



March 25, 2024

The Honorable Thomas Umberg, Chair
Senate Committee on Judiciary
1021 O Street, Room 3240
Sacramento, CA 95814

Re: SB 1061 (Limón): Remove Medical Debt from Credit Reports - SUPPORT

Dear Senator Umberg:

The Consumer Protection Policy Center (CPPC) is a nonprofit, nonpartisan, academic center of research, teaching, learning and advocacy in regulatory and public interest law based at the University of San Diego School of Law. CPPC supports SB 1061 (Limón), which would prohibit the reporting of medical debt on consumer credit reports.

Medical debt information on credit reports wreaks havoc on the financial lives of millions of Californians. These blemishes on a credit report (which employers and landlords as well as creditors may see) and the resulting lower credit scores can compromise a family's long-term financial stability by blocking access to mainstream credit, housing, and even employment. The fear of medical debt harming their credit scores also creates a barrier to Californians seeking the health care they need, causes people to skip or postpone needed care, and leads to worse health outcomes.

More than 1 in 5 Californians report that they have medical debt they are paying off to providers.¹ Health care costs in California have been increasing at a rate outpacing the nation and inflation, taking up more and more of consumer income. In 2002, one third of Californians had deductibles, now nearly 80% have deductibles and the median deductible is nearly \$4,000. That means when Californians seek health care services beyond a doctor's visit, like an emergency room visit, a hospital stay, cancer treatment, a heart attack, an MRI, or a broken bone, they are likely to incur medical debt.²

While the three big nationwide credit bureaus voluntarily stopped reporting unpaid medical debts under \$500 in 2023,³ that simply is not enough to protect

Californians. Only 20% of Californians that have medical debts owe under \$500, and one-third of Californians with medical debt owe \$2,500 or more.⁴ In reference to the removal of medical debts under \$500 from credit reports the Consumer Financial Protection Bureau (CFPB) noted that “[f]ifty percent of those with medical collections on their credit report will continue to have medical collections on their credit report and so may experience limited benefits from the change.”⁵ And of course, what the big three credit bureaus have voluntarily done in 2022, they can voluntarily reverse in 2024 unless the protections are enshrined in law.

Medical debt does not belong on credit reports at all. Medical bills are often unexpected, overwhelming, and incomprehensible. Medical debt is not like other types of debt, and is incurred by people who need health care. Medical debt may also be riddled with problems such as billing errors and disputes with insurers over liability for accounts.⁶ In other words, as the CFPB’s research has found,⁷ medical debt does not predict whether a person is a credit risk. The credit scoring modeler VantageScore has announced that it will no longer include medical debts in its two latest scoring models (VantageScore 3 and 4).⁸ This change strongly suggests that these debts are simply not necessary to make credit scores predictive. Yet the most commonly used credit scoring model (FICO) still treats unpaid medical debts negatively.⁹

In addition to credit scoring harm, medical debts on credit reports create other risks, such as:

- **Privacy and impermissible proxy:** The appearance of multiple medical debts, especially in larger dollar amounts, may indicate to an employer or housing provider that the consumer has a chronic health condition. This may result in rejections by less-than-upstanding employers worried that the consumer will require frequent sick leave or result in higher health insurance premiums. Housing providers may reject applicants they believe are sick and require some sort of accommodation.
- **Medical debt causes consumers to skip or delay needed health care:** Consumers know that going to the doctor or hospital can result in an expensive medical bill that could have a negative impact on their credit history and opportunities. Concern over medical debt causes consumers to skip or postpone needed health care, which puts people’s health at risk and leads to worse health outcomes. In the last year, more than half of Californians reported skipping or delaying health care because of the cost, and people who already have medical debt are even more likely to skip care due to the cost. Low-income, and Black and Latino consumers disproportionately report having medical debt: last year, 53 percent of Black Californians and 46 percent of Latino Californians reported having medical debt compared to 33 percent of White and 28 percent of Asian Californians.¹⁰

Reporting medical debt on credit reports exacerbates existing disparities in health, and access to credit, health care, housing, employment, and other opportunities.

