Consumer Finance Monitor (Season 7, Episode 33): Should Medical Debt Be Included in Creditworthiness Measures?

Speakers: Alan Kaplinsky, Joseph Schuster, and Chris Eastman

Alan Kaplinsky:

Welcome to the award-winning Consumer Finance Monitor Podcast where we explore important new developments in the world of consumer financial services and what they mean for your business, your customers, and the industry. This is a weekly podcast show brought to you by the Consumer Financial Services Group at the Ballard Spahr Law Firm. I'm your host, Alan Kaplinsky, the former practice group leader for 25 years, and now senior counsel of the Consumer Financial Services Group at Ballard Spahr, and I'll be moderating today's program.

For those of you who want even more information, don't forget about our blog, which also goes by the name of Consumer Finance Monitor. We've hosted our blog since July 21, 2011, the very same day that the CFPB became operational. So there is a lot of relevant industry content there. We also regularly host webinars on subjects of interest to those in the industry. So to subscribe to our blog or to get on the list for our webinars, please visit us at ballardspahr.com.

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The following podcast was recorded prior to the CFPB issuing a proposed rule prohibiting the use of medical debt information. The proposed rule, issued on June 11, aims to prohibit creditors from using medical debt information when making credit eligibility decisions. The rule would also prevent consumer reporting agencies from including medical debt information in consumer reports. The proposal seeks to redefine "medical debt information" and remove existing exceptions that allow for its use in credit decisions. For more information, please refer to our blog post about the proposed rule, which can be found on our consumer finance monitor blog.

So let me tell you all what we're going to be covering today. This is a topic actually we should have covered long ago, and I'm surprised that in the years of weekly shows that this will be the first time we've actually devoted a show completely to the topic of medical debt. And we're doing it because it has become a focus of the regulatory agencies and in particular the CFPB.

And I'm very pleased to have as our special guest for the program, somebody that is really in the business, and I'm referring to Chris Eastman. Chris is the CEO of the Pendrick Group, a Cerberus portfolio company that specializes in financial services solutions for healthcare companies. Chris is a seasoned FinTech and digital banking leader with over 20 years of experience in strategy, project product management, operations, and risk management. Prior to joining the Pendrick Group, Chris was a managing director at Goldman Sachs.

At Goldman, Chris held a number of roles in Goldman's consumer division, including chief integration officer and head of collections strategy. So Chris, a very warm welcome to you.

Chris Eastman:

Thank you, Alan. It's wonderful to be here today.

Alan Kaplinsky:

And now let me introduce another special guest and he won't be as special in the future because I contemplate that he's going to be a repeat guest addressing a lot of topics that we cover. I'm referring to Joseph Schuster. Joseph is a partner in our Denver office at Ballard Spahr. His practice involves advising on payments matters, consumer and small business regulatory matters, as well as, and particularly relevant for today's podcast, matters relating to debt collection.

Joseph recently rejoined our firm after being at Goldman Sachs for the past eight years. While at Goldman, Joseph was involved in and responsible for advising on FinTech and consumer finance activities, including being responsible for advising on the regulatory requirements to build products and the regulatory advice to service and collect on the consumer finance products.

As I mentioned, prior to joining Goldman, Joseph was an associate with Ballard Spahr, and I'm very pleased that he has returned to our firm. Indeed, when somebody asked me about how I felt about Joseph coming back to the firm, I said I felt like I hit the jackpot in the lottery. We really got, I think, very, very fortunate to have Joseph rejoin our firm. And this will be Joseph's first podcast since rejoining our firm, and he's now going to be a repeat guest. So, Joseph, a warm welcome to you.

Joseph Schuster:

Thank you, Alan. It's really great to be back on the show, especially being back at Ballard Spahr, being on the show, and working with you again. There was an eight-year hiatus, but I'm excited to be back at Ballard Spahr, and I'm very much looking forward to being a repeat guest on the show.

