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STATEMENT OF

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BEFORE THE

Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit

House of Representatives

ON

"Use of Credit Information Beyond Lending: Issues and Reform Proposals"

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I appreciate the opportunity to speak before this committee today, thank you. My name is Mark Rukavina, and I am the executive director of The Access Project. I will focus my comments on issues related to medical debt and the use of medical accounts in assessing an individual's creditworthiness.

The Access Project is a national resource center that conducts research and provides policy analysis to local organizations seeking to improve access to health care. Since our inception in 1998, The Access Project has worked in partnership with the Heller School at Brandeis University in Massachusetts. In our work we have undertaken numerous research and policy analysis projects and have produced reports on subjects relating to health care access barriers.

One of the barriers uncovered by our work is that of medical debt. Medical debt is money owed for any type of medical service or product. The money may be owed directly to the provider of the service or to an agent of the provider, such as a collection agency. The Access Project's work has documented and examined the problem of medical debt and its consequences. Through our research, and that of others, we have learned that the problem is widespread and that it has diverse consequences.

Prevalence of Medical Debt

During calendar year 2007, the most recent year for which data are available, 72 million (41%) non-elderly Americans adults reported medical bill problems or had medical debt or bills they were paying off over time. The medical bill problems afflicting people included experiencing times when they had difficulty or were unable to pay bills, being contacted by a collection agency for unpaid bills, or significantly changing their lives in order to pay medical bills. Forty-nine million American adults under the age of 65 (28%), and an additional 7 million elderly adults (19%) had medical debt or bills they were paying off over time. Nearly two-thirds of those with medical debt had insurance at the time that care was provided.[1] Each year, millions of Americans who experience medical billing problems go on to then experience credit problems. In 2007, 28 million working age adults were contacted by collection agencies for unpaid medical bills.[2]

Unpaid Medical Bills and Third Party Payment

In America, affordable health care has been elusive. The problem of unaffordable healthcare bills has stung uninsured and insured Americans alike. Americans who are uninsured, even for a part of the year, report higher rates of medical debt than those with insurance. It is expected that this problem will be addressed once the Patient Protection and Affordable Care Act is fully implemented and the number of uninsured Americans decreases dramatically.

However, simply having insurance is not enough. Insured individuals with inadequate coverage experience medical bill problems or medical debt at more than twice the rate for those with comprehensive insurance coverage.[3] Nearly half of the people contacted by collection agencies for unpaid medical bills were insured with no gaps in coverage. More than one-quarter (28%) of insured Americans said their doctor charged more than what their insurance carrier would pay for the procedure. One-third (34%) of all those with insurance reported that they had to contact their insurance company because the insurer did not pay a bill promptly or had denied payment for a claim.[4]

For Americans with health insurance coverage, confusion reigns supreme. One study of consumers nationwide found that nearly 40 percent of Americans did not understand their medical bills or explanation of benefits statements. They did not know what services they were paying for, the amount they owed, or if that amount was correct. Nearly one-third (31 %) of respondents let a medical bill go to a collection agency in the previous year. One in six (16%) did not understand the description of procedures they received yet most rarely or never contacted their providers to ask questions or get clarification on a bill. A similar number (17 %) did not know whether they should pay the provider or insurance company.[5]

Many insured people are surprised when they receive calls from collection agencies seeking payment on a medical bill. However, each and every day, millions of patients in the U.S. sign release and consent forms with language similar to the following: *I understand that my insurance company may not pay 100% of the amount of the medical claim and I may be responsible for any and all amounts not payable by my insurance company.* Across the nation, when claims are not paid promptly, they are sent to collection. The question for today's hearing is whether medical accounts are of predictive value when assessing an individual's creditworthiness.

