit worthiness becomes especially problematic when one considers the impact of the data upon which these models are trained. Such data reflects historical inequalities (such as the racial and gendered ones described in the results section), which can be perpetuated or exacerbated through algorithmic decision-making (Bartlett et al., 2022). Additionally, even when protected categories like race

and gender are excluded from consideration, these models may use variables that act as proxies, such as neighborhood, zip code, employment status, and so on (Fuster et al., 2022)—categories all shaped by existing social and economic disparities. Basing lending decisions on this data may therefore reproduce systemic social disadvantages rather than ameliorate them.

Yet, rather than abandoning AI-based decision-making altogether, some lenders are turning to explainable AI (XAI). As its name suggests, XAI aims to make algorithmic decision-making more transparent and understandable. In an attempt to reimagine AI decision-making as the black box it is often thought of, explainable models provide information about the variables influencing lending outcomes and the weight each was granted. If financial regulations required that all AI lending decisions were, in fact, XAI, then this may allow for the ethical use of alternative data sources while simultaneously promoting accountability (Demajo et al., 2020).

Peer-Vetting Systems

Microfinance practices have proven the utility of informal lending networks and peer-based accountability systems. These practices leverage existing social ties and local knowledge as means for evaluating borrower credibility in a way that offers a viable alternative to conventional mechanisms like credit-based scores. Tapping into relational trust and communal accountability could, in theory, work in the U.S. Co-signing arrangements are already in place for young borrowers, so this system would simply build upon existing infrastructures. Certainly, this approach would help to overcome the challenges posed by information asymmetry in that it diversifies the types and sources of information deemed acceptable for lending decision-making.

However, applying the social structures of developing economies where microfinance initiatives have thrived (e.g., India, East Asia, and South America) to a U.S. context may prove challenging. Social networks in the United States are, by comparison, much more diffuse and unevenly distributed. Many individuals do not have access to the social networks that, in turn, provide the social capital necessary to offer sufficient peer-vetting. This lack of social capital may be even more pronounced for individuals from low-SES backgrounds, who often have to work long hours and are thus prevented from forging new relationships. In this way, peer-vetting systems, while well-intentioned, may actually serve to further entrench existing inequalities rather than overcoming them (Granovetter, 1985; Lin, 2001). It is also worth noting that even scaling up existing peer-vetting systems like co-signing may be incompatible with the U.S.'s highly individualistic culture. So, while microfinance principles like peer-vetting may work in more collectivist cultures, analysts should be careful about assuming that they would neatly transfer to a completely different cultural context.

As previously stated, microfinance principles initially emerged in communities typified by a strong collectivist culture, tight-knit social networks, and shared social norms emphasizing the obligation to repay. Against this cultural backdrop, social pressure and concerns for community reputation served as compelling substitutes for social collateral. In the more individualistic culture of the U.S., however, social networks are often much more geographically distributed and social obligations are more narrowly defined (Hofstede, 2016). Peer-vetting systems may therefore fail to exhibit the same degree of success as in more collectivist cultures. That does not mean that microfinance principles are incompatible with U.S.

culture, however; it simply means that innovative adaptation is called for. Such adaptation furthermore does not necessarily require a one-to-one replication of traditional group-lending models. Rather, digital communities and social networks on platforms like TikTok, Snapchat, Instagram, and more may serve as alternative mechanisms of accountability as these are all well-entrenched within existing individualistic societies. In these spaces, digitally verified peer references and mentorship networks (e.g., alumni listservs, professional organizations, and platforms like LinkedIn) could provide modified, but equally convincing, forms of social collateral.

The Limits and Future Directions of Microfinance in the U.S.

The limits of microfinance for increasing young borrowers' credit visibility, and by extension, their inclusion within financial systems, indicates both areas of promise and potential pitfalls. On the one hand, it may be able to overcome the issue of information asymmetry and prevent credit rationing. On the other hand, however, it may unwittingly privilege those with extensive social capital, thus worsening existing economic inequities. In all cases, however, they put the onus on the individual to prove themselves worthy, effectively leave institutional structures unchecked and unchanged.

This is why to address the issue of credit invisibility and financial exclusion, a rethinking of existing financial structures is necessary. This transformative reimagining may entail developing community-based credit institutions that effectively integrate microfinance principles with more formal measures of credit recognition. This might look like leveraging social capital while at the same time providing pathways to access more traditional conventional financial systems.

In this reimagined financial system, creditworthiness would be determined by a wider range of indicators and encompass both behavioral and contextual factors. Behavioral indicators like on-time rent and utility payment, income and expense management patterns, savings, and other demonstrated ability to meet recurring financial commitments would better capture how young people manage their financial obligations in real time. These indicators could be expanded even further to account for the responsible use of checking accounts, such as the account holder avoiding overdraft fees and making regular deposits, both of which point to financial responsibility.