Alan Kaplinsky:

Okay, so let's get into it. I have a lot of questions that we want to cover. And this one is for you, Chris. Before we really get started and we get into the nitty-gritty, could you explain to our listeners what medical debt is and how it differs from other types of debt?

Chris Eastman:

Sure, Alan. Medical debt really arises from healthcare-related bills that a consumer is required to pay themselves. And the source of this is generally either from medical care that was uninsured at the time that it was provided, or it could be medical care that was not covered by insurance. So specifically this could be a copay, patient needing to cover their deductible, or out-of-network care that isn't covered by insurance.

In recent years, more consumers have actually moved to these high-deductible insurance plans, which increased their amount of out-of-pocket bills and has led to an increase in medical debt over time. And it's interesting too, what's unique about medical debt and really the healthcare space is a consumer or a patient may receive multiple bills from a single visit.

For example, if you were to go to the emergency room and you required an x-ray, you might get a separate bill from the hospital, from the emergency room doctor, and from the radiologist you actually never met who read your x-ray. So there's a lot of lack of clarity and communication and there could be a lot of consumer confusion around receiving multiple bills and ultimately lead to past-due medical debt.

Alan Kaplinsky:

So Joseph, do you have anything to add to that?

Joseph Schuster:

Yeah, I would add a couple of things. I think that there are two ends of the spectrum. On the one hand, you have all the debt that is originated through a provider and does not go onto another form of credit. That's clearly medical debt. On the other hand, you have credit that is never used with a medical provider, like a credit card that you never use with a medical provider.

That's clearly not medical debt. There is a shading scale of gray, I think, in between there. I went to the dentist this morning before the podcast, which is a bit dangerous I thought as I was sitting there in the chair. But as I left the dentist, I paid with my general purpose credit card. I paid a medical provider. Is that medical debt? Likely not in most cases. However, I think that it is important for providers of credit to be looking at how their credit cards are being used.

We're going to get into state law later on in the podcast, I know, but Connecticut, which recently passed a law relating to medical debt, specifically carves out general purpose credit cards. Not all state laws carve out credit cards. It's likely that they

intend to carve out credit cards, but I think it's important for providers of credit where that credit may be able to be used for medical debt to be considering whether or not that is medical debt.

Further along in that kind of gray area between those two places, you might have a buy now, pay later product. If a buy now, pay later product is offered through a digital wallet and it can be accessed and you can use that credit when you're at the dentist or a medical provider, is that medical debt? It might depend on the state law. The CFPB launched an inquiry into different types of credit that people are using to finance medical debt.

They launched that, that was summer of 2023. So it is a focus for the CFPB even when other types of credit are being used for that medical debt. I think it's important for the debt buyers, the medical providers, and credit providers to be really cognizant of whether or not their debt could be classified as medical debt.

Alan Kaplinsky:

What about, Joseph, co-brand and private label credit cards? Are they in a gray area?

Joseph Schuster:

I think that they are in a gray area, and I think that you might have somewhere... If the partnership is close to a medical provider or if the card is marketed such that it is only being used for medical debt or it can only be used in a network of medical debt providers, that's likely going to be medical debt under state law. If, however, it's a partner that's not affiliated with a medical provider, I think it's less likely that it'll be medical debt.

However, you need to think about the instance where a credit card is taken out, whether it's with a co-brand partner or just a general purpose credit card. And what if the only charge that goes onto that credit card is with a medical provider and that person goes past due and you're now credit bureau reporting solely for a charge that was only with a medical provider.

In that instance, I think that credit card providers are going to need to be a bit more careful. I think that there are going to need to be scrubs to say, are the MCC codes are associated with this debt only relating to medical, or is medical just a part of what's involved in that debt?

Alan Kaplinsky:

Right. Now, if you could, as briefly as you can, describe why it's important to make that determination as to whether something is medical debt or not medical debt. What's the importance of that? I assume it's because of certain laws.

Joseph Schuster:

Exactly, yeah. I think that we'll get into a lot of those specific state laws, but states are becoming more and more active in this space. So states are saying that creditors cannot credit report on medical debt until it goes past a certain point. The consumer reporting agencies are changing their practices with respect to medical debt. Consumer reporting agencies used to only permit medical debt after it was 180 days past due.

