The Effects of Deleting Medical Debt from Consumer Credit Reports

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Many people are concerned about medical debt collections

- $69 billion of medical debt collections on consumer credit reports (2022)
  - Nearly 1/5 comes from small debts under $500

- Medical debt is often inaccurate and seldom repaid in full
  - How informative is it for assessing credit risk?

- Kluender et al. (2024) find no average effect of medical debt forgiveness
  - But, find some improvements in credit scores when debt appears on credit report
    → Removing medical debt from credit reports may improve credit outcomes?

Natural experiment: information deletion

- **April 2023:** credit bureaus **stop** reporting medical debts below $500

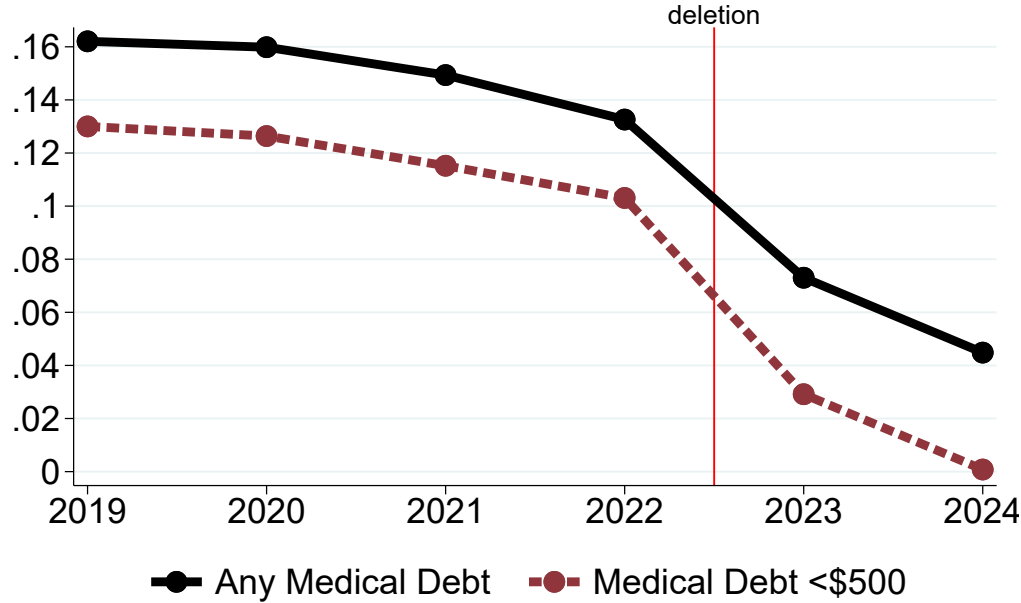
URBAN WIRE

Medical Debt Was Erased from Credit Records for Most Consumers, Potentially Improving Many Americans' Lives

Fredric Blavin, Breno Braga, Michael Karpman

November 2, 2023

Share of consumers with medical debt on credit report



More deletions to come?

- **January 2025**: CFPB announces rule to delete **remaining** medical debts
- **July 2025**: judge stops implementation of CFPB rule ($< \$500$ remains deleted)

30 senators criticized decision to not delete all medical debts

"*Millions of Americans are struggling to make ends meet, and that problem is compounded by the inclusion of burdensome and often inaccurate medical debt on their credit reports*"

"*Medical debt on credit reports also blocks working families from access to credit that they would be able to repay*"

Sincerely,

Raphael Warnock
United States Senator

Elizabeth Warren
United States Senator

Charles E. Schumer
United States Senator

Jeffrey A. Merkley
United States Senator

Research questions

1. What is the causal effect of removing small medical debts from credit reports?
   - Regression discontinuity around the $500 threshold

2. Do medical debt collections help predict default?
   - Person-level credit-scoring model

Channels and testable implications of medical debt deletion

- Deletion could affect credit outcomes through multiple channels
  1. Commercial credit scores (FICO)
  2. Underwriting models that draw on credit-report information
  3. Repayment incentives: debt collectors may now have less leverage

- The most relevant measure is unclear $\rightarrow$ examine many credit outcomes

Data: Gies Consumer and Small Business Credit Panel

- 1% random sample of **people with credit reports** from a major credit bureau
  - VantageScores, balances, limits, defaults, collections, demographics, etc.
  - Linked to **alternative credit records** (payday loans, title loans, etc.)

