News From the FAMP Government Affairs Committee

CFPB Study Targets Changes to Credit Scoring for Medical Debt

by Rachel Witkowski
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WASHINGTON - Consumers with medical bills in collection can see their credit scores hit by as much as 22 points compared to those with other types of debt, according to a study released Tuesday by the Consumer Financial Protection Bureau.

The agency said credit scoring models were harming people with medical debt because they do not differentiate between medical versus non-medical debts nor paid versus unpaid medical bills when in collection.

As a result, the CFPB is urging companies that use credit scoring models to treat medical debt differently than other debt.

"For consumers with lower scores, such as those on the brink of being classed as subprime, these differences can be more significant," said CFPB Director Richard Cordray in a call with reporters Tuesday. "They may cause consumers to be denied a loan altogether or they could cost tens of thousands of dollars over the life of a home mortgage."

The study found that models were ranking consumers with medical debt 10 points lower than those with other outstanding debts like utility and cell phone bills. It was worse for consumers who paid back their medical bills in collection, as they faced a median 16-to 22-point lower credit scoring even though they were less likely to be delinquent than other consumers with the same score.

CFPB officials argue that medical debt should be treated differently because that type of debt is usually unplanned and consumers are often unaware of amounts owed until after treatment.

"When you take out a loan, typically you know how much you will owe and the interest rate you will be charged up front. But with medical costs, you have less visibility," Cordray said. "Complaints to the bureau indicate that many consumers do not even know they have a medical debt in collection until they get a call from a debt collector or they discover the debt on their credit report."

The agency looked at 5 million anonymized credit records and performance data for two years ending September 2013. The study found that consumers with medical debt were more likely to pay it back comparable to that of consumers with scores roughly ten points higher.

The agency's push to encourage medical debt to be treated differently has already won the support of consumer advocates.

"We commend the CFPB for conducting this critical research which confirms what advocates have asserted for years: that consumers are unfairly penalized for medical debt, which is often the result of billing errors, insurance disputes, and other circumstances unique to the flawed healthcare payment system," said Chi Chi Wu, staff attorney at the National Consumer Law Center, in a press release. "The CFPB research underscores the urgency for Congress to pass the Medical Debt Responsibility Act, which would require that paid or settled medical debt be removed from a consumer's credit reports."

The CFPB is the first federal agency to supervise large credit reporting companies. Senior CFPB officials said on the call that the most recent study is not meant to trigger further regulation on medical debt. Rather, it was meant to encourage companies to treat medical bills differently and ramp up dialogue on the issue.

"Given its enormity, given its influence over people's lives, and given its broad impact on our overall economy, there is undeniably much at stake in ensuring that credit reports and credit scores are working properly for both consumers and creditors," Cordray said. "Careful and accurate treatment of medical debt is deserving of greater attention."