Now they've moved that to a year past due. But again, on the state front, last year you had Colorado and New York passing laws relating to credit reporting. This is actually something that the CFPB has encouraged. And we know that the CFPB is encouraging that because they've written letters to different states. April of 2024, they wrote a letter to California who is considering a similar law.

So when you're considering credit bureau reporting, if the debt is medical debt, you may not be able to report that to consumer reporting agencies in certain states. And the effect of doing that, for example, the Connecticut law, if the debt is reported, if medical debt is reported to credit reporting agencies, that debt is void. So these are fairly Draconian laws. That's kind of high level some of the ones that the creditors are thinking about, but we'll get into a little bit more on the collector ones a little bit later.

Alan Kaplinsky:

Yeah, sure. So Chris, I want to get back to you now. Your company, the company your CEO of, Pendrick, is involved in revenue cycle management for healthcare providers. Could you tell our listeners what that involves and how Pendrick is involved with medical debt?

Chris Eastman:

Sure, I'm happy to do that. Increasingly, healthcare providers are operating with razor-thin margins. You see this at hospitals all around the country. Some of them are even shuddering their doors and going out of business. And so providers are really looking for ways to increase their cash flow into the business and really identify and create sources of liquidity to keep their doors open, and then to also invest back into their practices and the healthcare that they can offer their customers.

And so Pendrick really comes alongside them and provide solutions that accelerate cash flows into these hospitals, practices, et cetera. And we really offer and provide multiple solutions to meet their needs while focusing on compassionate and compliant solutions for consumers to help them resolve medical debts. And these products, really, there's three products that we offer to partner with healthcare providers.

The first is we purchase receivables and accounts providing healthcare partners cash upfront. So we're acquiring portfolios of accounts from them generally at a rate that is 10 to 15% higher than they can achieve through an agency servicing model. And so that allows these healthcare providers to get more cash into their business, while also avoiding cost to maintain and oversee a network of agencies.

We partner to create additionally forward flows in which healthcare providers can sell new receivables monthly or quarterly to simplify the process and really spend more time focused on running their practice, running their hospital, and ensuring they're giving the best quality of care to their customers while we help on the back end and make sure that we're collecting on that medical debt on their behalf.

Alan Kaplinsky:

A question for you on that before you get to the second product. When you buy the receivables from them, do you buy it without recourse to the provider, or do you have the ability to put it back to them if when you try to collect the debt you learn that there's some problem with it, it's not really owed?

Chris Eastman:

Yeah, we do allow it to put back to the medical debt providers. There's a number of reasons we might. For example, if it's not collectible for any reason, if we don't have or we don't receive the proper documentation, whether that be statements or proof that the procedures were provided and so forth, that can be put back as well.

Alan Kaplinsky:

You were mentioning the... Going to get to the other products that you offer.

Chris Eastman:

Yeah. Additionally, we offer a product around leasing. Now, for many healthcare providers, selling receivables is not allowed. Now, this might be due to their mission statement or a charter. For example, many faith-based providers fall into this category where according to their faith-based charter or mission statement, they will not sell medical debt.

And Pendrick actually innovated a lease product to create a solution for these healthcare providers. The lease is similar in that it provides cash upfront that the providers need, but it allows these hospitals and these providers to maintain full ownership of accounts throughout the term in which we're collecting on the receivables.

Alan Kaplinsky:

Yeah, okay. And what's the third product?

Chris Eastman:

Finally, we offer standard third-party servicing capabilities. So we have unique data insights and proprietary scoring, and we deploy the most effective collection strategies for the portfolio. We can do managed collections and managed servicing for providers in which we have a network of agencies that we can rotate accounts through to really maximize receivable collections and really drive up to a 30% improvement for the healthcare providers.

Alan Kaplinsky:

And in connection with that product, do you also handle the insurance claims for the provider, or is that done by the hospital or the provider?

