

## Biden's Student Loan Bankruptcy Policy: Relief for Borrowers, Burden for Taxpayers

March 26, 2024 - At the end of 2022 the Biden administration has implemented a new policy allowing many student loan borrowers to discharge their student loan debt through bankruptcy proceedings. While this may offer much-needed relief for struggling borrowers, it places a real burden on taxpayers, many of which have never attended college.

Prior to the new policy, getting student loan debts canceled or reduced in bankruptcy was a formidable challenge for borrowers. The Biden administration's policy change has eased the burden, making it much easier for borrowers to seek forgiveness for their educational debts.

Under the new guidelines introduced by the Department of Justice and the Department of Education, education debt is now treated more like other forms of debt in bankruptcy proceedings. Borrowers can potentially qualify for discharge by demonstrating financial need and a history of efforts to repay their loans. This shift has led to a notable surge in bankruptcy filings related to student loan debt, with many borrowers receiving either partial or complete discharge of their student loans.

While this policy change may provide much-needed relief for individuals grappling with overwhelming student loan debt, it raises concerns regarding its impact on taxpayers. Taxpayers bear the brunt of the financial burden associated with student loan defaults and forgiveness programs. With an increasing number of borrowers seeking relief through bankruptcy, the cost of discharging these debts ultimately falls on taxpayers' shoulders.

Moreover, the ease with which borrowers can now seek discharge of student loan debt in bankruptcy proceedings may incentivize strategic defaulting, wherein individuals intentionally default on their loans with the expectation of ultimately having them discharged through bankruptcy. This poses a significant risk to taxpayers, as it potentially undermines the integrity of the student loan system and imposes additional costs on government agencies tasked with administering these programs.

Furthermore, the Biden administration's emphasis on providing relief to student loan borrowers through bankruptcy stands in stark contrast to its failure to address the underlying issues driving the student loan crisis. Despite promises of comprehensive reform, the administration's reliance on piecemeal measures like bankruptcy discharge highlights a lack of substantive action to tackle the root causes of escalating student loan debt.

Taxpayers need to understand that while colleges and universities are often in charge of awarding student loans, when those loans go unpaid for any reason, there is no penalty realized by these institutions. When our educational institutions have the power to award large sums of money to student borrowers, and then charge them exorbitant tuitions for fields of study that won't allow them to generate enough income to pay the loans back, they should actually be the ones responsible for any losses due to non-payment. At the very least, they should have to share a significant portion of the burden currently being foisted on taxpayers.

Frankly, the policy change was completely unnecessary. There are a number of loan forgiveness and deferral provisions that are already built into federal student loans. Borrowers have the ability to arrange for income-based repayment that will eventually lead to a discharge of debt. Alternatively, they can work in specific fields for a time that will also reduce or discharge their debt. The fact that after graduation some may regret their choices with taking out large student loans shouldn't be a burden that taxpayers have to pay for.

by Jim Malmberg

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