Reporting Medical Debt

The confusion regarding medical bills carries over to credit reports. Many people mistakenly believe that unpaid medical bills have no influence over one's credit score. This lack of clarity may stem from statements that have been made by representatives from credit reporting and credit scoring agencies. For example, in recent testimony before this Committee, a representative from VantageScore made the following statement: "VantageScore does not factor medical debt into the calculation of a consumer's VantageScore credit score."[6] A representative from TransUnion, at the same hearing said, "We share the view of many that the medical payments system in our country has much room for improvement. We also acknowledge the fact that some scoring models, such as *VantageScore* and our own insurance scoring model do not consider paid medical collections, …[7]

A letter from VantageScore sent after the Committee hearing clarifies that "The VantageScore algorithm does not utilize medical payment data in generating consumer scores, when the reporting comes directly from the medical provider." The letter than continues saying that "the VantageScore algorithm does include all collections trades when generating a score, including third-party collections activities related to medical debt."[8]

According to the representatives of the credit reporting agencies, hospitals, doctors and medical providers rarely report payment information to the credit bureaus. "Accounts reported by medical businesses account for only .07 percent of our data," according to

Maxine Sweet, Experian's vice president of public education. TransUnion spokesman Steven Katz said "These types of debts are not typically reported unless they become delinquent and are assigned to collections."[9] Once assigned to collection, whether the result of an inefficient healthcare billing systems or a patient's unwillingness to pay, the account will be considered a major derogatory account.

The current credit reporting system serves to penalize people with medical debt. If a bill is owed directly to a healthcare provider and paid off in a timely manner, it is not reflected in most score algorithms since few healthcare providers report to the consumer reporting agencies. If, for any reason, it is turned over to a collection agency, it is reported as a derogatory account. Even when the consumer takes the proper action of paying off the medical bill, it tarnishes their report and consumer reporting agencies may include it on a credit report for up to seven years in spite of having a balance due of zero.[10]

The Predictive Value of Medical Accounts

The predictive value of medical accounts on credit reports has been questioned by some working in financial services.[11] Given the unpredictable and an atypical nature of medical debt, many lenders disregard it when reviewing loan applications. "Our experience has been that medical debt isn't generally reflective of a borrower's ability or willingness to repay," said public-policy director David Beck of Self Help of Durham, N.C. [12]

Many lenders have discovered that disregarding medical debt often gives a better picture of a potential borrower's creditworthiness. Some have found that if other accounts are current, a medical debt or outstanding medical bill is not a good predictor of creditworthiness.

According to a study on credit report accuracy published in the Federal Reserve Bulletin, nearly one-third of Americans with a credit file have a record of a collection account on their credit report. The study found that more than half of accounts in collection are medical accounts. It reported that "*some credit evaluators report that they remove collection accounts related to medical services from credit evaluations because such accounts often involve disputes with insurance companies over liability for the accounts or because the accounts may not indicate future performance on loans*." By using a simulation to correct potential data errors, the researchers found that nearly 80% of those with medical collection data would have experienced an increase in scores if these accounts were not factors in the scoring algorithm.[13]

It is estimated that during calendar year 2008, Americans spent $277 billion on out-of-pocket health care expenses. This is over and above the cost of insurance premiums. No doubt, a portion of this amount was used to pay off medical bills inappropriately sent to collection. Analysis of collection accounts done several years ago found that 85% of medical accounts in collection originally had balances due amounting to $500 or less.[14] Accounts with small balances due that are sent to collection have a disproportionate effect on a credit score. It is inappropriate to factor into a score algorithm medical accounts that were sent to collection as result of a lengthy insurance claim adjudication process or confusion due to numerous bills being generated from one visit to a hospital. Such erroneous data harm consumers. These accounts, even when promptly paid off, remain on a credit report as derogatory accounts.

Based on direct service work done through The Access Project's Medical Debt Resolution Program, we believe that credit scores are wrongly lowered by medical accounts on credit reports with a balance due of zero. Some of our clients qualify for a provider's charity care policy but learn that they qualify for free care after the account was sent to collection and included on their credit report. For other clients who have done the right thing and paid their bills in full, they are surprised that such action continues to plague them and pegs them as credit risks. Such inaccuracies in credit reports slow America's economic recovery.

