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An Overview of Medical Debt: Collection, Credit Reporting, and Related Policy Issues

Medical debt is a fairly common occurrence for Americans who have received medical care. This InFocus discusses medical debt; how that debt is collected and reported to credit reporting agencies (CRAs); and proposals to change those practices from industry, some Members of Congress, and the Consumer Financial Protection Bureau (CFPB).

Medical Debt Overview

According to the CFPB, consumers owed \$88 billion in medical debt on consumer credit reports as of June 2021. In 2017, a Census Bureau survey found that 19% of people reported having medical bills they could not fully repay during the year. Uninsured, Black, and Hispanic Americans are more likely to have medical debt.

Unlike most consumer debts, the need for medical care for an acute illness can often be unexpected and not discretionary. According to a 2014 CFPB study, consumers are unlikely to know how much various medical services cost in advance, particularly those associated with accidents and emergencies. Moreover, resolving billing disputes with health insurance companies can be a complicated, lengthy, and often non-transparent process. Whether these debts should be included on credit reports is an area of active debate and action from industry, regulators, and Congress.

In 2022, the three major credit bureaus took voluntary action to eliminate an estimated 70% of outstanding medical debt from credit reports. In June 2024, the CFPB proposed a rule to eliminate all medical debt from most credit reports and ban lenders from using medical debt collection information to make underwriting decisions.

In the 118th Congress, legislation has been introduced to provide additional transparency for medical bills (S. 2483), to forgive medical debt (S. 4289, H.Res. 532, and H.R. 9129), or to make changes to the medical debt collection process and/or the incorporation of medical debt into credit reports (H.R. 7515, H.R. 6003/S. 3103, H.R. 1773, and H.R. 5180).

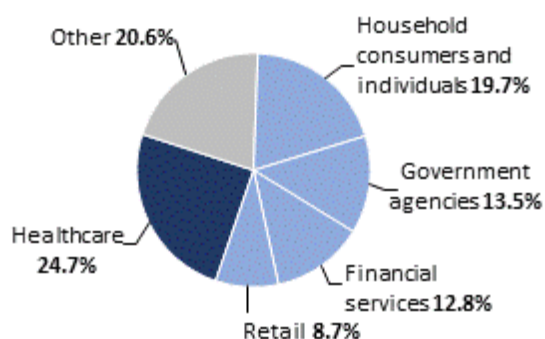
Debt Collection Market Background

When consumers default on medical debts, medical providers often hire third parties to collect those debts. Debt collectors help medical providers recoup their losses when patients default. IBISWorld, a market research company, estimates that roughly a fourth of debt collection industry revenue in 2023 was from health care debt (see **Figure 1**).

The Fair Debt Collection Practices Act (FDCPA; 15 U.S.C. §§1692-1692p) is the primary federal statute regulating the consumer debt collection market, which is implemented by the CFPB. It generally applies only to third-party debt

collectors, not medical providers. The FDCPA prohibits debt collectors from engaging in certain types of conduct (such as misrepresentation or harassment) when seeking to collect debts from consumers and grants consumers the right to dispute or stop some communications about alleged debt. It also requires that a debt collector send to a consumer a validation notice disclosing certain information about the debt.

Figure 1. Debt Collection Industry Revenue by Type



Source: IBISWorld's 2023 Industry Revenue Estimate.

Medical Debt and Credit Reporting

CRAs (also called *credit bureaus*) collect and subsequently provide information to firms about consumer credit and payment behavior. Firms use this credit report information to screen for consumer risks to originate new loans. Generally, debts in collection could be reported to credit bureaus and appear on consumers' credit reports. However, debt collectors report to credit bureaus voluntarily, so not all debts are reported. Entities that provide information to credit bureaus must comply with the Fair Credit Reporting Act (FCRA; 15 U.S.C. §1681), the main statute regulating credit reporting, which imposes certain responsibilities on those who collect, furnish, and use consumers' credit reports, as well as consumer rights.

According to the CFPB, in 2021, medical debts constituted 58% of debts reported in collection. Medical debts reported to the credit bureaus tend to be for relatively small amounts and may be more likely to be reported than other types of debts. Most medical debts reported were previously under \$500.

Recent Policy and Market Developments

In January 2022, the No Surprises Act, part of the Consolidated Appropriations Act, 2021 (P.L. 116-260), went into effect to address surprise medical bills—for example, out-of-network emergency bills. After this law went into effect, the CFPB released a bulletin stating that if

debt collectors report or try to collect debts barred by the No Surprises Act, they may violate the FCRA or FDCPA. A number of state and local governments used funds from the American Rescue Plan Act (P.L. 117-2) to cancel roughly \$7 billion in medical debt for up to 3 million Americans.