- Annual snapshots of 2.5 million people each April from 2004 to 2025
  - Focus on **2019–2024** period (include 2025 as an extension)

- Classify debt collection as medical if creditor or furnisher is healthcare related

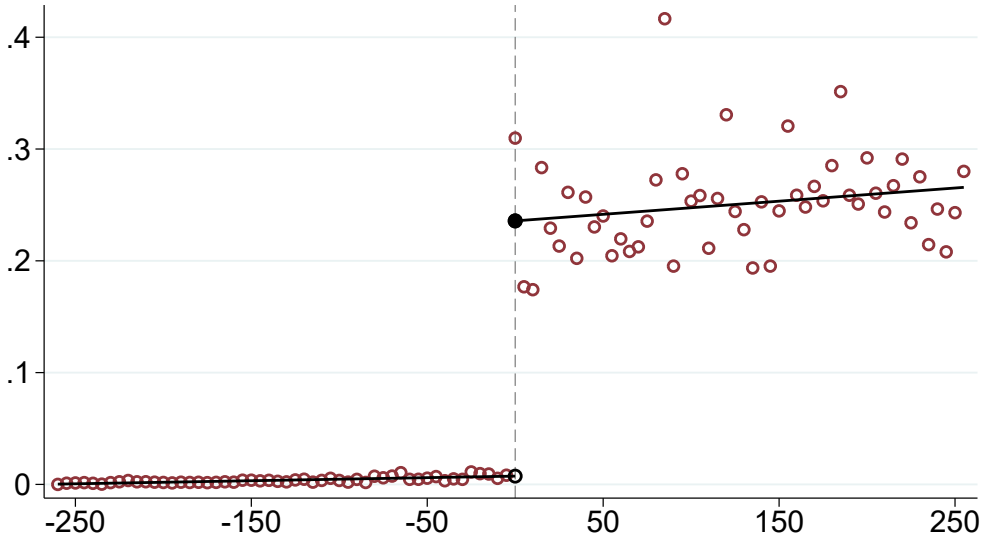
Research design: regression discontinuity

- Regression discontinuity around the $500 reporting threshold
  - Local linear regression
  - Report robust bias-corrected confidence intervals (Calonico et al. 2014)

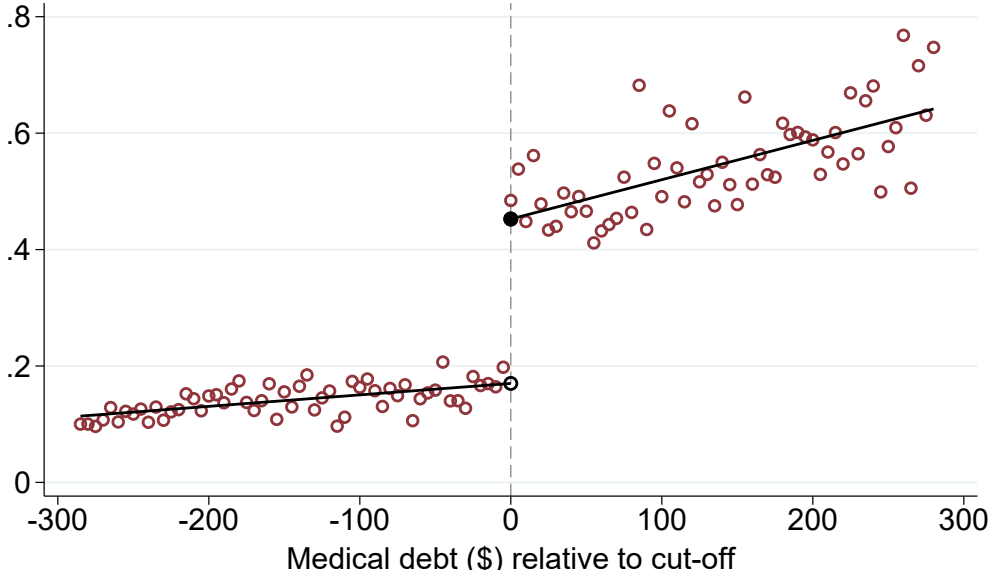
- Medical debt information was deleted around April 2023
  - Running variable: medical debt balances in April 2022
  - Main outcomes: measured in April 2024

