

Prepared Statement of Rodney Anderson, Supreme Lending of Dallas, TX

Committee on Financial Services

Subcommittee on Financial Institutions

“Examining the Uses of Consumer Credit Data”

September 13, 2012

Chairwoman Capito, Ranking Member Maloney and Members of the Subcommittee. Thank you for the opportunity to testify on “Examining the Uses of Consumer Credit Data.” My name is Rodney Anderson. I am an author, consumer advocate, and commentator. I am also one of the nation’s top originators of FHA/VA loans and serve as the Executive Director of Supreme Lending, located in Plano, Texas.

As a mortgage originator for more than 28 years, I have had the opportunity to discern economic trends, consumer credit, and credit capacity as well as the impact real-life issues, such as spending habits, marriage, divorce, bankruptcy, health care costs and foreclosure. That knowledge helped me devise strategies and formulas for lasting financial health as outlined in my book, *Credit 911: Secrets and Strategies for Saving Your Financial Life*.

I appreciate the opportunity to testify regarding issues I feel strongly about and have had the opportunity to experience first-hand in my line of business. My testimony will cover my experience in issues relating to the types of data used to build a consumer’s credit history; the relationship between a consumer’s credit history and their ability to obtain financial products; and the unfortunate negative impact of incorrect/incomplete data on consumer credit reports.

It is through my experience that I am here today to talk about these issues and a bill, which I strongly believe in and have advocated for, H.R. 2086, the Medical Debt Responsibility Act.

Medical Debt Responsibility Act

I have been fortunate to have been able to sustain my business during the ups and downs of these economic times. I have witnessed many changes in my industry and the market over the years, but there has been nothing more disturbing to me than creditworthy consumers trying to gain access to necessary credit in this economy and being denied.

Several years ago, the 9-year-old son of one of my clients was involved in an accident on his bicycle. He was taken to the hospital by ambulance where he received medical treatment, and thankfully had no life threatening injuries. My client was told by the insurance company that the \$200 trip in the ambulance was going to be covered by his insurance policy. Several months and phone calls later, when the bill remained unpaid, my client finally decided it was easier to pay the \$200 himself, but, by then, it was too late. The bill had been turned over to a collection agency.

The debt had been reported to the credit agencies, but it was only when my client and his wife went to refinance the \$240,000 mortgage on their home in Lewisville, TX, nearly six years after the accident, that he learned the bill had shaved about 100 points from his credit score. Even with no other debts, a healthy income and otherwise pristine credit, the couple had to pay an extra \$4,000 to secure a market interest rate. He did not ignore the debt, but was simply unaware of it. This story was covered recently in the New York Times, and is certainly not unique. There are plenty of stories just like it.¹

Even people with good insurance coverage know how hard it can be to figure out how much they owe after a visit to the doctor or, even worse, the emergency room, which can generate multiple bills from multiple providers. As patients become responsible for a growing share of costs — not just co-payments, but also deductibles and coinsurance — bill paying is becoming ever more complex. Who among us has never been confused by the statement, “This is not a bill?”

On top of that, more medical providers are using collection agencies and turning to them more quickly than they have in the past. For these reasons, I have been advocating for the passage of the Medical Debt Responsibility Act, which was introduced this Congress by Rep. Manzullo of this Subcommittee and Rep. Shuler and Rep. Hall. The Medical Debt Responsibility Act would require consumer credit reporting agencies to permanently remove paid or settled medical debt not to exceed \$2500 from a consumer’s credit report within 45 days of being paid or settled by the consumer. I believe strongly in this common sense, bipartisan legislation which goes a long way in helping the economy and consumers.

Similar legislation passed the House of Representatives last Congress with overwhelming support from both Republicans and Democrats by a margin of 336-82, including the support of 13 Committee chairs. Legislation has also been introduced in the Senate this Congress, S 2149.

¹ Siegel Bernard, T. (2012, May 4). Discrepancies on Medical Bills Can Leave a Credit Stain. website: <http://www.nytimes.com/2012/05/05/your-money/medical-debts-can-leave-stains-on-credit-scores.html?pagewanted=1& r=1&pagewanted=print>.

Medical Debt Reporting and Its Impact on Credit Scores and Economic Activity

This year, a New York City hospital made international news for improperly billing a patient nearly \$45 million for an outpatient service that amounted to only \$300. The error was the fault of the billing company, which incorrectly listed the invoice number in the “amount due” field.