Chris Eastman:

Yeah, at this time, Alan, we don't handle the insurance claims. It's something we've continued to look into and evaluate opportunities.

Alan Kaplinsky:

Right. Okay. So Chris, there've been a lot of news articles about medical debt lately. Could you share with our listeners what are the biggest challenges that you are confronting in this space?

Chris Eastman:

Yeah, it's a great question Alan, and it's something I'd say three things we're really focused on right now and three challenges we're seeing. And the first one is really just general awareness with healthcare providers. They're not particularly familiar with the options to sell and lease debt to help accelerate their cash flows. Many of them have been using agencies for years.

There's a lot of inertia around that process. And so we've been spending a lot of time educating providers, hospitals, et cetera, to build awareness of the options that they have with their receivables and how we can partner with them to solve some of the issues they're facing as it pertains to their finances. And the second two are really on the regulatory front.

The first, I think you mentioned briefly earlier, the CFPB action on credit reporting is something we're looking into. Already the CFPB has ended credit reporting on all medical debt under $500. We've complied with that. And since then, they've also issued a SBREFA that would explore permanently ending credit reporting on all medical debt regardless of the dollar amount.

So the ability of credit reporting would certainly impact receivables, the ability to collect on those. And so we're working to assess the impacts of these proposed laws and how to best create solutions to meet healthcare provider needs, ensuring these issues are resolved.

Alan Kaplinsky:

The thing that you mentioned, the SBREFA panel, that relates I think to a proposed rulemaking under the Fair Credit Reporting Act, I'm pretty sure. And I'm going to ask you in a moment, Joseph, what you see as the biggest challenges. But I'd like to get your opinion, Chris, as someone in the business of whether what you think of the wisdom of what the CFPB has embarked upon here, eventually eliminating the right of providers to report to the credit bureau. Is that really a good thing for consumers?

Chris Eastman:

Well, I think it's a double-edged sword, Alan, as I think about it. And on the surface it appears to be very beneficial to those who are struggling with medical debt. Certainly at Pendrick, we want to be compassionate to those. Most people don't choose to obtain medical debt. And so I want to be compassionate about how we create solutions to help them resolve the debts that they do incur.

At the same time, I think there's a broader impact to what ending credit reporting could have on the healthcare industry. And as I mentioned earlier, many of the providers, particularly hospitals, are operating with very thin margins. Many of them are operating at a loss. The inability to credit report could impact the collectability of receivables for these providers.

And in some cases, providers may go out of business. And so I think the broader consumer needs to ask themselves questions around, if your local hospital goes out of business and has to shudder its doors, how do you feel about an emergency in which your hospital now is 10 to 20 minutes further away than it currently is? This is particularly impactful in rural areas where hospitals are so far apart and hospitals have been under significant pressure in the rural areas.

So if the impact could be financially on these providers, on these healthcare systems, then we start losing access to healthcare and access to quality because they no longer can invest into the latest technologies and the latest capabilities to provide to customers. I think at the end of the day we may find ourselves in a worse place overall.

Alan Kaplinsky:

What is the rationale for the CFPB taking the action that they're taking? Why do they think medical debt is not reliable, that it's so unreliable compared to debt incurred on a credit card or an installment loan or a mortgage? What is it about it?

Chris Eastman:

Well, I think the CFPB has made the argument that it's less predictive than other sources of debt in determining the underwriting worthiness of the consumer. I would dispute that in terms of really what you're looking for in an underwriting process is ability and willingness to pay.

And I think particularly with some of this medical debt being on things such as co-pays for doctor's visits and deductibles on insurance plans, you do have a component of identifying the willingness of customers to pay in addition to their ability to pay debt, which I think adds value.

Alan Kaplinsky:

The way I look at it, I mean, maybe I... Of course, I don't often agree with the CFPB very much, but it seems to me if a customer is a little bit over their head, has too much debt in a particular month, has to decide who they pay and who they don't pay, I would think healthcare would be a very high priority, maybe the highest priority.

