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Could Help Millions Struggling Under Student Debt

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# Bankruptcy Could Help Millions Struggling Under Student Debt

In 2005, Congress took this one possible life raft away. Why?



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[Jon Basil Utley](#)

**I**s it not strange that an 18-year-old cannot legally buy a beer or a pack of cigarettes, but can sign on to tens of thousands of dollars in permanent debt?

The average student loan for the graduating class of 2016, according to *Forbes*, was for \$37,000. And the cruelest part is that the debts—like child support and taxes—cannot be discharged by personal bankruptcy.

This is what Congress inflicted upon young Americans with the [Bankruptcy Reform Act of 2005](#). The law was written before the financial crash of 2008 when the banking lobby could dictate virtually any legislation in Congress to favor itself. Even more perverse was how government’s “easy loan guarantees” actually [allowed universities to increase their tuition](#) by thousands or even tens of thousands of dollars per year.

Total student debt now amounts to about \$1.6 trillion and has become a terrible burden upon millions of young Americans and their families. In practice, it spoils credit ratings and delays or prevents marriage and home ownership for millions. Indeed, with additional late fees, penalties, and high interest rates tacked on, the burden for many has grown to impossible amounts. Furthermore, the law provides that the debt cannot be refinanced with new lower interest loans—another abuse of student borrowers.

Fortunately there might be an easy solution: Congress should change the law to no longer exclude student debt from personal bankruptcy filing. Yes, the individual would have his or her credit damaged for seven years, but that is far better than struggling for a lifetime. Those with well paying jobs who are able should of course pay off their student debts, but for millions of poorer young Americans (and their parents who have often co-signed the loans), it would be the most logical and least painful solution.

Indeed, if the bankruptcy write-off was only or mainly for student debt, credit card lenders might easily begin allowing small credit lines far sooner than seven years after. Especially once a vast number took advantage of the bankruptcy option, credit card companies would quickly find a way to re-establish them as customers. After all, these companies want the business, and a person who has filed for bankruptcy is a safer credit risk because they can’t file for it again.

With personal bankruptcy in place, the U.S. government will lose money because it guarantees many of the loans. But the amount would be far less than what’s needed for another year of endless wars. Instead of endless wars, why not write off some student debt?

Young people who visit colleges are easily mesmerized by the promise of a superior education and a great job

afterwards. But taking on eternal debt that must be paid for with after-tax income has become a tremendous burden for many. Equally, if colleges feared student bankruptcy, many would be far more conscious of providing a good education at a decent price.

Filing a personal bankruptcy damages one's credit for seven years. However, one may acquire a new credit card after five years. One can even start rebuilding credit within two years, by starting with a bank debit card or secured credit card. If student debt is the only debt that shows on bankruptcy records, lenders will recognize the issue and not assume a spendthrift. But this all depends upon Congress changing the law to permit it. Obviously bankruptcy is a last resort, but it's better than becoming an indentured servant for the rest of one's life with [loan balances increasing because of penalties and interest](#).

An article by Beth Akers of the Manhattan Institute in the *Wall Street Journal* suggests various cures for the lowest income debtors, those who owe \$5,000 or less—by far the great majority—mostly students who did not complete college. She suggests removing that \$5,000 of debt in return for an equal sized refundable tax credit that would not accrue interest charges and would gradually pay back the debt as they earned higher wages.

This may be a good time to rethink the whole idea of college for everybody. Some million and a half jobs are open in advanced manufacturing, most paying over \$50,000 a year, yet they go begging. America needs more skilled workers, like Germany has, to be trained through apprenticeships combining study and work. Such jobs provide far more income and dignity than the ones many half-educated students can now find.

Democratic presidential candidates are making all sorts of wild promises to eliminate student debt at a cost of over \$1 trillion. But not all of it needs to be written off or lowered. Top professionals, such as doctors and lawyers, are paying off their debts. But for millions of poorer Americans trapped at 18 years old in almost unending payments, the proposal above would be fair and manageable.

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## ABOUT THE AUTHOR



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