Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

July 20, 2022

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

Medical debt collection practices raise many specific policy issues. Unlike most consumer debts, the need for medical care for an acute illness can often be unexpected and not discretionary. For this reason, it can be difficult to shop and compare costs for medical care, and incurring debt to pay for it may not be indicative of a person's future financial behavior. Health insurance programs and medical billing, including co-pays and deductibles, can be complex and difficult for people to understand. According to a 2014 Consumer Financial Protection Bureau (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 take time.

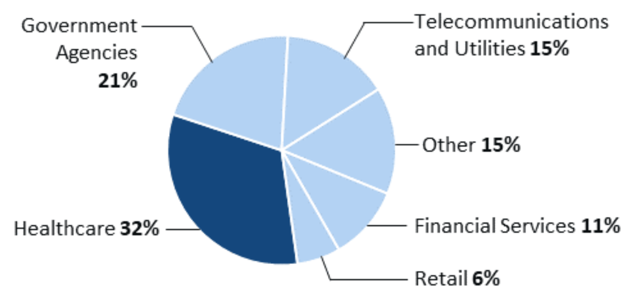
Medical debt is a common debt in the United States. In 2017, a Census Bureau survey found that 19% of people reported having medical bills they could not pay in full during the year. A 2015 CFPB survey found that more than half of consumers contacted by debt collectors about debt reported that it was related to a medical debt. Uninsured adults are more likely to have medical debt than adults with health insurance are. (Some research suggests that states that expanded Medicaid may have fewer people with medical debts.) Nevertheless, adults with health insurance still have medical debts. According to the CFPB, consumers owed $88 billion in medical debt on consumer credit records as of June 2021. CFPB research suggests that Black and Hispanic people and those under age 65 may have higher rates of medical debts than other groups.

Debt Collection Market Background

When a consumer defaults on a medical debt, medical providers often hire third parties to collect those debts. Debt collectors help medical providers recoup their losses when patients default. Consumers have no say over the debt collectors that providers choose. For this reason, consumer protection laws and regulations may be particularly consequential. IBISWorld estimates that almost a third of debt collection industry revenue will be from health care debt in 2022 (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. 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 must send to a consumer a validation notice disclosing certain information about the debt. In 2010, the CFPB became the first federal agency authorized to write regulations to implement the FDCPA. In late 2020 and early 2021, the CFPB finalized two new regulations that clarify how debt collectors may communicate with consumers and the information debt collectors must disclose to consumers.

Figure 1. Debt Collection Industry Revenue by Type



Source: IBISWorld's 2022 Industry Revenue Estimate.

Medical Debt and Credit Reporting

Credit reporting agencies (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. For example, lenders rely on credit reports and scores to determine the likelihood that prospective borrowers will repay their loans. Debts in collection, including medical debts, can be reported to credit bureaus and appear on consumers' credit reports. However, debt collectors report to credit bureaus voluntarily, so not all medical 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 the information in consumers' credit reports, as well as consumer rights in relation to their reports.

Medical debts are the most commonly reported type of debt collection on credit reports. 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. According to the CFPB, most medical debts reported are under $500. Reported medical debts can affect consumers' credit reports and scores, reducing their future access to credit. Medical debts on credit reports can also potentially impact decisions related to insurance, rental housing, and job opportunities, among other things.

Inconsistencies associated with medical billing can lead to inconsistencies in credit reporting. Medical debts are often transferred to debt collectors after different periods of time, depending on the medical provider. In addition, debt collectors can decide whether to or when to report debts to credit reporting agencies. Therefore, medical debts can appear on people's credit reports inconsistently. The inconsistency can harm consumers—for example, if a health insurance dispute causes the consumer to be unaware of a medical debt in collection, or if the threat of reporting medical debts to the credit bureaus coerces some people to pay medical bills before resolving these disputes. Perhaps for these reasons, CFPB research has found that medical debts may be a less reliable predictor of future credit performance than other debts are. While some newer credit scoring models take this into account, older or in-house models are still used by industry and could impact consumers with medical debt.

Recent Policy and Market Developments

In 2022, there have been significant policy and market developments relating to medical debt. In March 2022, the three nationwide credit bureaus—Experian, Equifax, and TransUnion—jointly announced that:

- Paid medical debts will no longer be included on credit reports for consumers.
- Medical debts that are less than a year old will no longer be included on credit reports for consumers in order to give consumers time to work with insurance companies and medical providers to settle the debt.
- Beginning in the first half of 2023, medical debts under $500 will no longer be included on credit reports for consumers.

The credit bureaus believe that these actions will remove almost 70% of medical debts from consumer credit reports.

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.

In April 2022, the Biden Administration announced that (1) the Department of Health and Human Services will do a study of more than 2,000 health care providers to evaluate how billing practices impact the affordability of care and accumulation of medical debt; (2) the Administration is directing all federal agencies not to consider medical debt in underwriting their credit programs, such as for mortgages and small business loans; (3) the Department of Veterans Affairs will make their medical debt forgiveness process easier and stop reporting medical debt to credit bureaus; and (4) the CFPB will increase its education materials around medical debt.

Medical Debt Policy Issues

Should medical debts be on credit reports? Some believe it is unfair for medical debts to appear on credit reports because these debts are often incurred for medically necessary reasons and are less likely to indicate whether someone is financially responsible. Moreover, health insurance disputes can take time to resolve. For these reasons, some argue that the credit bureaus should be prohibited from including debts related to medically necessary procedures in credit reports and from including medical debts that are less than a year old or paid. While the three nationwide credit bureaus may limit medical debt reporting voluntarily, some argue that these changes should be required by law and should apply to all credit bureaus. Others argue that older unpaid medical debts may demonstrate consumers' credit risk and therefore should be included in credit reports.

Are medical debt collections appropriately accurate? According to the CFPB, approximately 15% of debt collection complaints received by the agency in 2021 were related to medical debts. For about half of these complaints, the individuals say they do not owe the debts, because they either were already paid, do not belong to them, or are otherwise incorrect. Given the complexity of medical billing and health insurance programs, as well as CFPB reports of broader validation issues in the debt collection market, these complaints may indicate potential accuracy concerns when collecting medical debt from consumers. These accuracy concerns can harm consumers if they need to spend time disputing medical debts in collection or if their credit reports include inaccurate information.

Veterans and servicemembers policy issues. Medical debts could have unique harms for servicemembers, such as impacting security clearances and military readiness. P.L. 115-174, Section 302, provides veterans with credit reporting protections relating to medical debt, including extending the waiting period for medical debts in credit reports to one year and removing paid or settled medical debts. A 2022 CFPB report finds that servicemember complaints to the agency continue to be driven by problems with medical billing practices in consumer reporting and debt collection.

CRS Resources

CRS Report R46477, *The Debt Collection Market and Selected Policy Issues*

CRS Report R44125, *Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues*

CRS Insight IN11590, *CFPB Finalizes Two New Debt Collection Regulations*

CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*

CRS Report R45813, *An Overview of Consumer Finance and Policy Issues*

Cheryl R. Cooper, Analyst in Financial Economics

IF12169