Written by Michael Tennant on January 14, 2025

Biden Rule Taking Medical Debt off Credit Reports Harms Those It’s Supposed to Help

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The Consumer Financial Protection Bureau (CFPB) issued a rule last Tuesday forbidding credit-reporting agencies from including individuals’ medical debts on their credit reports, a move critics say will reduce the availability of both healthcare and credit.

The CFPB claims its rule, which will take effect in about two months, “will remove an estimated $49 billion in medical bills from the credit reports of about 15 million Americans.”

According to a CFPB press release:

> The CFPB has found that medical debts provide little predictive value to lenders about borrowers’ ability to repay other debts, and consumers frequently report receiving inaccurate bills or being asked to pay bills that should have been covered by insurance or financial assistance programs.
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> “People who get sick shouldn’t have their financial future upended,” said CFPB Director Rohit Chopra. “The CFPB’s final rule will close a special carveout that has allowed debt collectors to abuse the credit reporting system to coerce people into paying medical bills they may not even owe.”

Consumer Financial Infection Bureau

That *sounds* compassionate. However, bureaucrats’ actions often fail to accomplish their purported objectives and end up making matters worse.

“This is a classic example of the CFPB failing to live up to its name,” Heritage Foundation research fellow E.J. Antoni told the Daily Caller. “Everything it does harms consumers financially, instead of protecting them.”

Peter Earle, a senior economist at the American Institute for Economic Research, told the Daily Caller the rule will make it harder for the non-wealthy to borrow. Said Earle:

> Removing [medical] information will reduce the predictive accuracy of credit scores for certain borrowers. When lending institutions are unable to differentiate between high- and low-risk borrowers, they are more likely to become risk-averse, either raising the interest rates associated with borrowing or doling out loans with increasing parsimony. With the kind of irony that only government regulators can reliably muster, acting to make credit easier to acquire by blocking lenders' access to certain data about borrowers will ultimately impact low- and middle-income borrowers negatively, turning affordable or significant borrowing into a privilege reserved for the wealthy.

Moreover, the rule is likely to make it more difficult for Americans to obtain healthcare. If medical debt no longer affects one's credit rating, and if debt collectors may not act on it, there is much less incentive to pay it back. Doctors and hospitals will thus be leery of treating patients whose likelihood of payment is uncertain, so patients of lesser means will be turned away.

Bureaucrat Bashers

Congressional Republicans were quick to pounce on the CFPB's last-minute rulemaking. Senate Banking Committee Chairman Tim Scott (R-S.C.) criticized Chopra for "his pursuit of headlines and political talking points over sound policy decisions." And House Financial Services Committee Chairman French Hill (R-Ark.) called Chopra's "eleventh-hour effort to appease the White House … another example in a long line of poor decision-making."

Credit bureaus, debt collectors, and creditors are going beyond mere words by taking the CFPB to court. Almost as soon as the rule was announced, two such coalitions filed lawsuits against it in federal district courts in Texas. Both argue that the CFPB has no statutory authority to promulgate the regulation because federal law explicitly allows medical debt, subject to certain privacy protections, to be included in credit reports.

Just the Equifax

Equifax, the nation's second-largest credit bureau, made similar arguments in an August letter commenting on the then-proposed rule, which it deemed "arbitrary and capricious." The eight-page missive also eviscerated the CFPB's reasoning behind the rule.

Contrary to the CFPB's assertion that medical debt is of "little predictive value to lenders," Equifax's analysis of its own data showed that

> medical collections were predictive of a consumer's payment/delinquency rate. Furthermore, when medical collections are added to a model with non-medical collections, the addition of medical collections yields 34 percent predictive lift.

Equifax further charged that the agency's claim that debt collectors are hounding consumers over inaccurate medical bills "is not supported by substantial evidence."

"CFPB rests its determination in part upon evidence that consumers often believe that they have received a medical bill with an error," wrote the credit bureau. "The agency does not provide evidence that this perception is correct."

Equifax, by contrast, found that "medical collection information is … at least as accurate as other collection information." In addition, "medical collections were disputed less frequently than other types of collection items," and "medical collections, when disputed, are also verified at a higher rate than other types of collection items."

Equifax pointed out that the CFPB seems not to have considered the potential side effects of its rule, including those mentioned above. More than three million people might no longer have credit scores if their medical debt were excluded from reporting, making it nearly impossible for them to borrow, contended Equifax. And "consumers might be offered more credit if their medical debt is not considered than they would if it is, such that they may be less able to repay larger extensions of credit."

Rule of Flaw

With the Biden administration on the way out and the rule already being challenged in court, it stands a good chance of being rescinded before it can ever take effect. As an unconstitutional regulation promulgated by an unconstitutional agency, it certainly should be. Besides, as the plaintiffs in one of the lawsuits observed, the rule "is not based on reasoned decision-making, but rather political ideology."