And if they don't pay for the doctor bill or the hospital bill and they've got some condition where they are going to constantly need medical attention, you would think they'd worry that they lose access to their doctors, and that therefore they give priority to paying the medical bills. But I guess that's not how the CFPB sees it.

Joseph Schuster:

If I may also jump in here, as I'm looking at... I looked at how many things the CFPB has put out in medical debt over the past less than two years, and there's a lot of the things that we're talking about here, including... I guess I will say that it's great to see that the CFPB is actually going down the proper rule-making course here with the FCRA and following the SBREFA, something that they didn't do with the credit card late fee rule, but they reference in here that the CFPB is declaring that medical debt is less predictive or not predictive from a credit perspective relative to other factors.

And I take issue with the CFPB making that determination for a type of credit that is not discriminatory. From any COA perspective, it's not discriminatory. So I'm not sure why the CFPB should be deciding what creditors can be using in their predictive models. Alan, you used an example where somebody might be under a little bit of financial stress, and so they decide one month not to pay their medical bills. Now, that could be a leading indicator of that financial stress, that next month maybe they're not going to be able to pay their credit card bills or their auto bills.

It is something that creditors should be able to be aware of as they are making responsible credit decisions with respect to individuals. The CFPB also talks about not overextending people from a credit perspective. Having a full picture of the credit that a person has, including medical debt, student loans, all these types of things, make sense for a creditor to be able to make the appropriate underwriting decisions.

Chris Eastman:

I think that's a great point, Joseph. And if I may, I do view medical debt and from everything I've seen in my role at Pendrick is really medical debt is the first thing you see really. It's the early warning sign that a customer may be under stress from a financial perspective. And so I think Joseph makes a great point that that could be certainly a leading indicator for other sources of unsecured credit that may be next in terms of risk for nonpayment.

Alan Kaplinsky:

Thank you, Chris. Let me get back to you, Joseph, and ask the same question about the challenges that are confronting the space. I mean, we talked about credit reporting already. And if CFPB gets its way, it looks like reporting of medical debts may be on the way out. But maybe not. Because even if they do adopt the regulation, it's almost routine now that there'll be a lawsuit challenging what they've done, and they don't have very good track record when it comes to lawsuits. We know that. But what are the other challenges?

Joseph Schuster:

I would divide the challenges or who the challenges affect into two categories, I would say. On the one hand, there are restrictions on providers. On the other hand, there are debt buyers and collectors. I'm going to just touch on the providers briefly because I think given Chris is here focusing on the debt buyers and the challenges confronting debt collectors as well is a great place to focus.

But on the space of providers, there are a number of different federal rules that are already in place for a nonprofit hospital to maintain its nonprofit status that it must do before it can sell medical debt. So medical providers are aware of these things and they're attempting to follow those. Additionally, a lot of states are getting active in this space as we've discussed.

And those activities extend not just to debt buyers and collectors, but also to providers, whether that's a waiting period that a medical provider must follow before they sell the debt, whether there are different notices that the medical providers must provide prior to selling it. There's a whole number of different things that states are doing that affect medical providers.

Let me turn to though and focus on the debt buyers and debt collectors in the medical space. And I should mention that states are very active just in debt collection as a whole. Chris, I admire you, that if you can collect on medical debt, you've followed all the other state debt collection laws and you've also gotten into the stratosphere of the medical debt laws as well.

But I would say there's five categories that we're seeing from states right now and with an acceleration with states who are getting active in this space. Number one, there's the credit bureau reporting, which we saw a couple of states last year. We're seeing more states this year. We're seeing adjustments to statutes of limitations. Florida passed a bill to reduce the statute of limitations on medical debt from five years to three years.

We are seeing substantive disclosure requirements. Nevada imposed some substantive requirements that were challenged last year, but are going into effect. The challenge was that they could potentially conflict with the FDCPA. That you have to send a letter and the letter does not disclose that's an attempt to collect a debt. Nevada takes the position that it's not and that you state on there that it's informational only, but we'll see what happens with plaintiffs counsel.

