

U.S. Supreme Court Ruling in Student Loan Case

Back in November, I explained to you the complexities involved in [discharging student loans in bankruptcy](#). These rules have not changed with the latest [U.S. Supreme Court](#) ruling in the case of [United Student Aid Funds v. Espinoza](#). The *New York Times* [article](#), [Bankruptcy Ruling in Student Loan Case](#) points to the brief submitted by United that warned of "open flood gates" if the court were to rule in favor of the debtor in this case. All this crying on the creditor side reminds me of the story of [the boy who cried wolf](#). Unfortunately, this win for the debtors will not likely amount to a broad brush approach or change the dischargeability of student loans in bankruptcy; here's why.



First, we're dealing with the underlying chapter 13 bankruptcy case where neither the Debtor, nor the judge followed the "undue hardship" test. Again, remember the hurdles that I laid out in my last article on this subject, [Discharging Student Loans In Bankruptcy](#), and you will see that the Debtor, Espinoza, did not file or serve an adversary proceeding complaint on United.

Second, the reason the Supreme Court ruled in favor of the Debtor in this case was simply because the Creditor, United, failed to timely object or appeal the Court's confirmation of the Debtor's plan. United received notices from the Court regarding the chapter 13 plan and the Court's approval of it, which named the only debt in the plan as the student loan and United neither objected or appealed the Court's ruling. So, United had notice of the Court's error and took no action. Years later, when they tried to re-open the case, it was too late.

This decision is not about student loans as much as it is about [bankruptcy procedure](#) and that two wrongs don't make a right. This is just another tool to use to protect consumer's rights where the lenders sit on their thumbs and fail to file timely objections. As an aside, I must note that this was a unanimous decision by the Supreme Court, which is a very rare occurrence.