

## **Millennials in Financial Crisis - Is Bankruptcy the Answer?**

Simply put, financial stress and bill problems do not discriminate based upon age. Financial challenges faced by the Millennial Generation are real and sometimes complex. Financing higher education through the use of student loans has become a necessity for many. The ability to readily gain employment has been hampered by the economic recession and delayed retirements of the Baby Boomer Generation. As I posted earlier this month, incomes in NJ are on the decline.

Is bankruptcy the answer to the Millennial financial crisis? It depends.

Student loan debts are rapidly increasing and total outstanding student loans exceed \$1 trillion dollars.

Bankruptcy is often not the answer to solve financial difficulties caused by student loans. Student loans cannot be eliminated in bankruptcy absent very rare circumstances where an undue hardship exists. This is an extremely difficult burden to prove. So those with student loans are faced with repayment of sometimes staggering debt loads.

If the student loan debt burden is coupled with consumer debts, such as credit cards, bankruptcy may assist in reducing and eliminating the consumer debts leaving more resources available to tackle the student loan debt.

Let's take a look at Max's situation. Max graduated with a diploma and student loan debt of \$50,000 from his undergraduate degree. During college, Max was lured in by teaser interest rates and offers from several credit card companies and has racked up \$30,000 in credit card debt by age 25. After graduation, Max was only able to secure part-time jobs without health benefits. A bout of pneumonia one year required an overnight hospital stay and bills totaling \$25,000. Max has finally secured his first full-time job with a gross salary of \$35,000, nearly two years out of college.

He's in over his head and doesn't know what to do. The hospital has sent his bills to a collection attorney who filed a lawsuit against him a few months back. He just received a copy of the judgment entered against him. He's been making minimum payments on his credit cards and feels like he's barely made a dent. Max is stressed out and having trouble sleeping at night. He's worried that it will affect his job performance and can't afford to lose his job, as he just moved into his first apartment and finally has \$1,000 saved in his bank account.

Would a bankruptcy provide Max with any relief?

Max's student loans likely aren't going anywhere. He may qualify for an alternate payment option, such as income based repayment (IBR) or an extension of the loan term.

A Chapter 7 Bankruptcy allows Max to eliminate the credit card bills and would stop his creditors from pursuing the medical bill judgment. If Max's assets (personal property) is full exempt, these debts will be discharged (eliminated) without repayment.

This will leave Max with only his student loans left to tackle. In circumstances such as Max's, a bankruptcy may help in eliminating consumer debts to free up resources that he can now refocus into his personal living expenses and student loan debt burden.