- Assumption: assignment to either side of the cutoff is as good as random

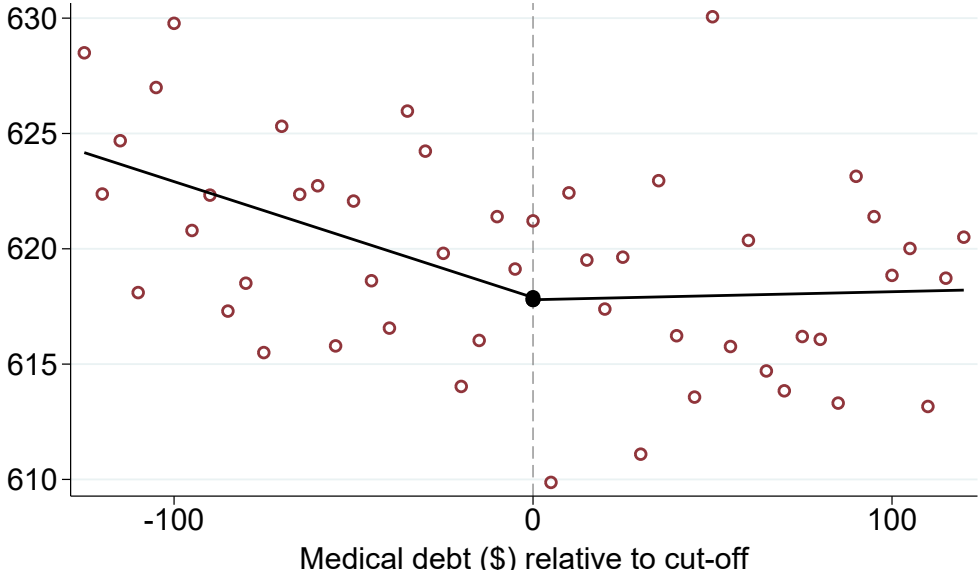
Share of medical debt accounts surviving from 2022 to 2024



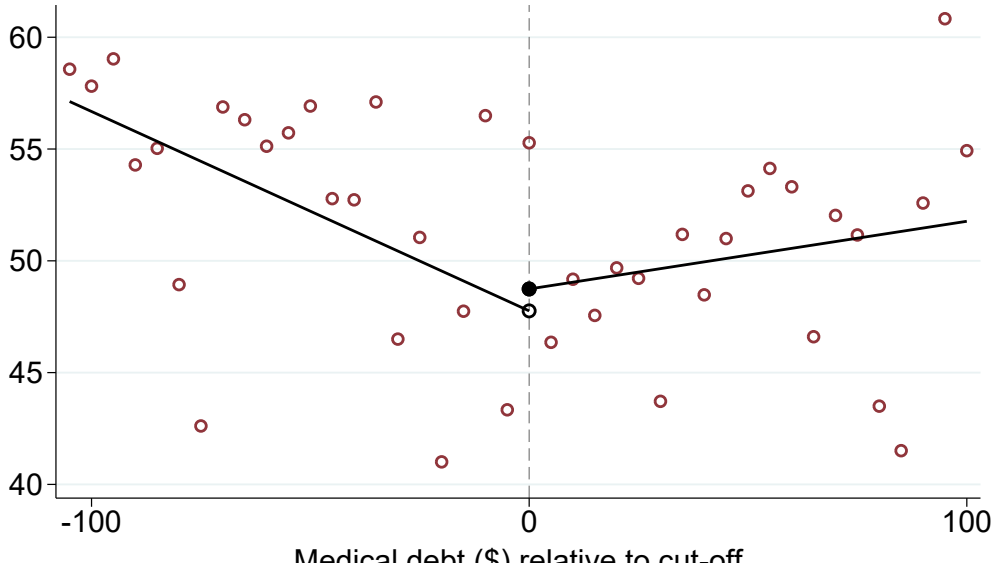
Deletion reduces per capita medical debts by 0.30** (61%)



