**Credit reporting agencies and credit reports**

A credit reporting agency is a business that maintains historical credit information on individuals and businesses. They receive reports from lenders and various other sources, and compile it into a credit report that includes a [credit score](https://www.investopedia.com/terms/c/credit_score.asp) when issued. They may also be referred to as a credit reporting bureau.

The three major credit reporting agencies in the U.S. are Experian, TransUnion, and Equifax.

**How Credit Reporting Agencies Work**

Credit reporting agencies serve various purposes in the credit industry. They maintain credit information, calculate credit scores, provide [credit reports](https://www.investopedia.com/terms/c/creditreport.asp), and partner with credit issuers for marketing.

Credit reporting agencies receive various types of information which can be included in their offerings for customers. Credit reporting agencies are generally one of two kinds: reporting either on individuals or on businesses.

|  |  |
| --- | --- |
| Study Period | 2020 - 2029 |
| Base Year For Estimation | 2023 |
| Market Size (2024) | USD 14.36 Billion |
| Market Size (2029) | USD 16.80 Billion |
| CAGR (2024 - 2029) | 3.19 % |
| Market Concentration | Medium |

**United States Credit Agency Market**

The United States Credit Agency Market size is estimated at USD 14.36 billion in 2024, and is expected to reach USD 16.80 billion by 2029, growing at a CAGR of 3.19% during the forecast period (2024-2029).

Credit rating agencies conducted a large number of rating actions in response to the pandemic. Many entities, including corporations, municipalities, and even entire industries, saw their credit ratings adjusted to reflect the heightened risks and uncertainties associated with the pandemic. Downgrades were prevalent, particularly in industries directly affected by lockdowns and travel restrictions.

Healthcare facilities, such as hospitals and clinics, often require significant capital for expansion, renovation, or the purchase of new medical equipment. A good credit rating makes securing loans and financing at favorable interest rates easier, ensuring that healthcare providers have the resources they need to deliver quality care to their patients. This is particularly crucial in a rapidly evolving healthcare landscape in the United States were advancements in medical technology and patient care practice demand constant investments in infrastructure and equipment. Federal government investment in medical and health R&D grew by USD 9.8 billion or 19.0% from 2019 to 2020 and by USD 21.4 billion or 53.5% since 2016.

Moving into the near-term future there are a few potential opportunities trending in favor of the Credit Bureaus if they are willing to be receptive to change. In the future, there will be new revenue streams opening from technology. Platforms such as Experian Boost will create new revenue potential. Now, it is possible to link untraditional consumer accounts together. The purpose of submitting this data to reporting agencies is so they can more accurately reflect your consumer tendencies. Experian Boost is monetarily cost-free to consumers.

**Credit card underwriting and issuance**

Credit card underwriting involves assessing an applicant's creditworthiness based on several key factors:

Credit Score

* Credit score (e.g., FICO or VantageScore) is a numerical representation of an individual's creditworthiness, calculated based on their credit history.
* Lenders evaluate the applicant's credit report, which includes information on credit accounts, payment history, credit inquiries, and public records such as bankruptcies and judgments.
* A higher credit score indicates a lower risk of default and may result in more favorable credit terms, such as a higher credit limit or lower interest rate.

Income and Employment Stability

* Lenders verify the applicant's income sources, such as employment, self-employment, investments, or government benefits, to ensure they have the capacity to make timely payments.
* Employment history and stability are also considered, as they provide insight into the applicant's ability to maintain a steady income stream.
* Applicants with higher and more stable incomes are generally considered less risky and may be offered better credit terms.

Debt-to-Income (DTI) Ratio

* Lenders calculate the applicant's DTI ratio by dividing their total monthly debt payments by their gross monthly income.
* A lower DTI ratio indicates that the applicant has more financial capacity to take on additional debt and is less likely to default on payments.
* Most lenders prefer applicants with a DTI ratio below 43%, although some may consider higher ratios depending on other factors.

Collateral

* For some credit products, such as secured credit cards, lenders may require collateral in the form of a security deposit to mitigate risk.
* The security deposit is typically refundable after a certain period of responsible credit usage and on-time payments.
* Secured credit cards can help individuals with poor or no credit history establish or rebuild their credit profile.

Application and Approval Process

The credit card application and approval process typically involves the following steps:

1. **Application Submission:** The applicant submits a credit card application, either online, by phone, or through a physical application form.
2. **Information Verification:** The lender verifies the applicant's personal information, such as name, address, date of birth, and Social Security number, to confirm their identity.
3. **Credit Report and Score Evaluation:** The lender pulls the applicant's credit report and score from one or more of the three major credit bureaus (Experian, Equifax, and TransUnion).
4. **Income and Employment Verification:** The lender may request additional documentation to verify the applicant's income and employment, such as pay stubs, W-2 forms, or tax returns.
5. **Risk Assessment:** The lender uses statistical models and underwriting criteria to assess the applicant's creditworthiness and determine the appropriate credit terms, such as credit limit and interest rate.
6. **Decision and Notification:** The lender makes a decision on the application and notifies the applicant of the outcome, either by mail, email, or phone.
7. **Account Setup:** If approved, the applicant is required to activate the credit card and may need to provide additional information, such as a security deposit for secured credit cards.

