

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA**

In re:

JOHN J. GREENWOOD and MARSHA
MARIE GREENWOOD,

Debtors.

Chapter 7

No. 4-04-04447-EWH

JOHN J. GREENWOOD,

Plaintiff,

Adv. No. 05-00001

vs.

EDUCATIONAL CREDIT
MANAGEMENT CORPORATION,

Defendant.

MEMORANDUM DECISION
(Opinion to Post)

INTRODUCTION

John J. Greenwood (“Greenwood” or “Debtor”) is a married, mental health social worker with two children whose family’s living expenses exceed his and his wife’s income. He has no college degree and no realistic prospect of significant advancement in his employment or finding a better paying line of work. Until his children were born, he made regular payments on his student loan obligations or timely requested forbearance agreements. For the reasons set forth below, he is entitled to a discharge of his student loan obligations which now exceed \$39,000.

FACTS AND PROCEDURAL HISTORY

Greenwood is a 43-year old social worker and married father of two children under the age of ten. He attended college, but never received a degree. His current monthly net take-home pay is

1 \$1,855.08. His job does not provide the opportunity to work overtime. The mandatory deductions
2 made from his pay include \$106.42 for a retirement plan. His wife works 32-40 hours per week at an
3 RV dealership. Her monthly net take-home pay is \$1,061. The total monthly net family income of
4 the Greenwoods is \$2,916.08. Their monthly expenses total \$2,965.01. The Greenwoods' income
5 significantly increased between 2002 and 2004 (\$18,541 in 2002, to \$36,962.31 in 2003, to \$47,775
6 in 2004), but dropped (to \$43,457.50) in 2005 after Mr. Greenwood stopped working 70-80 hour
7 workweeks.

8 The Greenwoods live in a manufactured home, located in a semi-rural part of Pima County. As
9 part of a refinancing attempt, the home was appraised at \$129,000. The Greenwoods' mortgage is
10 \$84,000. Due to their poor credit, the Greenwoods were unable to qualify for a refinancing. The
11 Greenwoods are paying for two cars. A 1999 Buick Le Sabre will be paid off in 2007. A 2003
12 Pontiac Grand Am will be paid off in 2009. Because of where the Greenwoods' home is located and
13 because Mr. Greenwood uses his car to visit clients, both cars have high mileage.

14 Mr. Greenwood began borrowing money to pay for his education in 1988. In 1992, he
15 consolidated all of his obligations into one note ("Note") for \$18,458.36 at 9% interest. He made
16 payments on the Note between 1994 and 1998, totaling \$9,612. After August of 1998, he quit
17 making any payments, but timely requested deferments or forbearance agreements. Because unpaid
18 interest continues to accrue during forbearance periods and is periodically capitalized into the
19 principal, the amount of the Note continued to grow. As of April 16, 2006, the outstanding balance
20 was \$39,358.04. Interest accrues at the rate of \$8.87 per day.

21 In an effort to increase his income, Greenwood started a building contracting business. When
22 that business, which was undercapitalized, failed, Greenwood returned to the mental health field. He
23 worked between 70 and 80 hours per week at two different jobs – one at the county hospital's mental
24 health unit and one at a private mental hospital. During that time period, he began taking medication
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1 for depression and stress. He still takes medication for depression. After the mental health unit at the
2 county hospital closed, Mr. Greenwood took his present job and quit his second job.

3 Mr. Greenwood now works as a behavioral management specialist with Pima County's
4 behavioral health agency. He enjoys his job and receives good evaluations but, because he is at or
5 near the top of his pay grade, he is unlikely to see significant pay increases in the future beyond
6 possible cost of living adjustments. He has applied for other jobs with the county, has used websites
7 like Monster.com and looked in the classified ads in an effort to obtain a job with better pay and
8 better chances for advancement. Those attempts have proved unsuccessful.

9 If Mr. Greenwood were to participate in the U.S. Department of Education's William D. Ford
10 Federal Direct Loan Program ("Ford Program")¹, his minimum payment would be \$260 a month.
11 Outside of the Ford Program, regular payments on the Note would be \$475 a month.

12 Mr. Greenwood filed a Chapter 7 petition on April 14, 2003. He filed a pro se adversary against
13 Educational Credit Management Corporation ("ECMC"), seeking to discharge the student loan, on
14 June 11, 2003. A trial was held on April 27, 2006.² Each side has submitted proposed findings of
15 fact and conclusions of law. The matter is now ready for decision.

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21 ¹ The U.S. Department of Education offers four types of student loan repayment options, one of which is
22 based on a borrower's income, the Income Contingent Repayment program. See 20 U.S.C. § 1078(m); 34 C.F.R.
§ 685.209.