So we're seeing those substantive disclosures. We're seeing limitations on garnishments. Garnishments is already a very difficult area for debt collectors and for holders of accounts. We saw the consent order a few years ago that the CFPB brought about practices relating to garnishment. Now we're seeing New York is proposing to limit the ability of debt collectors to accept voluntary payments from debt that would otherwise be subject to a garnishment exemption.

And again, that's a voluntary payment. Somebody decides to make a payment on medical debt and the state would be saying you cannot accept that payment. How you get into the mechanics of how you know that, it's extremely difficult. And I'd say the last category that we are seeing as well are interest rate limitations. And that one I think is particularly important as we consider the first part of our conversation of defining what is medical debt.

I'll touch on a little bit of why some of these are important for people to be tracking, and I think we're going to touch on it a little bit later on. But as we look at the statutes of limitations... Well, I should actually say that there is a proposal in Congress too, so at the federal level, to regulate medical debt, to modify the Fair Debt Collection Practices Act. And it would modify

when a person can collect on debt and say that you cannot collect on medical debt until two years after the medical debt has been originated.

So if you look at that, if there's a federal law that says you can't collect for two years, and then you have state laws that's saying you can only collect for three years, the window on which you can collect on this medical debt is shrinking and it could be very small. So those are a number of the things that we're tracking.

Alan Kaplinsky:

How do you track? It seems like you know about all these state laws, Joseph, in your fingertips. How do you stay on top of all that?

Joseph Schuster:

Well, I mean, as you know Al, we have a number of different clients who are very interested in these state laws. And so we are constantly monitoring what states are proposing, where these state laws are in the process, the likelihood that they are going to be passed, and then when they're passed and what the implications could be as a result of that.

Alan Kaplinsky:

Okay. So Chris, let me get back to you. What are you seeing service providers do and what are you doing in response to the evolving regulatory landscape?

Chris Eastman:

I'm seeing a few things, Alan. First, I'm seeing providers require upfront payment more. I think we touched on this briefly earlier, but before they get particularly elective procedures, providers will require upfront payment. And if they're not getting that payment, they're deferring the appointment altogether.

And additionally, seeing providers invest in SaaS type solutions that educate customers on payments required, so patients come to their appointment knowing what insurance will cover, what they need to cover from a co-payment or deductible standpoint, to really limit the medical debt from occurring to begin with. So that's an interesting change that has occurred over the last number of months or so.

And I think that additionally, providers again... During COVID healthcare providers were getting significant support from the government in terms of money being diverted to deal with the COVID pandemic. Providers primarily have gone through that government assistance at this point. And again, they're under increasing financial pressure. Those that can't find new sources of revenue and cash, they were cutting costs.

They were delaying investment and cutting edge capabilities. And as I mentioned, I think Steward Health Care Systems just went out and declared bankruptcy in the last week or so. So ultimately, again, this is impacting patient access both in terms of timely access to care or best care available. So I think we're continuing to navigate the changing landscape to meet our customer needs and to serve customers with compassion while we help these providers get the cash flows that they need.

As we look at the landscape and the state laws and CFPB proposed laws that Joseph was going into, we're looking at ways to expand into other types of receivables purchases as well. We believe our ability to underwrite and collect medical debt scales very well to other types of unsecured receivables, and we're looking at opportunities in those spaces. Pendrick has a robust platform that meets the highest standards of compliance in the healthcare space.

So not just PCI, but we're also HIPAA compliant. And my belief is if you can be PCI and HIPAA compliant, you can move into something like financial services and immediately meet with the compliance bar in that space as well.

Alan Kaplinsky:

So Joseph, how are you advising our clients as this landscape continues to evolve? And I know there are two categories of potential clients here. One would be the buyers and the debt collectors, and the second would be the sellers.