While this incident is extraordinary, errors in medical billing are not uncommon, and the consequences are cause for serious concern. Over 20 percent of all medical claims every year are processed inaccurately. When those inaccuracies are sent to collection and reported to the credit bureaus, these mistakes become huge problems for the individual consumer. The problem is compounded by the way in which credit agencies treat medical debt. Because health care providers rarely report medical bills paid on time, most consumers are penalized when medical bills, either appropriately or due to inaccuracies, are assigned to collections, which can lead to plummeting credit scores.

Even though medical debt is not a reliable indicator of credit risk, small medical bills are often the difference between being creditworthy and not creditworthy for millions of Americans. Unpaid medical debt sent to collections - whether for \$100 or \$10,000 - can shave up to 100 points from an average credit score, even if the collection is made in error.

In other circumstances, the billing may be correct, but the insurance claim submissions and the supporting documentation are incomplete – and, therefore, denied. Resubmitting claims takes time and runs the clock on bills that may ultimately be sent to collections. Unlike mortgage or credit card payments, medical payment history is incomplete and error prone since timely payments are not reported but accounts that have been sent to collections are.

The Medical Debt Responsibility Act would ensure that minor medical bills no longer play a major role in credit score calculations. Consumers with a zero balance would have the collection removed from their credit report in a timely basis instead of suffering the consequences of a bureaucratic mistake for seven years. If this straightforward legislation became law, millions of Americans would have the good credit standing necessary to qualify for mortgages, credit cards, and other types of loans.

The Medical Debt Responsibility Act also has the support of a diverse group including housing, consumer and mortgage lending groups as illustrated by a letter they sent to Congress in support of passage of the bill which is included as part of this statement.

Addressing this issue could markedly increase the ability of many consumers to refinance or purchase a home in this historically low-rate interest environment. There is strong anecdotal evidence to show hidden medical debt has cost homeowners. For instance, in December 2010, the Wall Street Journal cited a consumer who received two erroneous \$11 doctor bills, dropping their credit score by 77 points, making the cost of refinancing prohibitive.

The theory of perfect competition and the assumption of perfect information is a longstanding central component of microeconomic theory. Market efficiency and competitive equilibrium are dependent on the *assumption* of perfect information. However, markets do not work well and are inefficient when the information is incorrect, not known, or is otherwise compromised (*i.e.* housing bust, mortgage defaults, subprime MBS, etc).

Indeed, when information is inaccurate, markets make decisions on less than perfect information. With regard to medical debt – this can mean significantly and affirmatively reducing a consumer’s credit score and subsequently, artificially impeding economic activity and consumer borrowing capacity.

Medical Debt Reporting is Different; the Information is Biased, and Incomplete

Medical debt is unique in that it is NOT typically reported to the credit bureaus by health care providers. According to Experian, health care providers account for only 7/100th of one percent of their data.² Most of the time, medical bills are reported to the credit bureaus only after they have been assigned to collections.³ This means, the credit bureau is receiving incomplete and biased information, because it does not receive data reflecting positive payment history – only the negative.

This is very different from a mortgage or a credit card, where payment history is reported to the bureaus on a monthly basis – positive and negative. Since this is not the case with medical debt, a consumer checking his/her monthly credit report cannot even see if a medical debt is outstanding, unless and until it goes to collections.

² C.Prater, 15 Tips For Paying High Medical Bills, Negotiate Before Using Credit Cards To Finance Medical Expenses, CreditCards.com.

³ Id.

Mistakes and Errors in Medical Claims Processing

The unfortunate fact is that the consumer is the only party who pays for the errors, mistakes and confusion of the process. Those making the errors or causing the confusion - whether health insurers, collection agencies or providers - bear NO responsibility.

One study found nearly 40 percent of Americans currently do not understand their medical bills or explanation of benefits statements well enough to know what services they are paying for, why they owe such amount, and if the amount is accurate.⁴ Another study found that 14 million Americans had a medical bill sent to collection because of a billing mistake.⁵

In addition, since doctors do not have internal controls on billings, nor do they specialize in collections, such bills are sent to a collection agency more quickly than a voluntarily initiated credit bill:

- In 2010, 30 million American adults under the age of 65 were contacted by collection agencies for unpaid medical bills.⁶
- More than one-half (52 percent) of collection accounts reported to the credit bureaus are associated with medical bills, according to a study published in the Federal Reserve Bulletin.⁷

Given the breadth of consumers impacted by this issue and the current system that punishes consumers regardless of the underlying facts (e.g., mistakes, errors, or otherwise), Congress could dramatically increase economic activity and growth by amending the Fair Credit Reporting Act to require the removal of medical collection accounts that are paid in full or settled. I strongly believe that passage of the Medical Debt Responsibility Act will accelerate growth in the economy and creditworthy borrowers will finally have the access to credit that they have earned.

