Medical Debt: HB 178

Medical Debt Information

Background on Credit Scores

- Forms of credit evaluation have existed since the early 1800s -- mostly through subjective means (like word-of-mouth) and discriminatory means (such as gender, age, marital status, ethnic background).

- Attempts to nationally standardize credit scores only manifested after the **Equal Credit Opportunity Act of 1974,** which required equitable opportunity to credit regardless of race, religion, and other aforementioned factors.

- In 1989, the **FICO score** (formerly called Fair, Isaac, and Company) became the model for creditworthiness to assess financial reliability. FICO scores puts certain percentage weights on payment history, amounts owed, length of credit history, new credit, **debts in collections (including medical debt!)**, and credit mix in an attempt to be objective.

    - Today, 90% of top lenders use the FICO model to assess eligibility
    - Today, 60% of employers use credit reports to evaluate job candidates (despite a lack of evidence that credit history correlates to performance or fraud) [1]
    - Utility and cell phone companies are also complicit in using credit reports to make sales and pricing decisions
    - FICO scores also determine housing opportunities, be it in rental or mortgage scenarios

1 *Discrediting America, The Urgent Need to Reform the Nation's Credit Reporting Industry, 2011*

Scrutiny of Credit Reporting in Recent Years

- **Rising costs and stagnant incomes mean greater reliance on credit; at the same time, the FICO scoring model has faced increased scrutiny and suspicion.** The FICO model, like all models, is inherently imperfect. It also furthers economic divide and entrenches folks in cycles of poverty**.**

  - Those who acquire lower credit score become subject to:

    i. **Crippling interest rates (then have to be relegated to payday loans, etc.)**
    ii. **Higher down payments**
    iii. **Difficulty securing rentals and affordable mortgages**
    iv. **Denied employment opportunities, etc. entrenching folks in cycles of poverty.**
    v. **Higher insurance premiums**
    vi. **Higher utility costs**

- Nationally, the score difference between white and non-white areas is near 80 points, which can cost families up to $100 more a month for a conventional mortgage. [1]
- The FICO model unduly punishes student loan holders for their debt
- Furthermore, credit scoring can skew unreliable, with individuals having debts reported they did not incur. Research suggests that more than 20 million Americans could have material errors on their credit reports. [2]

1. *Urban Institute, Housing Finance at a Glance, October 2017*
2. *American Bankruptcy Institute, "Is My Credit Report Accurate? For Over 40 Million Americans, the Answer is No"*

Medical Debt Reporting History

- Occasionally, hospitals report to credit agencies directly. Most of the time, the health care industry sells their debt off to the debt collector, who then reports to the credit agencies.

- **<u>March 2023</u>**<u>:</u> Experian, Transunion, and Equifax removed reporting medical debt <$500.

- **<u>January 2025</u>**: The Consumer Financial Protection Bureau (CFPB) finalized rules to:
    - Stop credit reporting companies from sharing medical debts with lender
    - Prohibit lenders from making lending decisions based on existing medical debt
        1. **The CFPB has estimated by removing medical debt, scores would raise an average of 20 points**
        2. **The CFPB also estimated that this would lead to the approval about 22,000 mortgages**

- The January rules were supposed to take into effect in March, but the current administration has pushed it until June.
    - The Executive Branch may try to retract the ruling via Executive Order
    - Simultaneously, Congress is trying to quash the rule under the Congressional Review Act through House Joint Resolution 74 and Senate Joint Resolution 36. H.R.J. 74 is expected to pass the house.

