NEIGHBORHOOD TRUST FINANCIAL PARTNERS

Neighborhood Trust Financial Partners' Comment in Response to Request for Information Regarding Medical Payment Products

Docket No. CFPB-2023-0038

Key Takeaways

- The medical payment product market has grown significantly in recent years with almost $23 billion in healthcare expenses being put on cards or loans with deferred interest terms from 2018 to 2020. CareCredit, the focus of our research, currently has 11.7 million cardholders in 2023 up from 4.4 million cardholders 2013.
- 30% of Neighborhood Trust clients who have had a CareCredit tradeline for at least 24 months – the longest 0% APR promotional period that CareCredit offers – still had a balance. This means they are likely currently being charged 29.99% APR on their original balance, even after 2 years of making payments.
- Clients with a CareCredit account at baseline carried a median balance of $1,081.
- CareCredit is commonly used for veterinary and dental expenses. This may reflect a gap in insurance products and/or suggest that these providers are more likely to recommend medical payment products to their patients.

Recommendations

1. Strengthen consumer protection regulations against deferred interest. This ideally would mean banning deferred interest so that, for example, if a borrower only owes X% of their original balance when a promotional period ends, the lender can only charge interest on X%.
2. Require medical payment products to include the monthly payment needed to pay off the full balance within the 0% APR promotional period, in addition to the minimum.
3. Mandate hospitals to vet for financial assistance eligibility, or implement presumptive eligibility before being allowed to recommend a medical payment product. Also ensure Medicaid applications are offered as readily as CareCredit applications to those who are presumed eligible.
4. Push for increased access to affordable dental insurance, including through both employers and the marketplace.
5. Explore pet insurance products and their cost effectiveness relative to CareCredit, to determine which is the better option for pet-owners and regulate as needed to rebalance this market.
6. Consider a government-sponsored billing system so medical providers can still offload their billing and collection efforts, while also reducing the market demand for medical credit cards.
7. Lastly, be mindful of overregulating CareCredit and similar products in the near term, to avoid deferred care as an unintended consequence.

Market Summary

As the CFPB reported, the medical payment product market has grown significantly in recent years. "People used cards or loans with deferred interest terms to pay for almost $23 billion in healthcare expenses, and over 17 million medical purchases, from 2018 to 2020." **CareCredit, the focus of our research, currently has 11.7 million cardholders in 2023 up from 4.4 million cardholders 2013.**

IBIS World reports that the three biggest players in the medical patient financing industry are Synchrony Financial's CareCredit, Citigroup Inc. and Wells Fargo & Company, with more small financing companies entering the market each year and reducing market concentration - making these products potentially harder to regulate and contain over time.

CareCredit offers two products that are both subject to credit approval: a short-term option with a promotional 0% APR repayment period of 6-24 months, after which deferred interest kicks in on the original balance at 29.99%; and a longer-term option for up to 60 months with fixed monthly payments and "reduced APR" (17.90-20.90%). The longer-term option is only available for higher expenses, while the short-term option offers a 0% APR promo period starting at $200.

Eligible expenses listed on CareCredit's website include: Animal/Pet Care; Chiropractic Procedures; Dental Procedures; Dermatology Procedures; Surgery Center Procedures; Health Systems & Hospitals; Labs & Diagnostics Procedures; Funeral Expenses; Primary & Urgent Care Procedures; and several more.

This list of eligible expenses and the range of provider-types who have partnered with CareCredit reflects the scope of non-hospital providers who are not covered by financial assistance policies. Additionally, many of these categories reflect non-elective care or services. This means that providers are offering CareCredit to individuals at the point-of-sale for emergency and/or critical services, when they are most vulnerable and likely without other options for care or payment. And this debt has serious implications: among Neighborhood Trust survey respondents with current medical debt, 57% reported cutting back spending on basic needs and 60% reported worsened mental health as a result of their medical debt.

