

The Consumer Financial Protection Bureau (CFPB) released a study titled **"CFPB Data Point: Medical Debt and Credit Scores"** on May 20, 2014, which found that consumers' credit scores may be overly penalized for medical debt that goes into collections and shows up on their credit report. The study also found that the scoring models used by the credit reporting agencies, or credit bureaus, may not be crediting consumers who repay the medical debt that has gone into collections.

According to a study by the Federal Reserve Board, more than half of all collections on credit reports are associated with medical bills. Most medical debt reflected on credit records is reported by third-party collection agencies and, in many instances, the consumer may not even be aware of a debt that has been sent to collections or that is on their credit record. A collection account can stay on a consumer's credit report for up to seven years.

The CFPB study found that treating medical and non-medical debt that goes to collections the same overly penalizes some consumers by giving them lower credit scores. The study found that consumers with medical debt generally paid back their loans or bills on par with consumers with scores about 10 points higher. The study also found that credit scores may underestimate creditworthiness by up to 22 points after paying off medical debt. The credit scoring models have not traditionally accounted for repayment of medical debts in collections. Allowing for different treatment of paid and unpaid medical collections would likely result in increased scores for consumers who have paid their medical collections in full.

A difference in a credit score of 10 or 22 or 32 points may not seem like that big of a deal. However, for consumers with lower credit scores, that point difference can affect their interest rates and ability to borrow credit. Over time, the score difference could end up costing a consumer tens of thousands of dollars on large loans like home mortgages.

Consumers should regularly check their credit report and take advantage of their one free annual credit report available via www.annualcreditreport.com. Consumers should promptly dispute any errors and communicate with the credit bureaus and creditors to have any erroneous entries deleted. Consumers who have had to deal with large or unexpected medical bills should stay in regular contact with the medical providers regarding outstanding balances. Often, medical providers will agree to a payment plan and refrain from sending an unpaid bill to collections.

Consumers should also follow up with any available insurance to see that health insurance pays any bills that should be covered by an in-force health insurance policy.