

Kathleen Martin is an attorney with O'Donnell, Weiss & Mattei, P.C., and a newspaper columnist for The Mercury, which gave permission for this article to be reprinted.

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Be aware of pitfalls of co-signing grandchildren's student loans

A recent article in *The Wall Street Journal* speaks to a government survey that indicates that the number of older Americans with student loan debt is growing rapidly. These loans are not for their own educations but to assist grandchildren or other relatives of that generation with their education debt. Grandparents (or other older consumers) either co-sign loans or take out loans that they will be required to re-pay. The pitfalls of these actions are not explained to either the student or the borrower. (See www.wsj.com/articles/more-older-americans-taking-out-student-loans-1483656188).

According to the article, a report by the Consumer Financial Protection Bureau (CFPB) the number of consumers age 60 and older with student loans quadrupled from 2005 to 2015; there were 2.8 million older borrowers in 2015 up from 700,000 in 2005. The average amount owed nearly doubled over that ten-year period. People who are 60 and older represented 6.4% of all student loan borrowers in 2015. Furthermore, nearly 40 percent of borrowers age 65 and older are in default.

These statistics are very concerning since student loan borrowing raises the financial risks for the older generation, many of whom are already struggling due to mortgages, credit card debt, and car loans. Older student loan borrowers save less for retirement; some are seeing their Social Security checks garnished due to unpaid student loans. The director of the CFPB, Richard Cordray, stated in the article that "We are concerned that student loans are contributing to the financial insecurity for many older Americans and that student loan servicing problems can add to their distress."

Many older student loan borrowers are actually co-signing a loan with the student being the primary borrower. Some feel safe doing this because they trust the borrower to re-pay the loan, which they often do. However, many people do not realize the jeopardy the primary borrower can face if the older co-signer dies or files for bankruptcy. Attorney John Payne, in a blog post *Death of Student-Loan Co-Signer* (<https://topomyhead.com/2016/10/15/death-of-student-loan-co-signer/>), lists the hazards that usually are not explained and thus may not be known. Depending upon the terms of the original loan, upon the death of a co-signer when reported (as is required in all cases) the event may trigger an acceleration clause and payment will be demanded in full. If there is no acceleration clause, there will be no demand. Or the debtor may avoid acceleration of the loan by making an agreement to continue payments, or to apply as sole debtor if the loan processor permits. A bill to prevent the automatic default clause from taking effect died in the 113th Congress.

Attorney Payne recommends that the primary debtor place a high priority on having the older co-signer released. There are conditions that must be met to do so, and of course it depends upon the original agreement. Anyone who has dealt with student loan servicing is aware that no process or procedure is straightforward since the original lender has likely long ago exited the picture.

It is important for grandparents to think carefully about financing their grandchildren's education through student loans. It can be a minefield for older borrowers struggling to maintain their current lifestyle without additional long term debt. The CFPB has been increasing its scrutiny of the student loan servicing industry, taking enforcement actions, and laying groundwork for future rules. However, this is an area where the consumer should be aware and beware.