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Testimony in Support of LD 2174, *An Act to Protect Consumers from Predatory Medical Credit Card Providers*

February 28, 2024

Good afternoon, Senator Bailey, Representative Perry, and honorable members of the Joint Standing Committee on Health Coverage, Insurance and Financial Services. My name is Frank D'Alessandro, I use he/him pronouns, and I am the Director of Legal Services at Maine Equal Justice, a nonprofit civil legal aid provider working to increase economic security, opportunity, and equity for, and on behalf of the Maine people with low income we represent. My testimony today is offered in support of LD 2174, a bill to protect healthcare consumers in the State of Maine.

In all our community outreach and legal services work, the two things people most consistently want to talk to us about are housing and medical debt. According to the Consumer Financial Protection Bureau, 1 in 5 U.S. households has some kind of overdue medical debt in collections, which amounts to over $88 billion dollars.[1] Mainers hold a particularly high burden of this medical debt in relation to other states with 15% of all Mainers/Maine communities with medical debt in collections, and upwards of 23% in Somerset, Kennebec, and Sagadahoc counties, compared with 11% nationwide.[2] Rising medical debt is the result of a confluence of factors, but affording health care is particularly challenging for low-income adults, many of whom remain uninsured or underinsured and lack the cash to pay for an unexpected medical bill.

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[1] https://www.consumerfinance.gov/about-us/blog/medical-debt-anything-already-paid-or-under-500-should-no-longer-be-on-your-credit-report/

[2] https://apps.urban.org/features/debt-interactive-map/?type=medical&variable=medcoll&state=23

The Affordable Care Act, and subsequent MaineCare expansion, made enormous strides in reducing the share of Mainers who were uninsured, from 8% in 2019 to 5.7% in 2021—the largest percentage decline in the country. However, gaps still exist, and high premiums, deductibles, and co-pays can still make affording care a challenge, even for those with private insurance.[3] In the absence of a universal option and more limits to cost sharing, predatory products prey on the most vulnerable healthcare consumers. Rather than exploring options for financial assistance or entering into protected payment plans, many consumers are offered high-interest credit cards to defer their medical debts.

WHAT THIS BILL WILL DO

This bill would provide protections to consumers who take out credit cards to pay off medical debt.

WHY MAINE EQUAL JUSTICE SUPPORTS THIS BILL

Many medical providers offer consumers the opportunity to take out credit cards as a way to pay for costly medical bills. As set forth below, these products often result in consumers entering into legally binding contracts that are unaffordable, deceptive and sometimes predatory. The protections offered by this bill are necessary to prevent these abuses from occurring.

Pitfalls of deferred interest plans offered by medical credit cards

These include:

- **Inherent deception** Many consumers do not understand that they can be charged interest retroactively for the entire deferred interest period if they do not pay off the balance by the end of the period. The complexity of these plans makes it almost impossible to formulate a short, simple disclosure necessary to prevent consumers from being deceived.
- **"Life Happens"** Even consumers who do understand the nature of deferred interest plans can get trapped. Consumers may expect to be able to pay the balance in full by the end of the promotional period, but for a variety of reasons (such as job loss or other financial emergency) find that they cannot. Additionally, consumers may forget or miscalculate the critical date for payoff, especially if the end of the promotional period does not coincide with the payment due date for that month.

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[3] https://www.healthsystemtracker.org/brief/the-burden-of-medical-debt-in-the-united-states/

- **High APRs** Deferred interest credit cards typically carry very high interest rates, with an average of 24% and as high as 29.99%. These rates can be almost twice as much as the APR for a mainstream, prime credit card. To illustrate the impact of deferred interest, we have provided a link (see http://bit.ly/1OxWnMc) to an online calculator provided by the Finance Buff that compares the costs of a deferred interest plan to a mainstream credit card when the entire balance is not paid off by the end of the promotional period. 2 Deceptive Bargain ©2015 National Consumer Law Center www.nclc.org
- **Balloon interest charges and interest on interest** For consumers hit with deferred interest, those charges come in one big lump sum at the expiration of the promotional period. Interest charges that might have been manageable in small pieces can result in the outstanding balance on a card increasing dramatically. Consumers who cannot pay off that huge interest charge at once then must start paying interest on the back interest.
- **Impact on the most vulnerable** A Consumer Financial Protection Bureau (CFPB) study found that for consumers with subprime credit scores – who are more likely to be financially vulnerable – over 40% were unable to pay off the balance by the end of the deferred interest period. These consumers were likely socked with lump sum retroactive interest charges. While most of the consumers who used deferred interest plans were able to pay off the balances without paying interest, the consumers who benefitted the most were superprime consumers. Thus, more well-off consumers get the benefit of interest-free financing, while credit card lenders make their highest profits off of financially constrained consumers.
- **Minimum payments don't pay off the balance** Lenders generally set the minimum payment as less than the amount that would pay off the balance during the deferred interest period. Thus, consumers who make only the minimum payment – often thinking they are doing what they need to do to avoid interest – will inevitably be hit with retroactively assessed interest at the end of the deferred interest period.
- **Difficulty allocating payments to successfully avoid retroactive interest** If a consumer makes additional purchases that either do not have deferred interest or have different promotional periods, problems can arise with allocating payments to ensure that the deferred interest balance is paid off. Payment allocation is extremely complex and fraught with pitfalls, and it can be nearly impossible to pay off a deferred interest balance while minimizing interest charges[4]

Protections necessary to prevent consumers from being exploited

LD 2174 is necessary to protect Maine consumers from the abuses inherent in medical credit cards. Maine Consumers should not have their access to medical care compromised or lose the protections provided by Maine law as a result of entering into

[4] report-deferred-interest.pdf (nclc.org)

a medical credit card. To maintain these protections, the following additional requirements should be included in this bill:

1. A medical provider must be prohibited from entering into a medical credit card agreement with any patient who is eligible for MaineCare or Free Care. The medical provider should be required to screen any patient for eligibility for these programs before they can offer or accept payment using a medical credit card.
2. Prior to entering into a medical credit card agreement with a consumer, the medical provider must provide the opportunity for a patient to enter into a reasonable payment plan before entering into a medical credit card agreement with any patient. A reasonable payment plan may not require a payment that exceeds a periodic payment that exceeds 3% of the consumer's income that is not exempt from attachment or garnishment under state law.
3. Information about medical credit cards must be provided to the consumer and must be written at a 5th grade reading level and in the consumer's primary language.
4. A violation of these protections by the creditor is a prohibited practice pursuant to the provisions of Title 32, chapter 109-A.
5. A creditor may not report a consumer's default of a medical credit card agreement to any credit reporting agency. The CFPB is in the process of issuing rules that prohibit the reporting of the non-payment of medical debt to a credit reporting agency. [5] Consumers should not lose this protection because they utilize a medical credit card.

CONCLUSION

For the foregoing reasons Maine Equal Justice strongly recommends that the above protections be included in LD 2174 and that the bill be voted ought to pass.

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[5] https://www.consumerfinance.gov/about-us/newsroom/cfpb-kicks-off-rulemaking-to-remove-medical-bills-from-credit-reports/