23 ² The Tucson division of the U.S. Bankruptcy Court for the District of Arizona has a Bankruptcy Pro Se
24 Debtor Project in which law students from the James E. Rogers College of Law at the University of Arizona, assist
25 experienced licensed bankruptcy attorneys in their pro bono representation of pro se debtors in non-
dischargeability litigation. Mr. Greenwood was represented by the law students and an attorney volunteer from
26 that Project.

1 **ISSUE**

2 Under § 523(a)(8), has the Debtor demonstrated that he is entitled to an undue hardship discharge
3 of his student loans and the underlying obligation to pay the Note? ³
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5 **JURISDICTIONAL STATEMENT**

6 Jurisdiction is proper under 28 U.S.C. §§ 1334(a) and 157(b)(2)(J).
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8 **DISCUSSION**

9 In deciding if excepting student debt from discharge will impose an undue hardship, the court
10 must apply the three-part test enunciated in Brunner v. New York State Higher Education Service
11 Corp. (In re Brunner), 831 F.2d 395, 396 (2nd Cir. 1987), which was adopted by the Ninth Circuit
12 Court of Appeals in United Student Aid Funds, Inc. v. Pena (In re Pena), 155 B.R. F.3d 1108, 1112
13 (9th Cir. 1998). Under the Brunner test, a debtor must prove that: (1) he cannot maintain, based on
14 current income and expenses, a “minimal” standard of living for himself and his dependents if forced
15 to repay the loans; (2) additional circumstances exist indicating that this state of affairs is likely to
16 persist for a significant portion of the repayment period; and (3) the debtor has made good faith
17 efforts to repay the loans. Brunner, 831 F.2d at 396. The burden of proving undue hardship is on the
18 Debtor, and the Debtor must prove all three elements before discharge can be granted. Rifino v.
19 Sallie Mae et al (In re Rifino), 245 F.3d 1083, 1087-88 (9th Cir. 2001).
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23 _____
24 ³ Absent contrary indication, all chapter, section, and rule references are to the Bankruptcy Code, 11 U.S.C.
25 §§ 101-1330 and to the Federal Rules of Bankruptcy Procedure, Rules 1001-9036, in effect prior to the effective
26 date of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (“BAPCPA”), Pub. L. 109-8, 119
Stat. 23 (Apr. 20, 2005).

1 **A. Applying the Brunner Test**

2 1. Minimal Standard of Living

3 The Greenwoods struggle every month to pay their bills. They are frequently behind on their
4 utility bills. Mrs. Greenwood testified that she regularly borrows money from her sister between
5 paychecks to make ends meet. The Greenwoods owe over \$6,000 in property taxes on their home.
6 ECMC argues that the Greenwoods' lifestyle exceeds a "minimal" standard of living because their
7 income exceeds the federal poverty guidelines for their family size, and because the amounts they
8 spend on utilities, cleaning expenses and prescriptions exceed the local chapter 13 trustee guidelines
9 for monthly expenses ("Chapter 13 Guidelines").⁴ According to ECMC, the Greenwoods should have
10 available an additional \$139.49 a month from which Mr. Greenwood could make payments on the
11 Note.⁵ ECMC also argues that if the Greenwoods eliminated their cable service, reduced their use of
12 electricity and recreation expenses, there would be even more money available from which to make
13 payments on the Note. ECMC, relying on this court's decision in In re Mendoza, 274 B.R. 522
14 (Bankr. D. Ariz. 2002), argues that the mandatory retirement contributions deducted from Mr.
15 Greenwoods' paycheck must be considered additional income to the Greenwoods. ECMC also
16 argues that the Greenwoods should be able to refinance their home to pay off the Note, that additional
17 monthly income is available to them because they over-withhold for income taxes, and that once the
18 Greenwoods pay off their cars, there will be more income from which payments could be made on the
19 Note. None of ECMC's arguments are persuasive.

20 Debtors do not have to live at or below the official poverty guidelines to meet the first prong of
21 the Brunner test . In re Howe, 319 B.R. 886, 889 (9th Cir. BAP 2005); In re Ammirafi, 187 B.R. 902,
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23 ⁴ The Chapter 13 Guidelines are available from the Trustee's office and are attached as Exhibit 1 to this
24 Memorandum Decision.

25 ⁵ The exact components of the \$139.49 are not set out in ECMC's proposed findings of fact and conclusions
26 of law.