Joseph Schuster:

Yeah, it's a great question, and I think we have advised traditional credit sellers for a very long time. Banks are very used to what they have to do as they are selling debt. Hospitals, medical providers, they have sold debt in the past. But now that the CFPB and federal regulators are more active in this space, I think those sellers... We're advising those sellers that it is more important for them to be looking at different considerations as they're selling. The importance of tracking the statutes of limitations so that they are not selling debt that cannot be collected on that.

That they're able to provide the documentation that evidences the debt if somebody asks for the debt to be validated. The other big thing is oversight. And this is one that in particular banks, traditional creditors have understood the importance of oversight. There have been different bulletins about what banks and creditors have to be looking at as they sell debt to debt buyers like Chris. Are they looking at whether that entity is licensed appropriately, following those laws that Chris is looking at?

I think that medical providers previously when they were selling were looking at selling and that was it. They've received that source of revenue and the debt is no longer there. I think we're seeing a little bit of a transition to say you need to be comfortable and careful to whom you're selling that debt. So that's on the provider side, which I think is very important.

Alan Kaplinsky:

So in other words, you're advising them to conduct due diligence of the buyer, whereas in the past they were just looking for who's going to give us the more cents on the dollar? They only care about the price.

Joseph Schuster:

Exactly. The compliance program, how debt buyers and debt collectors are collecting on the debt and the compliance management system that those entities have in place, should be and is more important to the medical provider now than it used to be from that diligence perspective. So absolutely there. And that then I think transitions into that second category of what we're advising debt buyers and debt collectors. The first big one is those changes to state law.

There are a lot of them coming down and making sure that you're aware of them and that your system is agile, that you can adjust to those different things. And the importance of tracking statutes of limitations is important for the debt buyers as well. We've got a lot of state law, federal law tracking so that the debt collectors and the debt buyers' compliance management systems comply with all state laws, so that as those providers are doing that due diligence, the good debt buyers are able to show their compliance with all these new laws.

Alan Kaplinsky:

All right, so I have a question for both of you. We're getting toward the end of our program, and we talked a little bit about this earlier, and that is innovative approaches to debt collection, particularly collection of medical debt. And Chris, you mentioned leasing, which I had never heard of before. Is there anything more that you want to say about that type of certainly an innovative approach? I had never heard of that.

Chris Eastman:

I think we're really excited about our leasing product. We think it's going to scale quite nicely in the medical space, particularly with faith-based hospitals and providers, and then other providers who may be wanting to accelerate the cash flow, but not quite ready to do the full sale. So we're thrilled with that and we think it's going to be something that position us well as the environment changes.

Alan Kaplinsky:

What about you, Joseph? What innovative approaches are you seeing?

Joseph Schuster:

So what I'm seeing, and I'm not sure... It's innovative for the medical provider industry and for hospitals, but I think it's those hospitals, medical providers getting closer to what banks have been doing for a very long time, and that's really recognizing the importance of risk management. So I think medical providers and hospitals have had debt that accumulates over time, and periodically they will look at that and they will look at selling it.

They are now looking at from a risk management perspective of whether they should be entering into a forward flow arrangement with a debt buyer. So that as debt reaches a point where it can be sold, it is automatically sold to that debt buyer as opposed to letting it accumulate. The importance of that is somewhat a respect of some of these laws that we're seeing.

If there are shorter statutes of limitations, the ability for a debt buyer to collect on that debt, and therefore the price of that debt gets affected substantially the longer that debt stays there. We're seeing that on the medical provider front. On the debt collector, on the debt buyer front, we're seeing debt buyers and debt collectors being very specific with respect to the state laws and how they are following state laws. Whereas previously, they may have taken an approach where maybe one size fits all.

One or two states have a limitation and they'll apply that limitation to a larger area. Now, there's more importance of looking at each of those state laws and deciding how they're going to collect debt in each jurisdiction, because those state laws can be rather restrictive or prohibitive of the ability to collect debt. And so being able to build a system that can address those specific state laws for the specific debt that they're collecting is becoming very important.

Alan Kaplinsky:

Well, I would be remiss if I didn't ask both of you whether AI has had any impact on your business. Are you using AI right now, Chris, or do you see a potential use for it?

