

# Consumer advocates say medical debt's hit on credit is unfair

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When Steve Smith had a heart attack in 2006, the last thing on his mind was the impact on his credit report.

But because of a gap in his insurance, the 59-year-old Smith was hit with medical bills totaling about \$70,000 – \$8,000 from his surgeon and \$62,000 from the hospital. "At first, all of them went to collections because I couldn't pay any of them," said Smith.

Eventually, the hospital reduced its bill to about \$15,000 and Smith paid that off three years ago. He's paying his heart surgeon over time.

"They were wonderful," Smith said.

What hasn't been wonderful is the effect the episode has had on his creditworthiness.

Though he's paid off or paid down most of the debts, Smith's credit report still shows that some of the bills went to collection, and that has prevented him and his wife, Gayle, from refinancing their Plano home.

The Smiths are among millions of consumers who have grappled with medical debt and its negative impact on their credit reports. Thousands more may face similar problems as the ranks of unemployed and uninsured increase.

Experts say even one negative medical collection mark can drop a consumer's credit score, potentially costing that consumer thousands of dollars in higher interest rates on home and automobile loans, credit cards and other revolving lines of credit.

Consumer advocates say that's unfair. Unlike other debt, they say, medical debt is often beyond the control of consumers, is not caused by poor money management and therefore doesn't reflect a person's creditworthiness.

"We don't ask for a heart attack; we don't ask to get into accidents," said Rodney Anderson, a Plano mortgage banker. "With other debt, you can control that yourself by not spending."



KYE R. LEE/DMN

**'Consumer debt** is a choice, and medical debt is a forced circumstance,' said Gayle Smith, whose husband, Steve, had a heart attack in 2006 between insurance policies. He negotiated his debt down, but not before some of it went to collections.

But the three national credit agencies – [Experian](#), [TransUnion](#) and [Equifax](#) – make no distinction between unpaid medical bills and any other delinquent bill. In their models for determining a person's credit score, medical debt is treated like all other consumer debt.

Even after consumers have paid off delinquent medical debt, the negative information stays on their credit record for seven years, hampering their ability to get loans.

Anderson is pushing a change in the law to keep medical debt from haunting a consumer's credit record after it's paid off or settled. So far the effort has gained the backing of more than 40 members of Congress and Consumers Union, a nonprofit advocacy group.

"I see clients all day long getting penalized over \$50 medical collections and \$500 medical collections," Anderson said.

Credit bureau officials say their models are fair and accurate. They also say their reports reflect a person's full credit history – it's up to lenders to evaluate that history and determine what level of risk it reflects.

"A medical debt will properly appear on the consumer's file where the consumer has the legal responsibility for payment but has not fulfilled his or her obligation for paying those charges as agreed," said Steven R. Katz, a spokesman for TransUnion.

Steve and Gayle Smith see it differently. "A credit report should reflect the true intent and footprint of activity in a person's life," said Gayle Smith.

"Consumer debt is a choice, and medical debt is a forced circumstance."

## **Millions affected**

A study by the [Commonwealth Fund](#), an independent health care research group, hints at the scope of the medical debt issue.

The group's study found that accrued medical debt plagued 72 million working-age Americans in 2007. Of those, 28 million were contacted by a collection agency for unpaid medical bills.

Experts say the number undoubtedly has grown as the recession has cost thousands upon thousands of workers their jobs – and often their health insurance.

"We know that in 2008 alone, the number of working-age adults 18 to 64 who became uninsured climbed by 1.5 million," said Sara Collins, a vice president for the group.

Collins says there's a simple cause and effect.

"The medical debt issue is being driven by rising health care costs, [and] rising numbers of people who are uninsured or underinsured," she said.

She sees the problem getting worse: "In the absence of reform, the number of uninsured is predicted to rise to about 61 million by 2020."

## **Confusing process**

Another factor in medical debt is the complicated and confusing billing practice that patients encounter, say consumer advocates.

"The processing of claims is confusing, the correspondence between provider and insurers with patients is confusing, and the adjudication process to clarify which bills are going to be paid and what amount will be paid can take months," said Mark Rukavina, director of the Access Project, a nonprofit organization that works to improve access to health care.

"And because of the way health care claims are processed and the time that elapses ... mistakes are made."

Meanwhile, medical bills can easily land in the hands of debt collectors.

"If they're not paid within whatever month that the provider allows, then they're sent out to collections, and once they're sent out to collections, then it takes on a life of its own," Rukavina said. "It's a *Twilight Zone*."

Karen Rhode of Mesquite was in the process of buying a house in December 2004 when her loan officer discovered that her credit report showed two medical bills had been turned over to a collection agency.

"The real shame of it was the bills combined were less than \$100," Rhode said. "I would have paid it if I had known about it."

The medical debt lowered Rhode's credit score 40 points and resulted in a higher interest rate on her mortgage.

## **Credit industry's view**

At least one lender said he tends to ignore medical debt when it's the only blemish on a consumer's credit report.

"To me, it's not an indication of how a member pays his bills," said Jack Coffey Jr., chief operations officer at City Credit Union in Dallas.

But Coffey may be in the minority on this point. Others see little difference between medical debt and other forms of consumer debt. They also don't agree that medical debt that has been in collection should be expunged from a credit score once it's paid or settled.

"Debts aren't removed just because they're paid," said John Ulzheimer, president of consumer education at Credit.com. "If it's proven to be predictive of future credit risk, then the fact that you've had a collection reported, it should remain for the full seven years, whether it's paid or not. That's how all collections are treated."

Craig Watts, a spokesman for FICO, the company that developed the widely used FICO credit score, said the scoring model "doesn't distinguish between medical collections and any other collection."

Watts said FICO believes that how a person repays their medical debt helps predict how big a credit risk they will be in the future. But he said FICO is taking a second look at "the predictive value" of medical debt because of legislation pending before Congress.

## **Fixing the problem**

That legislation is sponsored by U.S. Rep. Mary Jo Kilroy, D-Ohio, who has been working with Anderson, the Plano mortgage banker.

In July, Kilroy introduced a bill that would prohibit credit bureaus from using paid-off or settled medical debt in assessing a consumer's creditworthiness.

Further, her bill would require that medical debt that has been paid off or settled be removed from credit records within 30 days of resolution.

"Debt from medical expenses isn't like buying a big-screen television on a credit card, but it is being treated in exactly that way by the credit bureaus even when it is paid off," Kilroy said.

"People shouldn't have their creditworthiness suffer because they got sick or injured."

Kilroy's bill has 44 co-sponsors, as well as the backing of Consumers Union, which said the legislation "will prevent the credit records of millions of consumers from being unfairly tarnished."

Rukavina, who's working with Kilroy's office on the bill, said it has a good chance of becoming law.

"The health care discussion has elevated this issue of medical debt," he said.

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