In March 2022, the three nationwide credit bureaus—Experian, Equifax, and TransUnion—jointly announced that paid medical debts, medical debts less than a year old, and medical debt under \$500 will no longer be included on credit reports for consumers. The CFPB estimated that roughly half of consumers with medical debt on their credit reports would have it removed after this change.

In June 2024, the CFPB issued a proposed rule and request for comment on the use of medical debts for determining credit eligibility. Going beyond the industries' voluntary efforts, the proposed rule would remove consideration of medical debt from most credit scores and prohibit lenders from making credit decisions based on medical debt.

Overall, the CFPB estimates that its proposed rule would erase \$49 billion in outstanding medical bills from credit reports and scores for 15 million Americans. These borrowers would still owe this debt to their creditors. The CFPB argued that the voluntary changes by the credit bureaus did not result in sufficient changes for consumers with medical debt and projected that credit scores for consumers with medical debt would rise an average of 20 points, which could potentially increase access to credit for those consumers.

In its justification for this rule, the CFPB argued that the medical debt in credit reports is often inaccurate or inflated. According to the CFPB, approximately 15% of debt collection complaints received by the agency in 2021 were related to medical debt collection. Disputes with health insurance or providers over bills might take time to resolve, and as a result, some would argue that their inclusion in the interim unnecessarily deflates credit scores. Supporters of the proposed rule argue that it would benefit consumers “unfairly burdened by medical debt on their credit reports.”

To justify excluding medical debt from credit reports, the CFPB relied upon a 2014 CFPB study that found that medical collections were “not equally predictive of delinquency” as non-medical collections. The CFPB interpreted this result to subsequently argue that medical debts have “little to no predictive value.” This interpretation of the original research has been disputed, with the American Bankers Association pointing out that this difference was driven by consumers with more paid than unpaid bills, while consumers' credit scores with more unpaid bills than paid bills looked facially similar to those without medical debt. Paid medical bills are already being excluded by the CRAs' previous voluntary actions. Other industry participants argued that the CFPB study was out of date, limited in scope, and not peer reviewed.

Opponents of this rule say that banning medical debts from credit reports could have unintended negative consequences on consumers. Some argue that as a result of increased

nonpayment, health care providers would impose even higher copayments and deductibles to compensate for the resulting decreased revenue. While medical debt would no longer show up on credit reports, these consumers would still owe this debt. This might result in a higher likelihood of costly litigation against individual consumers.

Fair Isaac Corporation (FICO)—a firm that provides support services to CRAs—previously stated that eliminating all medical debt from credit scores can “have an adverse impact on score predictiveness.” As a result, this change could increase the cost of and decrease access to credit by eliminating visibility into all medical debt repayment. This may be particularly important relative to the voluntary actions by credit bureaus that excluded components that might increase data noise, such as small, new, or paid collections.

Policymakers may also assess how a change might impact medical providers and the debt collection industry. One estimate from an ACA International report—a debt collection industry group—found that medical providers would suffer a loss of \$24 billion from nonpayment in the first year, which would disproportionately harm smaller and rural providers. The report also states that debt collectors are estimated to lose 8% of their annual revenue as a result of the rule.

Selected Legislation: 118th Congress

There have been a number of bills in the 118th Congress related to medical debt, collections, and credit reporting. These bills generally fit into three categories:

Additional transparency: S. 2483 would restrict the circumstances in which medical debt collectors can commence extraordinary collection actions such as wage garnishment, require entities to provide detailed debt and payment statements for consumers, and establish a public medical debt collection database with information on debt collectors.

Medical debt relief: S. 4289 would establish a grant program in the Department of Health and Human Services to cancel eligible medical debt. H.R. 9129 would establish a grant program that enables nonprofits to purchase medical debt from hospitals and require hospitals to offer repayment plans before sending debt to collection agencies. H.Res. 532 proposes enacting relief from medical debt that cannot be paid. It provides no specific forgiveness mechanism.

Changes to debt collection and credit reporting: H.R. 5180 and H.R. 6003/S. 3103 would both restrict credit bureaus from including medical debt in credit reports, similar to the recent CFPB rulemaking. H.R. 1773 has similar provisions and also prevents debt collectors from collecting on medical debts less than two years old. H.R. 7515 would specifically delay the inclusion of medical debts from credit reports for Native Americans for one year and provide additional dispute protections.

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