SURVEY: 4 OUT 5 U.S. BANKRUPTCY ATTORNEYS REPORT MAJOR JUMP IN STUDENT LOAN DEBTORS SEEKING HELP, FEARS GROW OF NEXT MORTGAGE-STYLE DEBT THREAT TO U.S.

The Same Front-Line Experts Who Were Among the First to Warn of the Rising Mortgage Crisis Now Point to Emerging “Student Loan Debt Bomb”: The New Face of Student Debt: Vietnam Vet Parent Who Co-Signed Loans And Now is Likely to Lose His Golden Years.

WASHINGTON, D.C.///February 7, 2012///With student loan debt now topping U.S. credit card debt and few or no options available for distressed borrowers (including unwary parents who co-signed loans and now face the loss of nest eggs, retirement homes and other assets), America faces the very real possibility of another major economic threat on a par with the devastating home mortgage crisis, according to a new survey and report published today by the National Association of Consumer Bankruptcy Attorneys (NACBA) at http://www.nacba.org.

The NACBA survey of 860 bankruptcy attorneys nationwide found that:

- More than four out of five bankruptcy attorneys (81 percent) say that potential clients with student loan debt have increased “significantly” or “somewhat” in the last three-four years. Overall, about half (48 percent) of bankruptcy attorneys reported significant increases in such potential clients.

- Nearly two out of five of bankruptcy attorneys (39 percent) have seen potential student loan client cases jump 25-50 percent in the last three-four years. An additional quarter (23 percent) of bankruptcy attorneys have seen such cases jump by 50 percent to more than 100 percent.

- Most bankruptcy attorneys (95 percent) report that few student loan debtors are seen as having any chance of obtaining a discharge as a result of undue hardship.

Titled “Student Loan ‘Debt Bomb’: America’s Next Mortgage-Style Economic Crisis,” the companion NACBA paper published today points out:

- College seniors who graduated with student loans in 2010 owed an average of $25,250, up five percent from the previous year. Borrowing has grown far more quickly for those in the 35-49 age group, with school debt burden increasing by a staggering 47 percent.

- Students are not alone in borrowing at record rates, so too are their parents. Loans to parents for the college education of children have jumped 75 percent since the 2005-2006 academic year. Parents have an average of $34,000 in student loans and that figure rises to about $50,000 over a standard 10-year loan repayment period. An estimated 17 percent of parents whose children graduated in 2010 took out loans, up from 5.6 percent in 1992-1993.

- Of the Class of 2005 borrowers who began repayments the year they graduated, one analysis found 25 percent became delinquent at some point and 15 percent defaulted. The Chronicle of Education puts the default rate on government loans at 20 percent.

Dave Ingham, a disabled Vietnam vet who lives outside Minneapolis and co-signed a loan for his son to attend college, said: “I have been personally and gravely affected by the student loan bankruptcy crisis being discussed today. And I know our family is only one of many thousands across America facing these issues. My wife and I live in a condo and she receives barely over $500 per month in social security. Our son has to live with us or else he would be homeless. My wife and I and our son are being sued by a collection agency representing Sallie Mae and are scheduled to appear in court on February 13, 2012. My wife and I stand to lose our assets, including our condo. I realize my son made a mistake by being taken in my predatory lenders but that does not mean his life and ours should be allowed to be ruined by these people.”

William E. Brewer, Jr., president, National Association of Consumer Bankruptcy Attorneys, said: “Take it from those of us on the frontline of economic distress in America: This could very well be the
next debt bomb for the U.S. economy. The amount of student borrowing crossed the $100 billion threshold for the first time in 2010 and total outstanding loans exceeded $1 trillion for the first time last year. The reason: Students and workers seeking retraining are borrowing extraordinary amounts of money through federal and private loan programs to help cover the rising cost of college and training. In many cases, parents responsible for the student loans are in or near retirement years and facing repayment demands.”

John Rao, attorney, National Consumer Law Center and vice president, National Association of Consumer Bankruptcy Attorneys): “Even in the best of economic times when jobs are plentiful, young people with considerable debt burdens end up delaying life-cycle events such as buying a car, purchasing a home, getting married and having children. Piling up student loans in middle age is even more troublesome. And parents who take out loans for children or co-sign loans will find those loans more difficult to pay as they stop working and their incomes decline. This concern is echoed by bankruptcy attorneys from across the country who report that what they are seeing at the ground level feels too much like what they saw before the foreclosure crisis crashed onto the national scene: more consumers seeking their help with unmanageable student loan debt, and with no relief available.”

OTHER NACBA SURVEY FINDINGS

• More than four out of five bankruptcy attorneys (82 percent) see the limited availability of student loan discharge in bankruptcy as “a big problem” barring a fresh start for clients.

• Seven out of 10 bankruptcy attorneys see the lack of ability to separately classify student loans debts for debtors using chapter 13 as a “big problem.”

• Nearly two out of three bankruptcy attorneys (65 percent) say that student loan provider debt collections have become “much more” or “somewhat more” aggressive in the last 18 months.

• More than three out of five bankruptcy attorneys (61 percent) dealing with potential student loan debtor clients have seen cases of debts more than 15 years old still being pursued.

During January 2012, the National Association of Consumer Bankruptcy Attorneys (NACBA) invited more than 4500 of its members to participate in an online survey. With 860 completed responses tallied, the online survey attracted a high percentage (19 percent) of potential respondents. The full survey questions and responses are set out in the survey report at http://www.nacba.org.

ABOUT NACBA

The National Association of Consumer Bankruptcy Attorneys (http://www.nacba.org) is the only national organization dedicated to serving the needs of consumer bankruptcy attorneys and protecting the rights of consumer debtors in bankruptcy. Formed in 1992, NACBA now has more than 4,500 members located in all 50 states and Puerto Rico.

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EDITOR’S NOTE: A streaming audio replay of the news event will be available on the Web at http://www.nacba.org as of 5 p.m. EST on February 7, 2012.