

## STUDENT LOAN DEBT A BOMB WAITING TO EXPLODE



The Federal Reserve Bank of New York made an alarming announcement that had the potential to have a huge negative impact on the national economy. It said that "student loan debt has reached about \$870 billion, exceeding credit cards and auto loans and balances are expected to continue climbing." In February the National Association of Consumer Bankruptcy Attorneys called it the "Student loan debt bomb." They also expressed reservations saying it was shaping up to become "America's next mortgage-style economic crisis." Illinois Attorney General Lisa Madigan said that the student debt crisis, "poses a large and growing threat to the stability of our economy. Just as the housing crisis has trapped millions of borrowers in mortgages that are underwater, student debt could very well prevent millions of Americans from fully participating in the economy or ever achieving financial security." Madigan's office had sued Westwood College claiming that it was misleading students, who were borrowing heavily to pay their fees and entering into debts. Senator Dick Durbin who convened the hearing and who is pushing a legislation, the Fairness for Struggling Students Act, that would ease student borrowings, said, "It's clear that too many students have been steered into loans that they will not be able to repay and that they will never be able to escape." Private loans were risky and carried higher and unpredictable interest rates. There were fewer consumer protections that government loans. Government loans had flexible repayment plans and allowed certain breathing space to the borrower in times of economic hardships could be. Durbin said, "While the overall growth in student indebtedness is troubling, the most pressing concern is private student loans. Private student loans are a riskier way to pay for an education than federal loans." Under Durbin's legislation, students would remain responsible for repaying government-issued or guaranteed student loans and would be unable to discharge those in bankruptcy. Current bankruptcy laws, are virtually the same for students and people trying to avoid paying genuine debts. Danielle Jokela, a student, who has a student debt of \$98,000, said that if the students had the option to clear away student debt in bankruptcy, it would give something to the students to negotiate with the lenders. Moreover, it would also give the lenders and incentive to interact with the borrowers. Jokela said, that she bears responsibility to clear towards her loan, "I don't want someone to wipe my debt clean, but I just want my lender to be reasonable and work with me." Others are however, skeptical of the new legislation. Morally if you have borrowed money, it is your duty to return it. Marcus Cole, a Stanford University law professor called it an, "unjust transfer from innocent lenders who did nothing more than give money to people in hopes of being repaid someday." It could also means that loans would not be that easily available and private lenders would be wary of lending, knowing that student borrowers would be allowed to discharge their private loans in bankruptcy court. Rates of interest would also be likely increased. Marcus Cole said, "It would result in a dramatic increase in the cost of student loans for all borrowers, ultimately drying up the availability of such loans for those who need them most."