

New Fed chair doesn't understand why student debt can't be discharged in bankruptcy

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'Alone among all kinds of debt, we don't allow student loan debt to be discharged in bankruptcy'



Federal Reserve Board chairman Jerome Powell testified during a Senate Banking, Housing and Urban Affairs Committee hearing on Thursday.

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The new chairman of the Federal Reserve questioned why struggling borrowers can't discharge their student loans in bankruptcy.

"Alone among all kinds of debt, we don't allow student loan debt to be discharged in bankruptcy," Jerome Powell told members of the Senate Banking Committee Thursday. "I'd be at a loss to explain why that should be the case."

Powell's comments came in response to a question from Senator Brian Schatz, a Democrat from

Hawaii, about whether high levels of student debt create a drag on the economy. More than 40 million Americans hold nearly \$1.4 trillion in outstanding student loans.

While Powell noted that, in general, policymakers should foster the idea that Americans can borrow to invest in themselves, he said it's important that borrowers understand the nature and risks of borrowing, and expressed concern about the treatment of student loans in bankruptcy.

Congress has never defined 'undue hardship' for student debt


Powell's comments come as the Department of Education is looking for input on the way student loans are treated in bankruptcy. Congress passed a series of laws beginning in the 1970s that banned borrowers from discharging their student loans in bankruptcy unless they're experiencing "undue hardship." Congress never defined that phrase, but the courts have interpreted it to mean a relatively high standard.

Over the past few years, lawyers and even some judges have been looking for ways to make it easier for borrowers to discharge their debts in the bankruptcy process. But absent Congressional action and a change in the law, widespread change may be difficult to come by.

Powell says student debt has long-term negative effects

In his comments, Powell noted there's little he can do as a monetary policy maker to change these policies, but that Congress could take a look. "This is fiscal policy, this is something for you, not something for the Fed," he said, adding that in looking at the research, "you do start to see longer term negative effects on people who can't pay off their student loans," he said. "It hurts their credit rating, it impacts the entire path of their economic life."

Powell isn't the first monetary policy maker to express concern about rising student debt. New York Fed chair William Dudley regularly discusses the impact of student debt on economic mobility and former Fed chair Janet Yellen said it had escalated to an "extraordinary degree."

When pressed by Schatz about whether student loans were a macro economic risk, Powell cautioned that it may pose a risk in the future, as student debt continues to grow. "It absolutely could hold back growth." 





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