Regulatory Framework

The credit card industry in the USA is subject to various federal and state regulations that aim to protect consumers and ensure fair lending practices. Some of the key regulations include:

* **Truth in Lending Act (TILA):** Requires lenders to disclose the terms and conditions of credit, including the annual percentage rate (APR), fees, and billing rights.
* **Equal Credit Opportunity Act (ECOA):** Prohibits discrimination in credit decisions based on race, color, religion, national origin, sex, marital status, age, or because an applicant receives public assistance.
* **Fair Credit Reporting Act (FCRA):** Regulates the collection, use, and accuracy of consumer credit information and provides consumers with the right to access and dispute their credit reports.
* **Credit Card Accountability Responsibility and Disclosure (CARD) Act:** Imposes restrictions on credit card fees, interest rate increases, and requires clear disclosure of credit card terms and conditions.

These regulations are enforced by various federal agencies, such as the Consumer Financial Protection Bureau (CFPB), Federal Trade Commission (FTC), and the Federal Reserve, as well as state consumer protection agencies.

**Credit Card Rewards**

* Holders of general purpose credit cards earned $41.1 billion in rewards in 2022, with $15.2 billion earned as cash back and $5.2 billion as airline miles.
* The average credit card sign-up bonus was worth $326 in 2022, up 18% from $276 in 2019.

**Application and Approval Rates**

* In 2022, U.S. consumers submitted about 164 million applications for credit cards — 87 million for general-purpose cards and 77 million for store cards.
* About 44% of applications for general purpose cards were approved in 2022, the highest rate since 2016.

**Credit card processing and payment networks**

Credit Card Networks

The primary credit card networks in the USA are:

1. **Visa**
2. **Mastercard**
3. **American Express**
4. **Discover**

These networks provide the infrastructure, rules, and regulations for processing credit card transactions. They act as intermediaries between merchants, issuing banks, and acquiring banks, ensuring secure and efficient transaction processing.

Issuing Banks and Acquiring Banks

**Issuing Banks**

* Issuing banks, such as JPMorgan Chase, Bank of America, and Citibank, are responsible for extending credit to cardholders and providing them with credit cards.
* Issuing banks set the terms and conditions of credit cards, including interest rates, fees, and rewards programs.
* They are responsible for managing the credit risk associated with cardholders and ensuring compliance with network rules and regulations.

**Acquiring Banks**

* Acquiring banks, such as Wells Fargo, PNC Bank, and U.S. Bank, provide merchant accounts and facilitate the acceptance of credit card payments for merchants.
* Acquiring banks are responsible for processing transactions, settling funds, and ensuring compliance with network rules and regulations.
* They charge merchants a percentage of each transaction (known as the merchant discount rate) to cover the costs of processing and the associated risks.

Fees and Costs

The credit card processing ecosystem involves various fees and costs, including:

1. **Interchange Fees**
   * Interchange fees are paid by the acquiring bank to the issuing bank for each transaction.
   * Interchange fees vary based on the type of card, merchant category, and transaction details.
   * Interchange fees typically range from 1.30% to 3.25% of the transaction value, with American Express generally charging the highest fees.
2. **Assessment Fees**
   * Assessment fees are charged by the credit card networks to the acquiring bank for each transaction.
   * Assessment fees are typically a fixed percentage of the transaction value and are used to cover the costs of maintaining the network infrastructure and marketing.
3. **Merchant Discount Rate**
   * The merchant discount rate is the percentage of each transaction that the merchant pays to the acquiring bank for processing the transaction.
   * The merchant discount rate includes the interchange fees, assessment fees, and the acquiring bank's profit margin.
   * The merchant discount rate varies based on the merchant's industry, transaction volume, and risk profile.
4. **Other Fees**
   * Other fees may include annual fees, statement fees, and PCI compliance fees.
   * These fees are charged by the acquiring bank or the credit card network to cover various administrative and compliance costs.
5. **Regulatory Landscape**

The credit card processing industry in the USA is subject to various regulations and laws, including:

1. **Durbin Amendment**
   * The Durbin Amendment is a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act that limits the amount of interchange fees that can be charged for debit card transactions.
   * The Durbin Amendment has put pressure on credit card networks and issuing banks to reduce interchange fees, which could impact their profitability and consumer rewards programs.
2. **PCI DSS**
   * The Payment Card Industry Data Security Standard (PCI DSS) is a set of security standards designed to ensure the secure handling of cardholder data.
   * Merchants and service providers must comply with PCI DSS to accept credit card payments and avoid penalties and fines.
3. **CFPB Regulations**
   * The Consumer Financial Protection Bureau (CFPB) is responsible for enforcing consumer protection laws and regulations related to credit card practices.
   * The CFPB has been active in scrutinizing credit card fees, interest rates, and merchant interchange fees, which could impact the profitability and practices of card issuers and networks.

In conclusion, the credit card processing ecosystem in the USA is a complex network of credit card networks, issuing banks, acquiring banks, merchants, and regulators. Understanding the key components, processes, and stakeholders involved is crucial for merchants, financial institutions, and consumers to navigate the credit card processing landscape effectively.