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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 In Focus discusses medical debt; how that debt is collected and reported to credit reporting agencies (also called *credit bureaus*); 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.

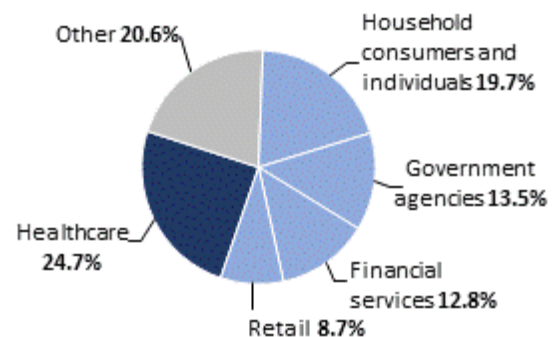
Debt Collection Market Background

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

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 of 2021 (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 January 2025, the CFPB finalized a rule that would remove medical debt from credit reports and prohibit lenders from making credit decisions based on medical debt. This rule went beyond industries' voluntary efforts to exclude only certain kinds of medical debt and was set to go into effect March 2025. The rule is currently stayed until June 2025 as a result of a lawsuit challenging the rule (discussed in greater detail below).

Overall, the CFPB estimates that this finalized 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 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 stated that medical collections were "not equally predictive of delinquency" as non-medical collections. The CFPB later 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 credit bureaus' 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. 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.

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. 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.

Fair Isaac Corporation (FICO)—a firm that provides support services to credit bureaus—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.

Pursuant to a January 20, 2025, presidential memorandum (which has the effect of an executive order), the CFPB medical debt rule may be modified with further review. New leadership at the CFPB under Acting Director Russell Vought or a different director in the future could potentially reconsider this rule.

In January 2025, Cornerstone Credit Union League and the Consumer Data Industry Association sued the CFPB in the District Court for the Eastern District of Texas, arguing the rule exceeded the CFPB's statutory authority under the FCRA and was "arbitrary and capricious on multiple levels." In February 2025, the court granted a motion from the CFPB that stayed the rule until June 2025, rescheduled a preliminary injunction hearing, and stayed litigation.

Selected Legislation

In response to this recently finalized rule, in the 119th Congress, some Members of Congress introduced bicameral Congressional Review Act (CRA) legislation to overturn the medical debt rule: S.J.Res. 36 and H.J.Res. 74. Disapproval of a rule under the CRA has the effect of overturning a rule or preventing a rule from taking effect if it had not gone into effect (as is the case here). Furthermore, the CRA provides that if a joint resolution of disapproval is enacted, an agency may not issue the rule in "substantially the same form" unless authorized in a subsequent law.

In the 118th Congress, legislation was introduced that would have provided additional transparency for medical bills (S. 2483), forgiven medical debt (S. 4289, H.Res. 532, and H.R. 9129), or made 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).

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