CareCredit Analysis

Among Neighborhood Trust clients, 777 (10%) of them had a CareCredit tradeline on their credit report when they first signed up for coaching (i.e. at baseline), 36% of whom had a balance greater than $0. **The median baseline balance for those with balances >$0 was $1,081, and the median high credit amount was $2,500 (which reflects the highest balance ever carried on the account. This is often the origination amount, but not always).** The median monthly payment was $42.

The prevalence of CareCredit tradelines among our clients has stayed relatively level, with 8% of clients having a CareCredit account in 2018 and 10% in 2023, with the highest prevalence of 13% in 2022.

Among clients who have had a CareCredit tradeline for at least 24 months, 30% of them still had a balance after 24 months of opening the card. 24 months represents the most generous 0% APR promotional period CareCredit offers. This means that nearly a third of CareCredit holders who've had the card for at least 2 years, still carried a balance and were likely paying deferred interest on their original balance at a 29.99% APR. Even if they were enrolled in a long-term product, they would be paying a minimum of 17.90% interest.

To illustrate: if a patient opened a CareCredit short-term card with a starting balance of $2,500 (the median high credit amount) and paid a minimum payment of $50 per month, they would still have a balance of $1,300 after 24 months. If they continued paying $50/month until the balance reached $0, then by the end of paying off the card they would've paid approximately $1,183 in deferred interest and a total of $3,683 over 75 months (more than 6 years).

Approval for a CareCredit card does entail a credit check, which helps explain why Neighborhood Trust clients with CareCredit tended to have stronger credit profiles. Those with CareCredit had an average baseline credit score of 654 and 50% had prime credit scores, relative to clients without CareCredit who had an average baseline credit score of 624 and only 28% had prime credit scores. Only 28% of clients with CareCredit have debt in collections, while 44% of those without CareCredit have debt in collections.

We found that among clients who mentioned what type of expenses they used CareCredit to pay for, **they primarily used the card for veterinary and/or dental expenses**. This may reflect a gap in insurance products; while individuals might have sufficient healthcare coverage, they're treating these credit products as a substitute for dental or pet insurance. It might also signal that veterinary clinics and dental providers are more likely to make referrals to or recommend medical payment products like CareCredit.

"Yeah, I have a CareCredit card with past vet bills on it. Every time the dogs would go [to the vet] that account would go up again. And now that I just finished paying off a credit card that was in collections, I'll probably start working towards [CareCredit] next because I've owed like 2,500 on that forever."

Additionally, several clients described their relationship with their CareCredit account as a form of insurance, and were resistant to the idea of cutting off their access to this line of credit.
For example: *"I want to keep the CareCredit because I have $3,500 available for my cat if it gets sick."*

Note that these findings are not necessarily representative of overall spending trends as these were only individuals who explained how they used (or continue to use) their CareCredit account. It's possible that those who use the card for primary care or other medical expenses are less open to sharing the details of their card usage. **Other less commonly mentioned expenditures included: braces for children, emergency medical costs, eyeglasses, and lab tests.**

Relative to Neighborhood Trust's overall clientbase, our **clients with CareCredit cards were more likely to be white or Latino/a, earn higher annual incomes, be female, older, and have attained higher levels of education.** These categories also correlate with stronger credit profiles, which is likely to explain these trends – not a higher need for affordable medical payment options among these groups relative to lower income, Black / African American, younger, or less educated populations.

Notably, three clients had CareCredit on their credit report due to co-signing for a friend or family member, signaling that there is in fact demand among people with weaker credit profiles for these medical financing products, they may just have more difficulty accessing them.

While we didn't have a direct measure for capturing how often patients use CareCredit to pay bills that are incorrect or could be defrayed by lower-cost alternatives, we do collect self-reported data on benefits access. As a proxy measure, we found that **16% of clients with CareCredit also receive SNAP benefits, which is likely to correlate with eligibility for financial assistance at a minimum, or perhaps Medicaid.** These individuals are likely to have either used CareCredit for expenses that do not have any financial assistance policies, such as veterinary care, dental care, or lab tests; or their provider offered them a medical finance product without doing their due diligence around financial assistance eligibility.

