

# WS+B Litigation, Valuation and Insolvency Services Group

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NEWS AND UPDATES FROM WS+B'S INSOLVENCY, REORGANIZATION & BANKRUPTCY SERVICES TEAM

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### Student loan debt surpasses credit card debt in the U.S.

Currently, American college graduates have a combined nearly \$830 billion in student loan debt, compared to \$825 billion in credit card debt.

There are a number of reasons for the increase in student loan debt. The cost of college has nearly quadrupled in the past 25 years, and on average, students are taking about six years to complete a four-year program.

Recently a plan was enacted to help students with their loan payments. The plan, known as Income-Based Repayment (IBR), allows for required monthly payments to be capped based on the individual's income and family size for major types of federal student loans.

Visit <http://studentaid.ed.gov> for more information on Income-Based Repayment.

### Student Loans and Bankruptcy

As a result of the law changes made to the Bankruptcy Code in 2005, student loans are generally not dischargeable, which means that filing for bankruptcy protection will not eliminate the debt. There is a limited circumstance that may qualify student loans to be discharged. To be considered for discharge the debtor must demonstrate extreme hardship and is examined against the following criteria:

- The borrower cannot repay the student loan while maintaining a minimal standard of living based on income and expenses.
- The borrower's current situation will likely continue for an extended period of time.
- The borrower has made every effort to repay the loans.

Eligibility for additional student aid/loans once bankruptcy has been declared is a minefield of issues and is heavily dependent on the specific program being applied for as well as whether the program is Federal or private. Generally, filing for bankruptcy will have no impact on eligibility for future Federal student loans, as long as there are no delinquencies on current loans in repayment status. Private lenders will have their own criteria and underwriting standards to be complied with. Eligibility will vary depending on many factors, in particular the type of student loan, the type of bankruptcy filed and the availability of co-signers. It is best to have a discussion with any lender prior to filing for protection when future needs may be at risk.



If you have any questions please contact a Partner in our Insolvency, Reorganization and Bankruptcy Services Team:

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