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CFPB Spotlights Concerns with Medical Debt Collection and Reporting

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) released a report that found medical debt has a significant impact on consumer credit, as 43 million Americans have overdue medical debt on their credit reports. The CFPB is concerned that the systems for incurring, collecting, and reporting medical debt can create difficult challenges for consumers. To better address these challenges, the CFPB is announcing that the major consumer reporting agencies will be required to provide regular accuracy reports to the Bureau on how disputes from consumers are being handled.

“It’s hard for consumers to navigate the medical debt maze and come out with a clean credit report on the other side,” said CFPB Director Richard Cordray. “The CFPB is taking action to improve credit report accuracy. Getting medical care should not make your credit report sick.”

The medical debt study can be found

at:http://files.consumerfinance.gov/f/201412_cfpb_reports_consumer-credit-medical-and-non-medical-collections.pdf

Medical debt is incurred differently than other unpaid bills, such as unpaid phone or utility bills. Medical debt can result from an event that is unpredictable and costly, such as an accident or sudden illness. In addition, consumers are often

temporarily responsible for the whole bill until insurance works it out.

Consumers can also become responsible for medical debt because of billing issues between medical providers and insurers. Complaints to the CFPB indicate that many consumers do not even know they owe medical debt until they get a call from the collections agency or they discover it on their credit report.

If a medical bill goes unpaid after a certain amount of time, the medical provider may hand over the account to a third-party debt collector. The majority of collections items that end up on consumers’ credit reports are furnished to the

credit reporting agencies by third-party debt collectors. When a collection item ends up on a consumer's credit report, it decreases the consumer's credit score. These scores play an important role in the lives of American consumers because most lenders decide to grant credit and set interest rates based on them. A collection item generally can stay on a report for up to seven years.

Today's CFPB study draws on sources such as information from credit reporting companies, consumer complaints to the Bureau, and interviews with debt collection agencies, healthcare providers, and observers of healthcare billing and payment processes. Among the findings:

- **Half of all overdue debt on credit reports is from medical debt:** A staggering 52 percent of all debt on credit reports is from medical expenses. When a debt is past due, a collector may report the consumer's account to a credit reporting agency. On the consumer's report, this item would appear as an account in collections, resulting in a credit score drop.
- **One out of five credit reports contains overdue medical debt:** Today's study found that one out of five credit reports contain medical debt in collections. This means that 43 million Americans have unpaid medical debt adversely affecting their credit report.
- **15 million consumers have only medical debt on their credit reports:** Seven percent of all consumers have medical debt and no other collection items on their reports. These 15 million consumers tend to be more reliable bill payers than consumers with other types of collections on their credit reports. They are much more likely to be consumers who normally meet their debt obligations.
- **Average reported medical debt is \$579:** The average unpaid, non-medical collections item on a credit report is \$1,000; the median is \$366. Unpaid medical collections are smaller, with an average of \$579 and a median of \$207. These figures contrast with the much larger amounts that are due on credit cards or student loans that are seriously delinquent. Such accounts average several thousand dollars.

Medical Debt Consumer Challenges

While the CFPB has previously reported on the general problems it has found with debt collection and its impact on credit reports, today's report found that medical debt amplifies many of these issues. The CFPB is concerned the complex processes by which medical bills are incurred, collected by a wide range of debt collectors, and reported to credit reporting agencies can create challenges for consumers. Specifically, these challenges include:

- **Confusing process of incurring medical debt:** The medical billing process can be confusing for consumers. From one medical treatment or incident – a trip to the hospital, a treatment for an illness – there can be multiple bills from multiple providers. The costs can depend on whether the consumer has insurance, what insurance covers, and whether the provider is within the insurer's network. The consumer's obligation also can vary based upon whether the consumer has reached an annual cap on the amount required to pay out-of-pocket. As a result, consumers might not know how much medical debt they are responsible for paying.
- **Haphazard system for reporting overdue medical debt:** Unlike many other industries, there is no standard practice on when overdue medical debt is sent to a debt collector or reported to credit reporting agencies. Consumers may have little insight into how a medical debt might wind up on their credit report. The time between when a provider sends the first bill to a patient and when it ultimately ends up on a credit report can differ dramatically. Some providers send the unpaid bill to a collections agency as soon as 30 days after billing, while other providers may wait up to 180 days. These variations mean that medical debt collection items on a credit report that appear similar can reflect very different things about a borrower's creditworthiness.
- **Opaque practice of collecting debt by “parking” it on credit reports:** It is not uncommon for debt collectors to “park” medical debts on credit reports as a way to get consumers to pay. This means debt collectors may not notify the consumer that they have an overdue debt or give them an opportunity to pay it before it goes on the credit report. Some

collectors deploy this tactic to avoid going through the expense or hassle of contacting consumers. Consumers may discover the debt on their reports, worry about it, then contact the collector and pay it. In some cases these debts are paid by insurers once they have processed the claims, but consumers may already have been harmed.

New Accountability for Accurate Credit Reports

Today's report lays out the ways in which the system of collecting and reporting medical debt introduces multiple points at which error and consumer harm can occur. These errors can also be found in any information source furnished to the credit reporting agencies. A top priority for the CFPB is to hold all players in the credit reporting market accountable for ensuring the accuracy of data in credit reports. This applies to the furnishers of the information, to the credit bureaus, and to the creditors which often both furnish information and use credit reports.

As part of that effort, today the CFPB announced that it will be requiring major credit reporting companies to provide regular accuracy reports to the Bureau as part of ongoing examinations. The reports will highlight key risk areas for consumers, including disputes filed with the credit reporting agencies. Some of the metrics in the accuracy report will include:

- **Furnishers with the most overall disputes:** If a credit reporting company continuously experiences an outsized number of consumer disputes about information from a particular furnisher, the CFPB expects the credit reporting agency to investigate, identify if there is a problem, and take appropriate action.
- **Industries with the most disputes:** The credit reporting agencies will have to list the top industries they are reporting on, the volume of information received from those industries, and the total number of disputes generated by those industries.
- **Furnishers with particularly high disputes relative to their industry peers:** For each industry named, the credit reporting agency

must also name the top furnishers with the largest number of consumer disputes.

A sample accuracy report is available

at:http://files.consumerfinance.gov/f/201412_cfpb_sample-accuracy-report.pdf

Today the CFPB is also releasing consumer tips on how to deal with medical debt, both before it gets on a credit report and after. The advisory says consumers should ask for an itemized bill and review each item on the bill to see if it is for a service that they received. Consumers should act quickly to resolve or dispute the medical bills that they receive. If consumers need to dispute a bill, they should send a written notice and include a copy of all relevant documents, such as records from doctors' offices or credit card statements.

The advisory can be found at:

http://files.consumerfinance.gov/f/201412_cfpb-7-ways-to-keep-medical-debt-in-check.pdf

In May of this year, the CFPB released a research report that found consumers' credit scores may be overly penalized for medical debt that goes into collections and shows up on their credit report. According to that study, credit scoring models may underestimate the creditworthiness of consumers who owe medical debt in collections. The scoring models also may not be crediting consumers who repay medical debt that has gone to collections.

That report can be found

at:http://files.consumerfinance.gov/f/201405_cfpb_report_data-point_medical-debt-credit-scores.pdf

The Bureau's interactive online tool, Ask CFPB, contains questions and answers related to the topics of debt collection and credit reports. The CFPB accepts consumer complaints about both.

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*control over their economic lives. For more information,
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