Only 10% of clients with CareCredit had their account charged off or sent to collections, which is lower than the rate of clients with non-CareCredit credit cards that are charged off or in collections (36%). However, for those who did have their CareCredit account sent to collections, it created confusion and hurt their credit profiles. For example, one client used CareCredit to pay for a dental crown and then became unemployed so was unable to continue paying down the balance. Eventually it went to collections, and she explained that it changed hands three times and as a result *"I really didn't know who to contact, because when I called CareCredit, they said it wasn't with them."*

Overall, our clients with CareCredit largely appeared to understand how the product works and accepted them as a normal feature of the healthcare system, reflecting how normalized short-term credit debt and medical debt have become, despite their harmful impacts on financial, mental and physical health.

Conclusion

With recent regulatory updates to how medical debt collections can report on credit reports, it's clear that the Biden Administration understands the negative impacts of medical debt and the importance of disentangling medical debt from the credit reporting system. While medical payment products like CareCredit are, in some ways, helping to democratize access to healthcare, they are also exacerbating the integration of the financial system's profit-driven principles into the healthcare system. Better regulating these products is an important step to mitigating the impact of medical debt on financial, mental and physical health; alongside more sweeping changes to reduce individuals' responsibility to pay for medical care out of pocket.

We believe that to improve these products in the interim, the CFPB, HHS, and the Treasury ought to improve the terms of repayment to ensure consumers understand promotional periods and are equipped to pay off the balance without interest, and ban or more strongly regulate deferred interest.

To reduce demand for these products in the long term and minimize the damage they have on consumers' overall health, we also recommend mandating presumptive eligibility for financial assistance to prevent those who are eligible from erroneously ending up with a medical credit card; increase affordability and access to dental insurance; investigate pet insurance products currently on the market to determine if greater competition or regulation is needed; and create a government-sponsored billing system to shrink the market for medical payment products, while still meeting providers' demand for outsourced billing.

Products like CareCredit are a symptom of a challenging and exploitative healthcare system – not the root of the problem. While interim regulations are important for harm-mitigation, these products *are* providing many low-income consumers with access to healthcare and related services that they otherwise might not have. It's critical that the agencies bear in mind the reliance people currently have on medical payment products when taking action, to avoid pushing the most vulnerable consumers into even worse, more predatory options in the near term.

Neighborhood Trust Overview & Methodology

Neighborhood Trust is a national nonprofit social enterprise and marketplace innovator whose purpose is to transform workplaces and financial services to better meet the financial needs of low-wage workers. We create financial security for low-wage workers by delivering trusted financial coaching that enables them to reduce debt, improve cash flow and build savings as a buffer against financial shocks. We also leverage our core financial coaching operation to translate our data and trusted relationships with workers into actionable insights that fuel innovative new products, services and benefits, and drive market-level change. [Learn more about our work on our website].

The people we serve, and who share their data with us, have a median income of $40,000. 88% are employed in some capacity. 94% have debt at baseline with a median total debt balance of $35,831, and a median of $3,373 in credit card debt. In a survey of our clients, 70% currently have medical debt. 75% identify as women, 49% identify as Black or African American, 25% Hispanic or Latino and 22% Caucasian or White.

To put together this comment, our Innovation Team explored 275 hours of transcribed recorded financial coaching sessions with low-income workers who all had a CareCredit tradeline on their most recent credit report. Among the 393 clients with a CareCredit tradeline, 220 had a recorded session. Within this group, 38 individuals shared some sort of insight into their experience with CareCredit during a recorded session, and 24 shared the type of expenses they used (or still use) the card for. We focused on CareCredit because they have the largest market share among medical-specific credit cards, offered at over 260,000 providers (and counting), and because they are the most clearly labeled on credit reports among the largest lenders of medical payment products. We also conducted quantitative analyses using data collected from the credit reports and intake forms of this same group of financial coaching clients.

Please feel free to reach out to rsilbermarker@neighborhoodtrust.org with any follow up questions or for further discussion.