

Medical Debts Could Kill Your Refinancing

MORE IN FAMILY FINANCE

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Two erroneous \$11 doctor bills stopped Jeanne White from refinancing her home.

The 49-year-old resident of Colleyville, Texas, says she was shocked to learn in October that the two medical bills, which had been turned over to a collection agency, had caused her credit score to fall to 680 from 757 -- making refinancing far too expensive.

"I was told I'd have to pay \$14,000 in closing costs to get a 5.5% interest rate," Ms. White says, substantially more than she would have paid with a higher credit score. When Ms. White, a retired sales manager, contacted the doctor's office, she found out the bills had been issued in error.

Otherwise well-qualified borrowers with good loan-to-value ratios and steady employment are increasingly finding it difficult to refinance because of medical billing mistakes marring their credit, say mortgage bankers and real-estate agents.

Some 14 million Americans have errors on their credit report because of medical collections, according to the Commonwealth Fund, a Washington-based nonprofit focused on health-care research. These routinely small-balance blemishes, which can go unnoticed for years, can be a death knell for refinancing because they can cause outright refusals -- or make closing costs so high that borrowers opt not to refinance at all.

A bill winding its way through Congress could provide relief for homeowners with medical-debt troubles. The Medical Debt Relief Act, which passed the House this fall and is now in the Senate, would remove settled medical debt from credit reports after 45 days, instead of the customary seven years.

Yet borrowers shouldn't wait for relief from Washington, says Mark Rukavina, executive director of the Access Project, a Boston-based health-advocacy group. They need to take action themselves.

"Don't assume that your credit score is pristine, and be vigilant about checking it for these medical bills," Mr. Rukavina says, adding that borrowers should also contact a medical provider's office immediately after a visit to ensure that all bills outstanding are covered.

New Beginnings can help.

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