Kirk, Merkley Urge Consumer Agency to Act on Problem of Medical Debt on Credit Reports

Friday, Oct 18, 2013

WASHINGTON – Today, U.S. Senators Mark Kirk (R-Ill.) and Jeff Merkley (D-Ore.) urged the Consumer Financial Protection Bureau (CFPB) to investigate the issue of medical debt in credit reports, a leading cause of costly errors and delinquencies. Due to the complexity of medical billing systems, many consumers do not discover that they owe money until they check their credit reports to apply for a home or car loan or a credit card.

"The inclusion of medical debt in credit scoring practices can have severe negative effects on consumers," the Senators wrote. "What begins as an unpredictable medical hardship or even an error that is not the fault of the consumer, can lead to long-lasting damage to a consumer's ability to buy a home, obtain a credit card, and fully participate in our economy."

Medical debt is unlike other types of debt in that it often occurs unexpectedly as the result of an unplanned illness or emergency. Additionally, due to complex billing processes and disputes between consumers, providers and insurance companies, consumers frequently do not even know they are responsible for medical debts before they are sent to collections.

More than one in five consumers have errors on their credit reports, and 80 percent of consumers with medical debt data on their credit reports would have experienced an increase in scores were that data removed from credit scores. Credit bureaus and lenders have testified to Congress that medical debt is a poor predictor of creditworthiness and that it would not harm the predictive value of credit reports to remove medical debt data.

The CFPB has begun to look into medical debt in credit scoring and the Senators urged them to complete their work quickly and release their report.

The full letter follows below.

October 18, 2013

The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Director Cordray:

We write to express our continuing interest in addressing the challenge of medical debt in credit reports, and we are pleased to hear that the Consumer Financial Protection Bureau (CFPB) is looking into this issue. Medical debt is different from other types of debt as it is an unplanned

expense, often resulting from an unforeseen illness or emergency. Additionally, due to the medical billing process in which billing disputes and errors can spur the incurrence of medical debt, consumers often do not even know that they are responsible for a medical debt before it has been reported to collections.

The inclusion of medical debt in credit scoring practices can have severe negative effects on consumers. According to the Commonwealth Fund, nearly 73 million adults faced difficulties paying medical bills in 2010. Additionally, a study on credit report accuracy published in the Federal Reserve Bulletin found that approximately 80 percent of those with medical collection data on their credit reports would have experienced an increase in scores if the medical debt was not factored in to the scoring algorithm.

Furthermore, lowered credit scores resulting from medical debt are often reported in error. In February 2013, the Federal Trade Commission released the results of a comprehensive study of credit reporting errors, finding 21 percent of American consumers had an error on a credit report from at least one of the three major credit reporting companies. Thirteen percent of consumers had errors serious enough to change their credit scores. Unlike with other industries, when an error is made on a consumer's credit report the consumer does not have the ability to switch companies, as all consumers are beholden to the major credit reporting agencies. In this way, what begins as an unpredictable medical hardship or even an error that is not the fault of the consumer, can lead to long-lasting damage to a consumer's ability to buy a home, obtain a credit card, and fully participate in our economy.

Moreover, medical debt is such a poor predictor of creditworthiness that credit bureaus and lenders have testified to Congress that removing medical debt from consideration would not harm the predictive value of consumer credit reports.

Many consumers mistakenly believe that unpaid medical bills have no influence over one's credit score. However, without changes, medical debt will continue to negatively impact consumers' lives. We welcome and encourage efforts by the CFPB to investigate and examine medical debt in order to further inform the discussion regarding how best to address its effects on consumer credit.

We urge the CFPB to move quickly to examine these issues and share its conclusions. We look forward to a speedy response.

Sincerely,

###

Chicago
230 South Dearborn
Suite 3900
Chicago, IL 60604
Phone: 312-886-3506
Fax: 312-886-2117

Springfield
607 East Adams
Suite 1520
Springfield, IL 62701
Phone: 217-492-5089
Fax: 217-492-5099

Washington, DC
524 Hart Senate Office
Building
Washington DC, 20510
Phone: 202-224-2854
Fax: 202-228-4611