A mortgage originator in Texas, Rodney Anderson of Supreme Lending, has seen the detrimental effects of these errors firsthand. He was frustrated as he observed clients who were looking to purchase or refinance homes but were deemed risky because of medical accounts on their credit reports. Ironically, Mr. Anderson found that for a number of his clients, these medical accounts were paid in full. Because they had been sent to collection – though subsequently paid in full – his client's credit scores were lowered.

Using the services of a credit score simulation service, Mr. Anderson re-ran scores for clients after removing zero-balance medical accounts. The credit scores of some of his clients increased by 50 to 100 points after being recalculated by the simulation service. What he found exposed an injustice with the current credit scoring algorithm. He showed that medical accounts on credit reports can destroy credit even after being paid in full. This is simply wrong.

Recommendations

The widespread problem of medical debt places the people who experience it at a disadvantage in the health care and financial service arenas. Representative Mary Jo Kilroy has introduced HR3421 to address this problem. This legislation would correct what we perceive as errors on people's credit reports. Specifically, HR3421 would require that medical accounts that have been fully paid or settled be removed from a credit report within a specified timeframe. This would put an end to the practice of penalizing hardworking Americans who have had medical bills sent to collection but then pay them off in full.

On behalf of the estimated 31 million Americans who have collection accounts associated with medical bills on their credit reports, thank you for the opportunity to testify today.

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[1] S. Collins et al, *Losing Ground: How the Loss of Adequate Health Insurance Is Burdening Working Families*, Commonwealth Fund, August 2008.

[2] Ibid.

[3] M. M. Doty et al, *Seeing Red: The Growing Burden of Medical Bills and Debt Faced by U.S. Families*, The Commonwealth Fund, August 2008.

[4] Collins, *Losing Ground*.

[5]http://about.intuit.com/about_intuit/press_room/press_release/articles/2010/AmericansConfusedAboutMedicalStatements.html.

[6] Barrett Burns, President and Chief Executive Officer, VantageScore Solutions, LLC, Testimony before the Subcommittee on Financial Institutions & Consumer Credit Committee on Financial Services United States House of Representatives, Hearing on “Keeping Score on Credit Scores: An Overview of Credit Scores, Credit Reports and Their Impact on Consumers” March 24, 2010.

[7] Chet Wiermanski,, Global Chief Scientist, Analytic and Decision Systems, TransUnion LLC, Testimony before the Subcommittee on Financial Institutions & Consumer Credit Committee on Financial Services United States House of Representatives, Hearing on “Keeping Score on Credit Scores: An Overview of Credit Scores, Credit Reports and Their Impact on Consumers” March 24, 2010.

[8] Letter from Barrett Burns, President and Chief Executive Officer, VantageScore Solutions, LLC, to Rep Mary Jo Kilroy, May 3, 2010.

[9] C. Prater, *15 Tips For Paying High Medical Bills Negotiate Before Using Credit Cards To Finance Medical Expenses*, CreditCards.com (http://www.creditcards.com/credit-card-news/medical-bill-payment-tips-1266.php.)

[10]The Fair Credit Reporting Act at www.ftc.gov/os/statutes/fcradoc.pdf.

[11] R. Seifert, *Home Sick: How Medical Debt Undermines Housing Security*, The Access Project, 2005. (See page 22 – “Fair Isaac and Company (FICO), a major credit scoring organization, considers medical debt to be "atypical and non-predictive" of overall credit worthiness.”)

[12]http://articles.moneycentral.msn.com/Banking/YourCreditRating/WhyMedicalDebtsShouldntCount.aspx?page=2.

[13] R. Avery et al, *Credit Report Accuracy and Access to Credit*, Federal Reserve Bulletin, Summer 2004.

[14] R. Avery et al, *An Overview of Consumer Data and Credit Reporting*, Federal Reserve Bulletin, Summer 2003.