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Advocates: CFPB Report and Hearing Show Urgent Need to Protect Consumers from Medical Debt Collection

(BOSTON) Consumer advocates from the National Consumer Law Center (NCLC) applauded the medical debt collection report released today by the Consumer Financial Protection Bureau (CFPB) and called on the CFPB to establish protections for the tens of millions of consumers afflicted by medical debt. The report finds that over 1 in 5 consumers, or 43 million, have black marks on their credit reports for medical debts, and that medical debts constitute over half of debt collection items on credit reports. The CFPB is also holding a hearing on medical debt collection today in Oklahoma City.

“The CFPB’s report documents the enormous harm that medical debt wreaks on consumers’ credit reports,” said National Consumer Law Center staff attorney Chi Chi Wu. “This report is another example of the powerful information revealed by CFPB’s groundbreaking research.”

Medical debt is very different from other types of consumer debt. In addition to the factors cited by the CFPB, medical debt is unique because the most vulnerable patients – the uninsured and underinsured – are often billed “chargemaster prices” which are much higher than prices charged to private and government insurers. Yet these same consumers could be eligible for charity care from a hospital or insurance coverage such as Medicaid.

The CFPB also announced it will be requiring the major credit reporting agencies to provide regular accuracy reports to the Bureau as part of ongoing examinations. Characterizing such reports as a positive first step, Wu noted: “The credit reporting system needs fundamental reform, including better standards for accuracy and real, meaningful investigation of consumer disputes that don’t automatically defer to the debt collector or creditor in a dispute.”

Wu also urged the CFPB to protect consumers from the harms caused by medical debt collection by:

- Examining the larger medical debt collection agencies;
- requiring debt collectors to give consumers a notice before placing or "parking" medical debt on their credit reports;
- require that consumers be given time to deal with insurance disputes or billing errors, or to apply for financial assistance or charity care, before a debt can be reported to a credit reporting agency;
- preventing damage to a consumer's credit score from medical debts that are disputed or result from billing errors; and
- prohibiting debt collectors from dunning low-income consumers for inflated chargemaster prices.

In addition, Wu noted that Congress could also help the 43 million consumers facing medical debt by passing the Medical Debt Responsibility Act, H.R. 1767/S. 160. “The bill would require credit reporting agencies to remove paid or settled medical debts from credit reports,” Wu explained.

Finally, one recent reform is that credit scoring developers FICO and VantageScore have both made changes to their scoring models to reduce the impact of medical debt. However, these changes will not benefit consumers applying for mortgages because mortgage giants Fannie Mae and Freddie Mac require the use of an older FICO scoring model that does not include this change. NCLC advocates have urged the regulator for Fannie Mae and Freddie Mac to insist these policies be changed.

Related NCLC Materials

NCLC report: *Strong Medicine Needed: What the CFPB Should Do to Protect Consumers from Unfair Collection and Reporting of Medical Debt*, September 2014:

<http://www.nclc.org/images/pdf/pr-reports/report-strong-medicine-needed.pdf>

Letter to federal regulator urging that Fannie Mae and Freddie Mac change its policies re: credit scoring models (Nov 14, 2014): http://www.nclc.org/images/pdf/credit_reports/fhfa_letter-38-mil-cant-wait-for-updated-scoring-11142014.pdf

Model Family Financial Protection Act:

http://www.nclc.org/images/pdf/debt_collection/model_family_financial_protection_act.pdf

Debt Collection policy and legal analysis: <http://www.nclc.org/issues/debt-collection.html>

Credit Reports and Credit Scoring policy and legal analysis: <http://www.nclc.org/issues/credit-reports.html>

National Consumer Law Center, Collection Actions, Chapter 9 (3d ed. 2014):

<http://shop.consumerlaw.org/collectionactions.aspx>

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