



Senator Jeff Merkley

Medical Debt Relief Act:

Protecting Consumers, Helping our Economy

Unlike taking on consumer debt, Americans do not get to choose when accidents or medical emergencies happen. Yet, even when medical debt collections have been completely paid off or settled, medical debt can still significantly damage a consumer's credit score for years. As a result, consumers can be denied credit or pay higher interest rates when buying a home or obtaining a credit card through no fault of their own.

To fix this problem, Senator Jeff Merkley is introducing the Medical Debt Relief Act. The legislation would:

- Prohibit credit agencies from using paid-off or settled medical debt collections in assessing a consumer's credit worthiness, regardless of whether or not the debt was paid off or settled by the consumer or by an insurance company. In a recent legal settlement with the New York Attorney General, the three nationwide consumer reporting agencies agreed to promptly remove medical debt that is paid off or settled by an insurance company, but the settlement does not cover debt that is resolved by a consumer.
- Make permanent the change recently made in the same settlement that prohibits credit agencies from using information related to a medical debt until 180 days after it becomes delinquent, giving consumers more time to straighten out billing errors or insurance company misunderstandings before they result in a delinquent mark on their credit report.
- Require debt collectors to notify consumers of the 180-day waiting period and that the consumer can communicate with an insurance company to determine coverage or apply for financial assistance to pay the debt.

How big is this problem?

- The Consumer Financial Protection Bureau has found that 43 million American consumers have overdue medical debt on their credit reports and that 15 million have only medical debt on their credit reports.
- Many consumers mistakenly believe that unpaid medical bills have no influence over one's credit score. However, once a debt is assigned to collection, even if the cause was an inefficient healthcare billing system, the account will be considered a derogatory account by credit scoring algorithms.

Would this legislation harm accurate credit reporting and credit scores?

- No. The predictive value of medical accounts on credit reports is low because of the atypical nature of medical debt. Credit reporting companies have testified before Congress that removing medical debt from consideration would not harm the predictive value of consumer credit reports.
- Companies that produce credit scores, like FICO and VantageScore, have already released new credit scoring algorithms that take into account the unique nature of medical debt including a model by VantageScore that ignores paid medical debt.

How will this legislation help the economy?

- According to a study on credit report accuracy published in the Federal Reserve Bulletin, approximately 80 percent of consumers with medical collection data on their credit reports would experience an increased credit score if the medical debt was not factored in to the scoring algorithm.
- Under the Medical Debt Relief Act, millions of Americans would receive immediate financial relief as families that otherwise would be charged high interest rates or denied loans when trying to purchase a home or a car would find financing more accessible and affordable.