⁴http://about.intuit.com/about_intuit/press_room/press_release/articles/2010/AmericansConfusedAboutMedicalStatements.html.

⁵ Commonwealth Fund, 2007 Biennial survey dataset.

⁶ Commonwealth Fund Biennial Health Insurance Survey 2010.

⁷ Fair Credit Reporting Act (FCRA), 15 U.S.C. § 1681 et seq.

§ 605. Requirements relating to information contained in consumer reports.

Types of Data/Establishing Credit

A consumer's credit history is their financial DNA. Establishing good credit is essential for just about every financial decision a consumer makes – from purchasing a home to applying for employment. It is an integral part of our everyday life and business. Credit is a valuable commodity and a necessary financial tool.

Based on my experience in the housing and mortgage industry, in order to have access to a home loan, a consumer must have at least three pieces of credit, and one of the pieces must have been in existence for at least 24 months. At this point, a consumer has sufficient credit history to produce a credit score and credit report. The data included in such credit scores and reports can include data relating to credit cards, mortgage loans, student loans, and auto loans - basically unsecured and secured debt.

Although the credit reporting agencies style of reporting may vary, the class of information reported is similar. For example, all credit reporting agencies include identifying information about consumers such as their social security number, date of birth, address and employment information. Such factors are not used in credit scoring, but are used in identifying consumers. Additionally the credit report will include data on credit accounts such as the date the account was opened, the account balance, payment history and the credit limit. This is the area where I believe positive payment history including utilities and other services should be reported such as articulated in H.R. 6363, the Credit Access and Inclusion Act.

The credit report will also include credit inquiries made over a two year period both voluntary (made by the consumer) and involuntary (pre-approved offers of credit). The credit reporting agencies will report information that is of public record such as judgments by the state or local government, bankruptcies, liens and items in collection. This is the area where medical collections can wreak havoc on an individual's credit score and profile.

It takes two years to establish good credit history and one late payment that a consumer may or may not have known about OR was reported in error to destroy such credit. Even after a consumer pays for such reported debt in collection, regardless of whether or not it was actually owed by the consumer, the consumer's credit report is tainted for seven years.

Establishing good credit is essential for credit to be affordable. For example, if a consumer would like to purchase a \$300,000 home by putting 20 percent down on a 30 year fixed rate mortgage, a FICO score of 740 or above is required to qualify for the lowest rates and fees. Every 20 points that a consumer's FICO score drops, there is a risk-based-pricing add on fee assessed by Fannie Mae and Freddie Mac. A person with a 725 FICO score will have a risk-based-pricing add on fee of a half point, which on a \$240,000 home is \$1200. A person with 705 credit score would have a risk-based-pricing add on fee of 1 point, totaling \$2400. A person with a 685 FICO score would have risk-based-pricing fee of 1.75 point, totaling \$4200.

Good credit is also critical in other aspects of business including in employment hiring. Employers in government contracting or financial areas often require credit checks of their potential employees and now, more and more employers in other industries are beginning to assess the financial means and creditworthiness of potential employees prior to their offer of employment.

A survey of a random sample of Society for Human Resource Management members found that 60 percent used credit background checks for job candidates. When asked what type of negative financial information would be most likely to affect a decision to NOT extend a job offer, only 1 percent of respondents cited medical debt. The problem – the consumer reporting agencies categorize medical debt in collection as a collection account without any other identifying factors. As such, potential employers see a collections account and often do not know what it relates to or the details relating to such collection (e.g. medical collection reported in error) and a potential employee misses out on an employment opportunity. A consumer's credit can be the difference between getting a job and not getting a job. It takes a few years to build up good credit history and it can be wiped out by one missed payment, unknown debt or reporting error.

Billing Errors

An example of such errors can be illustrated through examining health insurance claims. Health insurance claims are frequently denied because of billing errors, such as duplicate claims or missing information on the claim.⁸

⁸ Private Health Insurance: Data on Application and Coverage Denials, US Government Accountability Office, March 2011.

