

Just what the Doctor ordered....

UPDATE: This bill has been re-introduced to the House of Representatives in June 2011 for approval that will exclude paid medical charge offs and collections from the credit report. According to statistics 41% of American households have carried some kind of medical debt since 2007. Once that medical debt hits your credit report it can wreak havoc on your credit score. Since the type and amount of a collection is not factored into the scoring models, even a \$5 medical collection could cost you 100 points or more on your credit score.

Medical debt is not the borrowers fault; no one chooses to be sick or get in an accident. It has long been felt that these debts should not be used against a borrower in determining their credit worthiness. Yet even paid off, medical collections can significantly damage a person's credit score for years, causing them higher interest rates and even denial for loans.

This bill actually amends the Fair Credit Reporting Act under section 605 to read (a)"any information related to a paid or settled medical debt that has been characterized as delinquent, charged off, or in collection which, from the date of payment or settlement, antedates the report more than 45 days." This means that 45 days from the time a collection is settled it must be removed from the report. Currently, a collection will stay on your report for 7 years from the date it went into collection.

Up until now it has always been advised not to pay collection accounts, especially older ones as it could actually hurt the credit score by bringing the activity date current. For medical collections it will now be advisable to pay them off promptly as they will have to be removed within a very short period of time. Under this bill, agencies collecting medical accounts will be required to stop reporting once the account has been paid for 45 days.

One question is going to be, are the bureaus going to develop new scoring models to accommodate this new law or simply "tweak" the existing scoring models. Until this is decided, a borrower paying off a medical collection should get something in writing stating the account is paid. The borrower can dispute the account directly with the bureaus to have it removed after 45 days have elapsed. This will have to be policed by the Federal Trade Commission so having this documentation will be critical to the borrower.

Once approved by the House, this bill will be voted on in the Senate and if approved will be signed into law by the President. Once it is passed and is signed this could mean a significant increase in many borrowers' credit scores. Ultimately it could open up doors for borrowers' to qualify for loans due to these higher credit scores.

While this change has been a long time coming, relief might just be right around the corner....

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