

Don't Leave Your Loved Ones Paying For Your Education



There may be nothing further from a young and healthy new graduate's mind than premature death. However, in the event the unthinkable happens, there is a very real risk that loved ones may be responsible to repay outstanding student loans. This has been amplified by recent media coverage of the horror stories of grieving parents getting stuck with their deceased children's student loan payments. (For a few examples- [here](#), [here](#) and [here](#)). While federal loans are typically forgiven, private loans are another story. The good news is that a new graduate can take some simple steps now to ensure their loved ones won't be stuck footing their education bill.

Federal Loans

Death will typically discharge the borrower and his or her family from any student loan debt by way of a death discharge. According to the U.S Department of Education, if you, the borrower, die, then your federal student loans will be discharged. If you are a parent PLUS loan borrower, then the loan may be discharged if you die, or if the student on whose behalf you obtained the loan dies. The loan will be discharged if a family member or other representative provides a certified copy of the death certificate to the school or to the loan servicer.

Private Loans and the Co-signing Parent

However, there is no automatic administrative discharge of private student loans. Private lenders have their own terms and conditions when it comes to making loans and the repayment of those loans is typically governed by the specific lending agreement, not federal laws. The consequence of this is that others can be liable for any unpaid loan amount in the event the borrower dies.

If the borrower's parents co-signed on the loan, then chances are that the parents will remain responsible for payments on the outstanding balance. According to Deanne Loonin, an attorney with the National Consumer Law Center and director of its Student Loan Borrower Assistance Project in Boston, "Some private student loan lenders will do a death discharge, but generally private student loans are

treated like any other type of debt that must be repaid by the borrower's estate. While state laws on this subject vary, a co-signer is usually equally responsible for a debt."

Worse yet, some lending agreements may contain acceleration clauses, which not only require the co-signed to continue to make payments on the loan, but call the entire outstanding balance of the loan due immediately.

Spouses Also At Risk

Not only do co-signers risk being left with hefty student loan payments, but the spouse of a deceased individual may also be put in a tough spot. Depending on whether the couple lived in a community property state (like Wisconsin) and when the loans were taken. Typically in community property states both spouses are liable for debts incurred during the marriage. So, if student loans are taken out during the marriage then, in the case of death of the borrowing spouse, the surviving spouse is going to be stuck with the payments. To make matters worse, even if the loans were taken prior to marriage, the lender can still typically come after any joint accounts to satisfy the debt.

So is there anything a student can do to ensure that his co-signer parents or spouse won't be stuck repaying enormous mounds of debt in the unthinkable happens?

Life Insurance Can Cover the Difference

Experts say that one option is life insurance. While an early death is unlikely, the risk of leaving loved ones with hefty loan payments is very real. Young and healthy college students can typically obtain life-insurance policies for relatively cheap from insurance companies that are eager to insure someone with such a low risk for an early death. For example, a 25 year-old healthy, non-smoking man may be able to purchase a 20-year policy that costs \$25 to \$30 per month and pays upwards of \$300,000 if he dies. That is a total annual payment of only \$300 to ensure that family won't be stuck with six figures of debt. Of course, the policy wouldn't be limited to student loan debt either- in the event of death, the policy could be used however the beneficiaries see fit.

Given the possibility that loved ones could be left with such hefty payments on your outstanding loans, the additional peace of mind that a life insurance policy can add may not be a bad thing to consider incorporating into your estate plan.

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