- Consumers with a disability are disproportionately impacted by medical debt: According to the Kaiser Family Foundation's Burden of Medical Debt report, adults with a disability are more than twice as likely than those without a disability to report owing over \$250 in medical debt (13% vs. 6%).¹¹ Consumers with a disability already face significant barriers in obtaining employment and housing. Medical debts on a credit report might be what tips an already tentative employer or housing provider from hiring a disabled consumer or renting an apartment to them. While such actions violate federal and state anti-discrimination laws, illegal activity does happen. Removing medical debts from credit reports is one way to reduce the potential for such violations.

California can protect its consumers from all of these negative effects of medical debt by adopting SB 1061. And the CFPB has made clear that states have the authority to enact this type of critical consumer protection.¹² The Biden Administration has recognized the impact that unpaid medical debt has on credit and the CFPB is in the process of rulemaking. But these regulations are far from being finalized and could face court or Congressional challenges. States need to act now to protect consumers.

SB 1061 specifically prohibits consumer reporting agencies from including medical debt on credit reports and requires that medical debt contracts include provisions preventing medical debt information from being shared with credit reporting agencies (CRAs). To enforce the exclusion of medical debt on credit reports, this bill makes medical debt void if it is shared with a CRA.

Despite the large portion of Californians with medical debt, and increasing debt collection lawsuits by hospitals, there is little data about the number of and type of lawsuits, as well as the demographics of patients the lawsuits are against.¹³ The bill will improve information collection as well as our understanding about these lawsuits and the patients being sued, and help to inform policymaking. To do so, the bill requires that hospitals maintain an updated database of all patient medical debt-related litigation including relevant case information, the ethnicity of the patient, and the dollar amount at issue in the case.

Californians deserve a health care system that does not punish them for seeking medical care when they need it. This bill will both increase Californians' access to credit and reduce a barrier to Californians getting the health care they need. With this bill, California will join Colorado and New York in banning this harmful practice.

For the above reasons, we support SB 1061.

Sincerely,

Marcus Friedman

Marcus Friedman
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¹ California Health Care Foundation. The 2024 CHCF California Health Policy Survey, Jan. 2024, at 34. <https://www.chcf.org/wp-content/uploads/2024/01/2024CHCFCAHealthPolicySurvey.pdf>

² UC Berkeley Labor Center. Measuring Consumer Affordability is Integral to Achieving the Goals of the California Office of Health Care Affordability, Jan. 2024. <https://laborcenter.berkeley.edu/measuring-consumer-affordability/>

³ CDIA, [National Credit Bureaus Support Consumers with Changes to Medical Collection Debt Reporting](#), March 18, 2022

⁴ 2024 [CHCF California Health Policy Survey](#), Jan. 31, 2024

⁵ CFPB, [Data Point: Consumer Credit and the Removal of Medical Collections from Credit Reports](#), (Apr. 2023).

⁶ See Kenneth P. Brevoort & Michelle Kambara, [Data Point: Medical Debt and Credit Scores](#), Consumer Fin. Prot. Bureau (May 2014).

⁷ Id. (medical debt is “less predictive of future repayment than reporting on traditional credit obligations.”)

⁸ See VantageScore, [VantageScore Removes Medical Debt Collection Records from Latest Scoring Models](#) (Aug. 2022) available at <https://www.vantagescore.com/major-credit-score-news-vantagescore-removes-medical-debt-collection-records-from-latest-scoring-models/>

⁹ See <https://www.myfico.com/credit-education/credit-scores/fico-score-versions>; Press Release, FHFA Announces Validation of FICO 10T and VantageScore 4.0 for Use by Fannie Mae and Freddie Mac, October 24, 2022,

¹⁰ CHCF, The 2024 CHCF California Health Policy Survey, Jan. 2024. <https://www.chcf.org/wp-content/uploads/2024/01/2024CHCFCAHealthPolicySurvey.pdf>.

¹¹ Shameek Rakshit et al., [The burden of medical debt in the United States](#), Feb. 12, 2024.

¹² CFPB, [The Fair Credit Reporting Act’s Limited Preemption of State Laws](#), 87 Fed. Reg. 41,042 (July 11, 2022). Noting, “For example, if a State law were to forbid consumer reporting agencies from including information about medical debt, evictions, arrest records, or rental arrears in a consumer report (or from including such information for a certain period of time), such a law would generally not be preempted.”

¹³ Health Affairs Forefront, [Hospital Debt Collection Practices Require Urgent Reform](#), May 2, 2022 available at <https://www.healthaffairs.org/content/forefront/hospital-debt-collection-practices-require-urgent-reform>