Medical Debt in Alaska

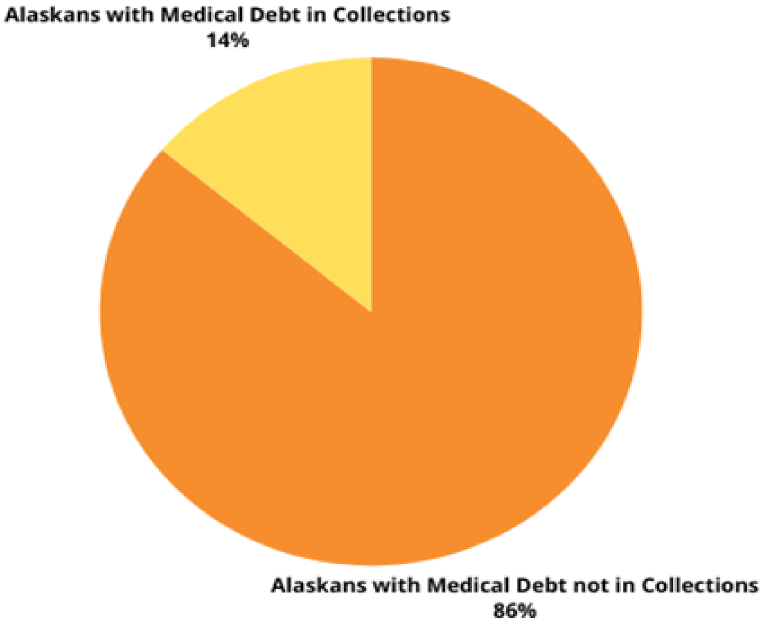
- Nationally, most people — 72 percent, according to one estimate — attribute their medical debt to bills from acute care, such as a single hospital stay or treatment for an accident.[13] Nearly 30 percent of adults who owe medical debt owe it entirely for hospital bills.[14]
- Based on national polling from the Kaiser Family Foundation, an estimated 40% of Alaskans have some form of medical debt, including those in collections [1]
  - **In 2021, 14.1% of Alaskan residents had medical debt that went to collections,** according to data compiled by the institute in August 2021 [2]
  - **The median debt in collections was $1,533, nearly double the national average of $870**
- 17% of Alaskans have a debt in collections
  - **In 2020, medical debt represented nearly half of Alaskans with debt in collections** [1]

[1] *Alaska Public Interest Research Group, Medical Debt in Alaska*

[2] *Alaska's News Source, Alaskans' Medical Debt in Collections Nearly Double the National Amount*

Visual Aids

Percentage of Alaskans with Medical Debt in Collections



What are other states doing?

BANNED MEDICAL DEBT CREDIT REPORTING:

- California
- Connecticut
- New Jersey
- Virginia
- Illinois
- Rhode Island
- Minnesota

OTHER MEDICAL DEBT PROTECTIONS NATIONWIDE:

- Florida and Virginia now bar medical debt collection lawsuits unless they're initiated within three years of the debt
- Delaware prohibits creditors from foreclosing on patients' homes to collect on unpaid medical bills
- New Jersey recently appropriated $10 million to cancel up to a $1 billion in medical debt

What does HB 178 do?

- HB 178 prohibits debt collectors and other entities from furnishing information to credit reporting agencies
- HB 178 prohibits credit reporting agencies from reporting medical debt
- HB 178 prohibits landlords or employers from asking about medical debt and/or using it as a qualifying factor
- If a debt collector violates this rule, the debt is rendered null and void

Impacts of Medical Debt in Collections

- Anyone can get hit with a surprise medical bill from an unforeseen sickness out-of-network care, or billing errors. Righting the bureaucracy of the American health care industry can upend a household living paycheck-to-paycheck.
- Since medical debt is rarely chosen and difficult to avoid, it should not be used a predictor of financial trustworthiness.
- Low credit scores specifically entrench low-income individuals into a vicious cycle of poverty by creating barriers to economic mobility and making loans, housing, and employment more difficult to obtain.
- When a bad credit report makes life more expensive, and makes it hardest to earn the means by which one can pay for those expenses (i.e. jobs), it forces some consumers to take on more debt on worse debts which makes life more expensive, reinforcing the cycle of poverty.
- **Furthermore, medical debt has been proven to be an unreliable indicator of defaulting, or financial reliability.** (In general, debts types do not reflect other payment behaviors.)