**Credit scoring models**

Credit scoring models in the USA are systems used by financial institutions to evaluate the creditworthiness of individuals and businesses. These models use various types of data to predict the likelihood that a borrower will repay their debts. The most widely known and used credit scoring models in the USA are FICO and VantageScore.

**Key Credit Scoring Models**

**FICO Score**

Developed by the Fair Isaac Corporation, it is the most widely used credit score in the USA.

Scores range from 300 to 850, with higher scores indicating better creditworthiness.

FICO scores are based on five key factors: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and credit mix (10%).

**VantageScore**

Created by the three major credit bureaus (Equifax, Experian, and TransUnion) as a competitor to the FICO score.

Scores also range from 300 to 850.

VantageScore uses similar factors to FICO but weights them differently and includes more sophisticated modeling techniques. Key factors include payment history, age and type of credit, percentage of credit limit used, total balances and debt, recent credit behavior and inquiries, and available credit.

**Data Used in Credit Scoring Models**

**Credit Reports**

Provided by the three major credit bureaus.

Include information on credit accounts, payment history, credit inquiries, public records (e.g., bankruptcies), and personal information.

**Alternative Data**

Increasingly used in modern credit scoring models to provide a more comprehensive view of creditworthiness.

Includes data such as rent and utility payments, bank account information, employment history, and even social media activity.

**Factors Influencing Credit Scores**

**Payment History**

Most influential factor.

Includes on-time payments, missed payments, and the number of days delinquent.

**Credit Utilization**

The ratio of current credit card balances to credit limits.

High utilization rates can negatively impact credit scores.

**Length of Credit History**

The age of your oldest credit account, the age of your newest credit account, and the average age of all your accounts.

**Types of Credit**

The mix of different types of credit accounts (e.g., credit cards, mortgages, auto loans).

**Recent Credit Behavior**

Includes recent credit inquiries and newly opened accounts.

Statistical Data on Credit Scores in the USA

**Average Credit Scores**

According to Experian's 2022 report, the average FICO score in the USA was 716.

The average VantageScore was slightly lower, at 694.

**Distribution of Credit Scores**

Approximately 21% of Americans have a credit score of 800 or above (considered exceptional).

Around 58% have a score between 670 and 799 (considered good to very good).

About 20% have a score between 580 and 669 (considered fair).

Roughly 16% have a score below 580 (considered poor).

**Impact of Age**

Older individuals tend to have higher credit scores.

**Average FICO scores by age group**

18-29: 658

30-39: 673

40-49: 684

50-59: 706

60+: 749

**Impact of Income**

Higher income often correlates with higher credit scores, although credit behavior plays a more critical role.

**Regional Differences**

Credit scores can vary by region, with the Midwest generally having higher average scores compared to the South.

**Trends and Innovations in Credit Scoring**

**Use of Alternative Data**

Companies like Experian Boost and UltraFICO are incorporating non-traditional data to help individuals with limited credit histories.

**AI and Machine Learning**

Advanced algorithms and machine learning models are improving the accuracy of credit scoring.

**Regulatory Changes**

The Consumer Financial Protection Bureau (CFPB) is actively monitoring and sometimes adjusting rules around credit reporting and scoring to ensure fairness and transparency.

**Challenges and Considerations**

**Data Accuracy**

Errors in credit reports can significantly impact scores. Consumers are encouraged to check their credit reports regularly.

**Access to Credit**

Efforts are being made to improve access to credit for underserved populations through the use of alternative data and innovative scoring models.

**Privacy Concerns**

The use of extensive personal data raises privacy issues that need to be addressed by regulators and companies alike.

Credit scoring models are essential tools in the USA's financial system, helping lenders make informed decisions and borrowers access credit. Ongoing innovations and regulatory oversight aim to enhance the accuracy, fairness, and inclusiveness of these models.