

LETTERS

Use Credit Reports with Confidence

A recent article that appeared in JCO (Management & Marketing, June 2002) warned that by obtaining credit reports orthodontists are “in a highly regulated and complex area of business” and that they need to be “very, very careful”. While it is true that you should acquire a thorough understanding of the proper use of credit reports in your practice, the regulations governing their use are in fact an advantage, rather than something to be feared. The purpose of regulation is to provide clarity and direction, not confusion or ambiguity.

My company, OrthoBanc, LLC, is owned by ChoiceDATA, Inc., an Equifax System affiliate credit bureau. Equifax is one of the nation’s leading credit-reporting companies. ChoiceDATA has served businesses since 1916 and presently serves more than 3,500 customers, including many orthodontists. Our industry’s national association, Consumer Data Industry Association (formerly called Associated Credit Bureaus of America), has been instrumental in shaping current federal law governing the use of credit reports. Our industry is well suited to advise clients in the proper use of credit reports.

Let’s examine some points:

Permissible purpose. This article cited an opinion letter by the FTC and said its conclusion was that a dentist does not have a permissible purpose to obtain a credit report on the parent of a patient. The context of this opinion letter (www.ftc.gov/os/statutes/fcra/shibley.htm) is a question about obtaining a credit report on the parent of a minor child “at the time of providing an initial free office visit, but before the parent has authorized any further course of treatment”. The FTC said, “The acceptance of a complimentary initial visit to the dentist is analogous to an automobile ‘test drive’” and concluded no permissible purpose to obtain a report exists. Referencing a previous FTC opinion, once a consumer has made a decision to purchase an automobile, an auto dealer has a permissible purpose to obtain a credit

report. In the same way, once a decision to accept treatment has been given, a dentist has a permissible purpose because, in the words of the Fair Credit Reporting Act Section 604(a)(3), the dentist “intends to use the information in connection with a credit transaction involving the consumer on whom the information is to be furnished.” It is a good business practice to notify a patient, or the parents of a minor, of your intention to use a credit report in your decision. Securing the responsible party’s specific authorization to obtain a credit report documents the understanding of your actions should questions arise in the future. *Adverse action notices.* Adverse action notices are required only if you alter the terms or conditions that are normally extended to patients. For example, an orthodontist may normally require a 25% down payment. If the down payment is increased to 35% based on the information obtained from a credit report, and the patient does not accept your offer, an adverse action notice is required. The most practical way to provide such a notice is to do so at the time your financial coordinator explains payment options to your patient. OrthoBanc can provide you with a sample adverse action notice or, in a soon-to-be-released enhancement, OrthoBanc clients will be able to print a customized adverse action notice from our website.

Impact on credit scores. There has been considerable discussion over the impact of credit inquiries on credit scores (often called FICO scores, from Fair, Isaac & Co.). The article stated that a credit inquiry might reduce a patient’s score from five to 10 points, possibly increasing the interest rate on future loans. It might be noted that if a score drop is going to occur, it will also occur if a third-party financial institution inquires about the patient’s credit report to finance treatment costs. The great news is that medical inquiries are not considered in credit-score calculations by the Equifax System. That means that your inquiry, if made through Equifax, will have no impact on your patient’s score (*Editor’s Note: See the response below*). You need not fear that your patient will pay increased interest rates because of your inquiry. If your patient elects to

seek third-party financing, your credit inquiry will not affect the score the financial institution obtains.

Difficulty making sound decisions. As the article states, it is true that many financial coordinators do not know how to read and interpret credit reports. This is because orthodontic staff are not trained lenders or loan processors. OrthoBanc takes the difficulty out of credit decisions. Rather than displaying an Equifax credit report that must be analyzed, we return a recommendation, much as ChoiceDATA has been doing for banks, credit unions, auto dealers, etc., for years.

Using credit reports is only one step toward reducing delinquency. Much of the delinquency a practice experiences is due to patient attitudes toward medical debt. Patients who pay other debts on time will often let medical payments slide, either because they view medical debts as a lower priority or because they expect to pay at the time of treatment. Orthodontic staff tend to be uncomfortable calling patients about missed payments, further compounding the delinquency problem.

Outsourcing accounts-receivable management to OrthoBanc can significantly reduce delinquency. Through electronic funds transfer of payments from the patient's checking account or credit card, OrthoBanc simplifies the payment process, increases cash flow, and reduces delinquency. We contact patients who miss payments, freeing orthodontic staff to concentrate on relationship-building and patient care. OrthoBanc clients have an average 30-day delinquency rate of 1.4% (number of accounts delinquent) and an average .3% delinquency beyond 30 days.

If properly informed, you can use credit reports with confidence. This letter should not be construed as providing legal guidance; you should always consult your legal counsel for such advice.

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The author replies:

While Mr. Holt seems to agree with the compliance issues stated in our article, I want to emphasize that the exemption for medically related inquiries is available from all three major credit-reporting agencies, not just the one his company is affiliated with.

In the article, we reported that a consumer's FICO score could be reduced when an orthodontist obtains a credit report. We based our conclusion on information Fair, Isaac & Co. has posted on its website regarding the impact of inquiries on consumers' credit scores, information appearing in the *Wall Street Journal* dated March 19, 2002, and other sources.

After seeing our article, Fair, Isaac has provided us with a clear understanding of how its risk models treat medically related credit inquiries. According to John Ulzheimer, a Consultant in Fair, Isaac's Analytic Delivery Services Group, a properly coded medical related inquiry will not impact a consumer's score. Such inquiries, which do appear on credit reports, are denoted as "medically related" and not factored into the FICO score. "Any inquiry that we can identify as medical related is bypassed", says Ulzheimer. Since the determining factor in how your inquiry is treated is how it is coded at the three credit-reporting agencies, you may want to verify with your credit-bureau representative that you are coded properly. This clarification from Fair, Isaac has benefited OFP, as we were not coded properly and have since been recoded as "medically related", so that our inquiry will not negatively affect a patient's credit score.

Fair, Isaac has confirmed with us that other points made in our article are accurate, such as the fact that the doctor's name will be present as an "inquirer" on a patient's credit report and remain there for two years. All other points in the article regarding legal and compliance issues are also accurate.

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