

Spat can harm credit

Lawmaker: Purge record of the debt soon after it's paid

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WASHINGTON - Like millions of Americans, Ohio State University chemical engineering student Julia Mueller got into a dispute with her private health-insurance company over whether the cost of a medical procedure was covered by her policy.

And like millions of Americans, says Rep. Mary Jo Kilroy, when Mueller lost that argument, she also found that the months-long dispute over a medical debt resulted in a damaged credit rating and a credit card whose interest rate shot up to 25 percent from 7 percent.

Now, Mueller's about to graduate from college, but she is afraid she will get socked with higher interest rates when she tries to buy a home or make other purchases.

Mueller's story illustrates why Kilroy, a Columbus Democrat, says she is pushing legislation that would prohibit credit bureaus from using paid-off or settled medical debt to help determine credit scores. The bill would require that a creditor or credit rating bureau expunge medical debt from a consumer's record within 30 days of the debt being paid off or settled.

The proposal was examined at a hearing yesterday of the House Financial Service Committee's consumer credit subcommittee, which was scrutinizing whether credit scores are improperly used in arenas from medical debt to hiring practices.

Kilroy notes that the nonpartisan Commonwealth Fund has found that problems over medical bills and debt affect about 72 million working-age adults.

Medical debt is often in dispute, but when insurance companies or providers give a bill to a collection agency, that can leave a scar on a person's credit rating for years even after the debt is settled, say consumer health care advocates.



Rep. Mary Jo Kilroy's bill would erase medical debt from a credit record within 30 days of it being paid.

"The current credit reporting system serves to penalize people with medical debt," said Mark Rukavina, executive director of the nonprofit Access Project, a national health care research center affiliated with Brandeis University, in his testimony.

Stuart K. Pratt, president and CEO of the Consumer Data Industry Association, testified that some lenders have found medical debt to be "highly predictive" of whether a consumer will default on his or her financial obligations. Taking medical debt out of the credit-rating equation could reduce credit availability and increase credit costs for many, he says.

But Kilroy said she hopes her bill will get a House vote this year. Lawmakers should remember cases like Julia Mueller's in weighing the proposal, she said.

"I introduced the Medical Debt Relief Act to help hard-working Americans, like Julia, who play by the rules, pay or settle their medical debts, yet find their economic well-being and their credit scores adversely affected for years to come," Kilroy said at the hearing.

Meanwhile, Sen. Sherrod Brown, D-Ohio, yesterday backed a proposal in the Senate to add a credit-card interest provision to the pending financial regulation bill. Brown wants to eliminate a loophole that he says lets big national credit card lenders avoid state-imposed interest-rate caps. That gives them an unfair advantage over local lenders subject to state limits, Brown says.

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