A June 2011 American Medical Association survey found that one out of five medical claims is processed inaccurately by health insurers (19.3 percent or over 30 million claims processing errors annually). This is an increase from 17 percent, or almost 27 million, from the prior year.⁹

In 2010, an estimated 9.2 million people aged 19 to 64 were contacted by a collection agency because of a billing mistake, according to research by the Commonwealth Fund. There have been a number of other independent studies conducted regarding errors on consumer credit reports. One study includes the Columbus Dispatch investigation of which research shows an error rate of around 30 percent.¹⁰ A U.S. PIRG study found errors in 25 percent of credit reports. An FTC study of a pilot program found errors in 53 percent of credit reports.¹¹ Regardless of how or who conducts the study, this fact remains – errors on credit reports are rampant. I see it in my business on a daily basis. I cannot tell you the number of times I am about to go to a closing table with my clients and they learn of a billing error which significantly decreases their credit worthiness and substantially increases their cost to a home loan. A consumer's options are also limited in this situation.

More often than not, a consumer will be willing to pay the debt, even if reported in error, just to remove it from their credit report. However, it takes a good two years before a consumer will see the positive impact such payment will have on their credit report. The other option is to dispute the error under the Fair Credit Reporting Act. Pursuant to the dispute process, both the credit reporting agency and the furnisher of information are responsible for correcting inaccurate information to a consumer's credit report. Unfortunately, the process by which this occurs is not that simple. First, a consumer is to tell the credit reporting agency in writing regarding the error. The credit reporting agency should investigate the item in question "usually" within 30 days unless they consider the dispute frivolous which is subjective. The agency must also send the furnisher of information the relevant data the consumer sent.

According to the Federal Trade Commission, after the "information provider receives notice of a dispute from the credit reporting company, it must investigate, review the relevant information, and report the results back to the credit reporting company. If the information provider finds the disputed information is

⁹ Mills, R. J. (2011, June 20). New AMA Health Insurer Report Card Finds Increasing Inaccuracy in Claims Payment. website: <http://www.ama-assn.org/ama/pub/news/news/ama-health-insurer-report-card.page#>.

¹⁰ Riepenhoff, J., & Wagner, M. (2012, May 6). Dispatch investigation | credit scars. website: <http://www.dispatch.com/content/stories/local/2012/05/06/credit-scars.html>.

¹¹ White, M. C. (2012, May 8). Why are credit report errors so hard to fix? website: <http://moneyland.time.com/2012/05/08/why-are-credit-report-errors-so-hard-to-fix/>.

inaccurate, it must notify all three nationwide credit reporting companies so they can correct the information in your file.”¹² This is where things do not quite go as consumers anticipate.

When an item is in dispute, a consumer is often unable to obtain access to credit at least in the mortgage capacity until the dispute is resolved. I have often seen a debt in dispute [although expected to be 30 days pursuant to law] for five to seven years. In the past, there were concerns with some “gaming the system” when applying for credit. A debt could be in dispute, such debt would be removed from a consumer’s credit report and a consumer’s credit score would therefore be reflected without such debt.

Fannie Mae, Freddie Mac and the Federal Housing Administration closed the dispute loophole. In fact, consumers may not have access to a home loan if in fact they have a debt in dispute. This means a consumer may lose their lock rate and not be able to close on time. Because of this, and the lack of recourse, timeliness and efficiency in our dispute system, I believe the dispute process is very broken and should be fixed. What seems like a very small problem can have long term effects on a consumer’s ability to obtain credit.

Differences in Data Reported

Tens of thousands of credit grantors including retailers, credit card issuers, banks, finance companies, credit unions, etc. send updates to each of the credit reporting agencies, usually once a month. These updates include information about how their customers use and pay their accounts.¹³

However, there are several differences among the types of data reported, how it is reported and its impact on a consumer’s credit worthiness. Some companies do not report to all three credit bureaus and only select one with whom they have a relationship in which they furnish information.

As a mortgage lender, I have to take the middle credit score out of the three credit bureaus - Experian, Equifax and TransUnion. If a consumer has one good credit score listed by one of the three bureaus and two bad, the consumer suffers the consequences. This is general practice among mortgage lenders. The data reported is calculated differently based on each of the bureaus own algorithms. A debt in collection can vary by a number of points. For example, if a person had a paid medical collection, it could fluctuate on a consumer’s credit report among the bureaus anywhere from 20-40 points.

¹² (2011, October). How to dispute credit report errors. website: <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre21.shtm>.

¹³ About credit reports. website: <http://www.myfico.com/crediteducation/creditreports.aspx>.