Contextual indicators could round out the individual's financial profile by situating their financial behavior within their broader life circumstances. Common contextual factors might include long-term employment, education in progress or education attained, and cost-of-living factors. For instance, a student working a part-time job while living with their parents may not have a robust credit profile, but accounting for on-time payments may help to create a more comprehensive picture of credit worthiness.

Both of these potential solutions, however, would require large-scale policy interventions. Policymakers would need to draft legislation expanding access to existing public credit registries, regulate the use, storage, and privacy associated with alternative sources of data, and encourage transparency in lending decision-making processes.

Digital Public Infrastructure and Financial Inclusion

Digital Public Infrastructure (DPI) may offer another method for addressing the issue of credit invisibility. The Gates Foundation (2017) defines DPI as interconnected digital systems (e.g., digital identification platforms, electronic payment networks, and secure data-sharing sites) that operate for the benefit of the public. The foundation compares these systems to power grids or roads to underscore their interrelated nature and public orientation. A DPI-based approach would create opportunities to establish verifiable records of financial activity outside of traditional methods, such as accessing private credit bureaus. Utilizing DPI in this way holds important implications for young adults, who may be prevented from accessing financial resources not due to poor past behavior, but simply a lack of institutionally recognized data (Gelb & Metz, 2018). The United Nations Development Programme (n.d.) described DPI as consisting of three components: the identity layer, the payment layer, and the data exchange layer. The “identity layer” positions DPI as allowing individuals to access a fiscally responsible identity and signal that identity to lending institutions.

Additionally, digital identity systems may aid in the transfer of formal financial records from one institution to another. Operating within such a framework, young adults could accumulate evidence signaling their financial responsibility and selectively share those records with prospective lenders. This could look as simple as an “opting in” procedure, where in establishing an account, they check a box or toggle a switch indicating their willingness to share data with third parties for these purposes. The appeal of this approach is that it undermines the historical position of banks and credit bureaus as gatekeepers and “owners” of individuals’ personal financial information, and instead diversifies who gets to adjudicate over such matters.

Research into DPIs as a viable alternative method for determining credit worthiness holds promise in this regard. The World Bank’s Global Findex report emphasizes that digital payments have become increasingly important in promoting financial inclusion and broadening formal financial systems (Stiglitz & Weiss, 1981). The second layer of DPI is the payments layer, which uses existing payment infrastructures to prove responsible financial activity. For an illustrative example of the relative successes of this approach, one can look to Brazil’s Pix system and India’s Unified Payments Interface (UPI), both of which allow an individual to perform low-cost, real-time digital transactions, which in turn generate a record of financial activity—even for those who have had limited access to traditional financial structures. For young adults, rent payments, tuition remittance, and other financial obligations routinely fulfilled, a DPI approach to lending may be able to use a digital paper trail to show financial responsibility.

The third and final component of DPI is the data exchange layer, which tackles the problem of information asymmetry previously discussed. Traditional credit systems deny access to financial resources because they possess insufficient information to make an informed decision about the potential borrower. But, if lenders could consult rental histories, public utility payments, educational expenses and the like, they would not be forced to make decisions “in the dark,” but would have ample data points for making their determinations.

To empirically test the merits of a DPI approach, however, future research should seek to move beyond theoretical analysis and instead collect primary data. A possible next step in this vein would

include designing a mixed methods study composed of both survey data and in-depth participant interviews. A survey of approximately 100 college students would provide generalizable insights regarding their familiarity with credit-building products like secured credit cards, alternative data-driven lending models, and peer-vetting systems for borrowing purposes. The types of questionnaires featured on the questionnaire might inquire into perceived benefits, privacy concerns, and overall trust in financial institutions. This data could be contextualized with the more nuanced interview data by investigating how young adults weigh tradeoffs between financial inclusion and sharing their personal data. Findings from this line of research would help determine not only if DPI-based lending is viable in practice, but also whether it will be positively received by the populations it aims to serve.

A comparable study was recently conducted by Ntakirutimana et al. (2026) as the authors sought to examine the financial literacy of young adults in Rwanda. The authors adopted a multi-stage approach to investigate how AI might facilitate such financial literacy and help meet the United Nations Sustainable Development Goals. While this study was grounded in the context of Africa and the present line of inquiry looks at the U.S., specifically, the sequential design of the researchers' study is exemplary in that Phase 1 offers a broad exploratory survey of many participants, and Phase 2 use a smaller sample to design interventions from Phase 1. Future work may similarly wish to model this study design.

In sum, as this article has attempted to show, the issue of credit invisibility among young people in the United States does not represent an individual problem, but a systemic one. And a systemic, multi-layered issue necessitates a multi-pronged response. This response can be informed by microfinance principles, but a microfinance model cannot be applied without adaptation. What scholars have learned about the utility of microfinance offers both instructive and cautionary guidance. Such research has emphasized that financial inclusion requires more than just single interventions. Instead, it necessitates a fundamental rethinking of how "worthiness" is measured, defined, and acted upon.

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