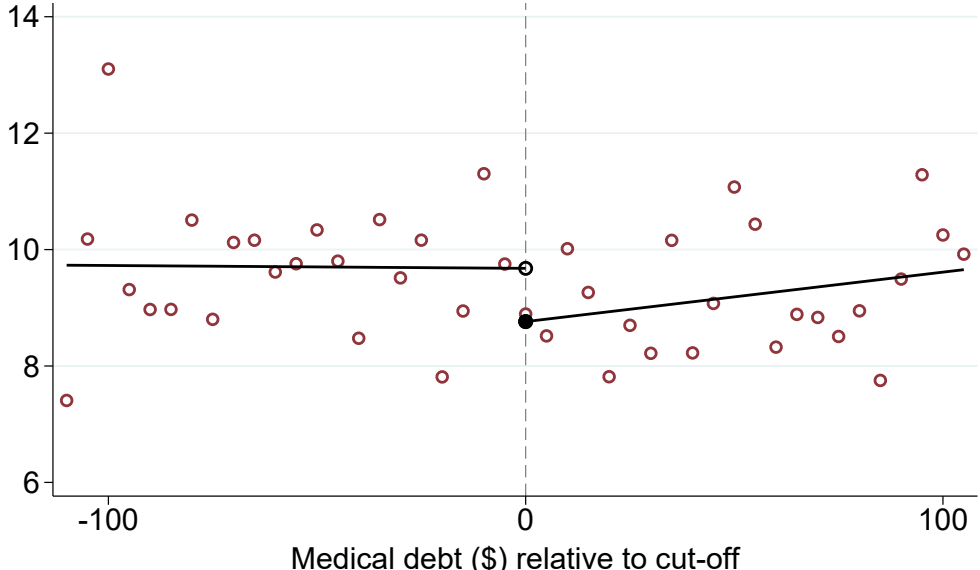
Rule out VantageScore increases of 5.5 pts (0.89%)



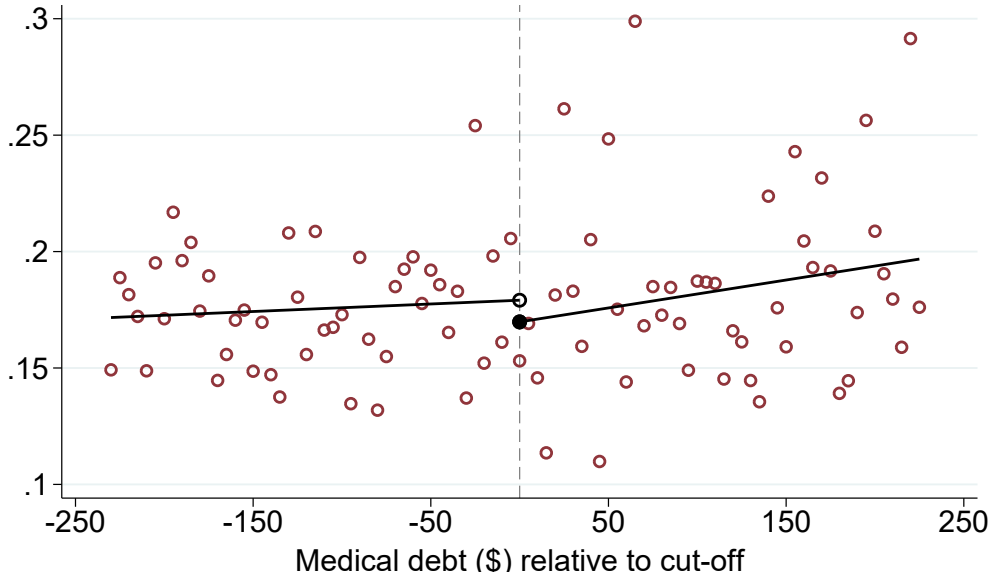
Rule out increases in total credit balances of $2,500 (5.0%)



Rule out increase in total credit card limits of $1,900 (21%)



Rule out drop in alternative borrowing use of 0.31 p.p. (7.9%)



Why was there no effect?

- Removing negative information should improve outcomes for affected borrowers
- Hypothesis: medical debt collections provide little useful information to lenders

Research design: person-level credit scoring model

- XGBoost trained on 2019 credit-report data
  - 48 standard predictors (balances, delinquencies, etc.)
  - Target: **any account 90+ days past due within 24 months** (2020–2021)

- Compare two otherwise identical models:
  - One **with** medical debts below $500 (counts and balances)
  - One **without** medical debts below $500 (counts and balances)

- **Key idea:** if medical debt is predictive, excluding it should worsen performance

Effect of removing medical debt info on model performance

Removing small medical debts has no impact on model performance.

	All Predictors	Exclude Medical Debts $< \$500$
F1 Score	0.561	0.561
Recall	0.454	0.453
Precision	0.735	0.737
False negative rate	0.546	0.547
False positive rate	0.0247	0.0243

Notes: average default rate is 13 percent.

Effect of removing medical debt info on model performance

Removing **all** medical debts has no impact on model performance.

	All Predictors	Exclude Medical Debts $< \$500$	Exclude All Medical Debts
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Notes: average default rate is 13 percent.

Conclusion

- Removing small medical debts had no detectable impact on credit outcomes
- Neither small nor large medical debts add predictive value for default
- Removing all medical debts from credit reports unlikely to improve credit access

The End