Alternative Forms of Data/The Credit Accuracy and Inclusion Act

Alternative forms of data can be very helpful especially to those people who have suffered financial damage in the past or who have had no access to credit. Many people who choose not to use credit, even though they can gain access to credit will fall into an inactive status which will negatively impact their credit score and create “thin files” for consumers. I believe there is a benefit in including additional sources of data in credit files such as utility, rental, and cellular phone payment information.

Utilities and telecommunications are used on a daily basis which will guarantee reporting of positive items each and every month which will provide for consumers to build credit for doing the right thing and paying their monthly bills on time. Young adults want to build a good credit history but who may not want to incur credit card debt should not be penalized for trying to be responsible adults and abstaining from accessing credit until it is absolutely necessary. This is why I support Rep. Renacci and Rep. Ellison’s bill to permit utility and telecom companies -- like cell phone providers – to report on-time payments instead of only delinquent payments to the three major credit bureaus.

People who do not have credit scores or have “thin” credit reports face significant economic hardship as creditors usually only extend credit to those who already have it. When a consumer does not have a credit history, they are considered risky to lend to and their access to credit is either denied or cost-prohibitive. The Credit Accuracy and Inclusion Act helps to rectify this situation to eliminate an inequity in the credit system by adding utility and telecom data to consumer credit reports so a consumer’s creditworthiness will be accurately reflected.

Conclusion

It is an injustice that small medical bills—incomplete and often inaccurate due to an error-prone billing system—can prevent an otherwise creditworthy consumer from qualifying for a mortgage or refinancing their home. The Medical Debt Responsibility Act provides a quick, simple and cost-free solution to a problem that has a long-term negative impact on consumer credit scores, and thus the housing market and economy.

I believe if there is one sure place the government can be helpful in the housing market recovery, it is in improving the quality of information being used to allocate credit to consumers. Thank you for the opportunity to testify on this important issue.

April 16, 2012

The Honorable Tim Johnson
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Spencer Bachus
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The undersigned organizations strongly support H.R. 2086 and S. 2149, the Medical Debt Responsibility Act, introduced in the U.S. House of Representatives and the U.S. Senate. The bills require credit agencies to remove FULLY paid or settled medical debt from credit reports within 45 days.

Annually, approximately 73 million Americans experience medical billing problems or have accrued medical debt. Medical debt is unique in that it is not typically reported to the credit bureaus by healthcare providers, but instead by collection agencies. Typically, medical bills are reported to the credit bureaus only after they have been assigned to collections. It is frequently the case that medical bills are sent to collection due to uncertainty over who should pay. The medical billing system is fraught with errors and confusion, further compounding the situation for consumers.

Indeed, when information is inaccurate, markets make decisions on less than perfect information. With regard to medical debt, this can mean significantly reducing a consumer's credit score and subsequently impeding economic activity and consumer borrowing capacity. According to the Fair Isaac Corp., any unpaid debt sent to collections, whether for \$100 or \$10,000, can shave up to 100 points off a person's credit scoreⁱ – even if this collection is a mistake, made in error, or is in dispute. This can have a dramatic impact on an individual's ability to obtain a mortgage, a car loan, or any other form of credit, thereby limiting economic activity.

Many consumers in states throughout America are adversely impacted by this issue. The current system punishes consumers regardless of the underlying facts (e.g., mistakes, errors, or otherwise). Congress can create equity in the current system and dramatically increase economic activity and growth by amending the Fair Credit Reporting Act to require the removal of medical collection accounts that are paid in full or settled.

The Medical Debt Responsibility Act will prevent the credit records of millions of consumers from being unfairly tarnished. Credit records will show that these hard working consumers, who successfully paid off or settled their medical bills, are more creditworthy than their credit report would otherwise indicate to a prospective lender.

We urge Congress to pass this common sense legislation. H.R. 2086 and S. 2149 will help responsible consumers and at the same time reignite the economy.

Sincerely,

Americans for Financial Reform
American Financial Services Association
American Medical Association
The Asset Building Program, New America Foundation
California Association of Mortgage Professionals
Consumer Federation of America
Consumers Union
Corporation for Enterprise Development
Demos
Leading Builders of America
Mortgage Bankers Association
NAACP
National Association of Home Builders
National Association of Independent Housing Professionals
National Association of Mortgage Brokers
National Consumer Law Center
The National Consumer Reinvestment Coalition
National Credit Reporting Association
U.S. PIRG

¹ Jessica Silver-Greenberg, How to Fight a Bogus Bill: Many Medical Bills Contain Errors That Could End Up Wrecking Your Credit Score. Here's What You Need to Know, Wall Street Journal, February 19, 2011.