

Student Loan Debt & Bankruptcy

Tom Mullooly: In Episode 67, we're going to talk about forgiveness ... well, student loan forgiveness. Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this episode number 67. All right, Tim, what are we going to be talking about today?

Tim: **I'm in some trouble with my student loan debt. If I declare bankruptcy, will that help?**

Tom Mullooly: Well, I have some news. It may not help, and when we're talking about getting student loans forgiven, it's an area where there's a lot of misinformation.

One of the good things is that there's a lot of information online if you just start Googling things about discharging student loans. One of the bad things is, there's a lot of information online about discharging student loans.

So not everything you read is going to be accurate. What I would suggest is, use the tools that are on the web as a starting point, but if you've got particular questions, talk with a financial planner.

If you don't have one, get in touch with us. We'd be happy to answer whatever kind of questions you have.

What you should know is that about three years ago, the Obama administration changed some of the rules for repaying loans.

They changed the terms of the income-based repayment to now, you can set up an income-based repayment plan of just paying 10% of your discretionary income.

That's not your total income. That's just discretionary income. If you make those payments for 20 years, the rest of the amount of your loan is going to be forgiven.

But if you get out of school and you're 22, you're talking about someone in their early 40s finally getting rid of a student loan.

It's going to hang around for a long time, and that could impact your ability to buy a house or do things that you really want to do, because you're going to have this debt hanging over your head.

There are programs for loan forgiveness. A lot of people are already aware of them. If you want to become a teacher, they have loan forgiveness programs. If you do some type of public service work, you can also get loans forgiven, as well.

But if you want to get your loan discharged, you want to make it go away, there's not too many ways to do it. And the ones that I'm going to mention are, they're pretty remote.

So one is if your school closes while you're in it. There's not too many schools that are closing today.

Maybe more in the future, but if your school closes while you're enrolled, then they can work out some kind of deal to forgive a part of your debt.

You can also try and get your student loans discharged in bankruptcy. The odds are pretty small that this is going to be wiped out in a bankruptcy, but there is the hardship provision that you can appeal and see if you can get something worked out.

But the odds of success are really small.

If you're totally disabled, there's a chance that your federal student loans can be discharged, or at least amended. If someone stole your identity and got school loans based on that, then yeah. Those will be eliminated.

If the school didn't make a refund and you somehow found out about this, you can have that part of your, the small part of your student loan discharged.

If you could prove that the school was doing things illegally or deceptive to trick you into more tuition or more payments or something like that, that's really hard to find, then it could be discharged. If you die, your federal student loans will be dismissed.

However, if you have a private loan, that may not be the case. So what happens if you want to file bankruptcy and you still have these student loans, they're going to hang around. And the interest is going to compound.

There's stories now that are starting to surface, and you need to be aware of this, that if you just ignore your student loans or don't pay your parent loans, that your Social Security can be garnished.

There are even instances where part of your paycheck can be garnished, as well.

These student loans aren't going away, and I'm not going to turn this into a long discourse about how I would fix the student loan industry. It certainly needs fixing, but if you've got questions about how to handle these student loans, get in touch with a financial planner.

If you don't have one, reach out to us. We'll be happy to answer your questions. Thanks for watching Episode 67, and we'll see you real soon. Thanks.