Chris Eastman:

We're in the early stages of deploying machine learning, particularly with models in our business to manage risk. One of the key tenets we operate by is we really want to be able to determine who has the funds and only reach out to them. So we're using those types of machine learning in early stages of AI to address that. We're also using that to help us partner with some of these medical debt forgiveness providers out there. RIP, now Undo, which was started by MacKenzie Bezos, we partner closely with them to sell some of our portfolio as medical debt for forgiveness.

Some of these models that we're building help us identify who would benefit most from medical debt forgiveness as we partner with them. Additionally, as I mentioned earlier, we're seeing more and more of the providers start to deploy SaaS-based solutions upstream as early as when the appointment is booked. We believe that's using algorithms and so forth to determine what types of reminders to trigger patients and so forth. So we are seeing it move into the industry quickly.

Alan Kaplinsky:

How about you, Joseph? Are you seeing anything?

Joseph Schuster:

I'm starting to hear questions about the use of AI, and I think that there are potentials like what Chris is getting into, but I think that there are also concerns. And I think that the CFPB has expressed an interest in this and that they're going to monitor how AI is used in different instances. Chris was talking about contact strategies and I think that's different than collections programs.

But keep in mind that the CFPB has been very interested in how debt collectors are offering programs to different individuals. If you are using AI to do that, knowing how AI is deciding how to offer one program to one individual and a different program to another individual will be particularly important when you're having those conversations with the CFPB. I've heard from some clients too about attempting to use AI to track compliance with some of these state laws.

Personally, I've tried to ask AI about a specific state law that I know is out there and in generic terms. I give it all the help I can. And I will tell you, I have not had great success with AI giving me back the law that I know is out there and restrictive in this space. So yeah, I'm hearing about it. I'd be cautious though about how to use it.

Chris Eastman:

Yeah, couldn't agree with you more, Joseph. We've stayed away from AI for all the reasons you've outlined there. It's something people are curious about, but ultimately, the neural networks and so forth I think need to be really advanced a little bit better before people can confidently move over to them.

Alan Kaplinsky:

So let me ask you, both of you, one last question. Is there anything I overlooked? Is there anything about this topic that I should have asked you? Or if not, do you have any final comments to share with our audience before we wrap up our show for today? Chris, we'll start with you.

Chris Eastman:

Well, Alan, I just want to thank you again for having me today on the show. It was wonderful to spend some time with you and Joseph. Really enjoyed the conversation. I think you did a very nice job of covering the major topics out there. The regulatory environment is evolving rapidly.

And so it's important for us at Pendrick to make sure we're staying abreast of all the changes and the proposed changes. We're very focused on these and continuing to ideate and create new solutions in response to them. So again, pleasure to be here and thank you so much for having me.

Alan Kaplinsky:

Real pleasure was ours, Chris. Thank you for taking the time to share your thoughts about a very important business that you're in. And Joseph, any parting comments?

Joseph Schuster:

Well, I would echo the thank you for being here. Again, looking forward to being a repeat guest in the future. I think the only parting piece that I would say is that we're going to continue to see different laws being passed in this area. And this might be a pendulum too. Where we are a year, two years, five years from now is going to be very different than where we are now.

Like I said, we're seeing a lot of states pass these laws that are restricting how providers can sell medical debt, how medical debt can be collected. We're also starting to see financial institutions run into financial difficulties like Chris mentioned. So I think we're going to continue to see where things go will be interesting over the next two to five years, and we'll continue to monitor that. So I look forward to revisiting this topic in the future.

Alan Kaplinsky:

Okay. Well, I'm sure we will. So we've come to the end of our program for today. And to make sure you don't miss any of our future episodes of our show, please subscribe to our show on your favorite podcast platform, Apple Podcasts, YouTube, Spotify, et cetera, et cetera. Also, don't forget to check out our blog, consumerfinancemonitor.com, for daily insights of the consumer finance industry, including the topic that we have discussed today.

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