1 906 (D. S.C. 1995) (“minimal standard of living” is not co-extensive with living at poverty level),
2 aff’d 85 F.3d 615 (4th Cir. 1996). This court has looked to the Chapter 13 Guidelines in analyzing the
3 reasonableness of expenses in § 523(a)(8) cases. Using the Chapter 13 Guidelines as a reference, the
4 expenses for a family of the Greenwoods’ size should be approximately \$4,000 a month. The
5 Greenwoods’ overall expenses are almost \$1,000 less than that amount. Where their expenses exceed
6 the Chapter 13 Guidelines in some categories, the amounts are not large (\$10 for laundry, \$30 for
7 prescriptions) or not reasonably within their control (\$65 over the guidelines for electricity) . A
8 minimal standard of living for a family with school-age children can reasonably include basic cable,
9 the only television service available in the rural areas of Pima County. It can also include internet
10 access (\$6.95 a month) and \$25 a week for recreation. A review of the Greenwoods’ expenses and
11 the evidence, which demonstrated that they are chronically behind on paying bills for basics, such as
12 utility services and real property taxes, indicates that the Greenwoods are not enjoying anything more
13 than a minimal standard of living.

14 ECMC’s reliance on Mendoza, to assert that the retirement contribution withheld from
15 Mr. Greenwood’s pay should be characterized as income, is misplaced. Mr. Greenwood testified that
16 the retirement deduction is mandatory, something that was not clear in Mendoza, 274 B.R. at 525.
17 Furthermore, the issue to be decided in a § 523(a)(8) analysis is not whether a debtor is devoting all
18 disposable income to payments under a chapter 13 plan with a 3 to 5 year term, but whether a debtor
19 can maintain a minimal standard of living and pay an outstanding student loan obligation for a
20 20 plus year term. As Greenwood’s counsel correctly points out, if this court were to determine that
21 the amounts deducted by Greenwood’s employer should be added back into his income, it would not
22 make it so.

23 ECMC claims, based on dividing the amount of the Greenwoods’ last tax refund by 12, that the
24 Greenwoods should have an additional \$106.42 available monthly if they changed the amounts
25 withheld from their paychecks for taxes. While the amount of tax refunds received by the
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1 Greenwood in five out of the last six years was income to them, the refunds were largely the result of
2 their eligibility for earned income tax or child care credits, not over-withholding. Income tax credits
3 only become available after they are claimed and allowed. See 26 U.S.C.A. § 32.

4 ECMC also argues that the amount of the Greenwoods' car payments should be considered
5 additional income, once their cars are paid off. This assumption is without merit since cars are
6 depreciating assets and few people will ever drive a single car for the rest of their lives. The
7 assumption is especially misplaced in this case where the testimony indicated that, due to the rural
8 area where the Greenwoods live and the requirement that Mr. Greenwood make home visits to his
9 clients, the Greenwoods' cars have higher than average mileage and rarely last more than three or four
10 years. Because the cars will probably have to be replaced, at, or even before, the cars are paid off,
11 there is no basis to assume that the Greenwoods will not have to make car payments in the future.

12 ECMC's argument that the Greenwoods should refinance their home to pay off the Note is not
13 supported by the facts. Due to their poor credit, the Greenwoods were unable to refinance their
14 manufactured home. Even if they could refinance the manufactured home, there is not enough
15 exempt equity to pay off the Note, given that the outstanding balance exceeds the refinanceable equity
16 in the home.⁶ If the Greenwoods could refinance their home to pay some of the Note, the amount of
17 their mortgage payments would increase, but they have no excess income from which to make such a
18 higher payment.

19 Because the Greenwoods' expenses fall generally within the Chapter 13 Guidelines, are
20 reasonable and exceed their monthly expenses, Greenwood has demonstrated, by a preponderance of
21 the evidence, that he cannot maintain a minimal standard of living for his family and make payments
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24 ⁶ 80% of \$129,000 = \$103,000 - \$84,000 existing mortgage = \$19,000. When closing costs and other fees
25 are included, then the amount realized by the Greenwoods would be far less than \$19,000. The Note balance,
26 however, is close to \$40,000.

1 on the Note, even at the reduced amount of \$260 a month, which is the lowest payment available
2 under the Income Contingent Repayment option of the Ford Program.

3 2. Additional Circumstances

4 The second prong of Brunner requires that Greenwood demonstrate that “additional
5 circumstances” exist indicating that his inability to maintain a minimal standard of living for his
6 family and pay the Note is likely to persist for a significant portion of the repayment period. It is
7 worth noting that at the time Brunner was decided, debtors could obtain a discharge of student loan
8 debt if the debt “first became due before five years (exclusive of any applicable suspension of the
9 repayment period) before the date of the filing of the petition.” § 523(a)(8)(A) (1988) (amended 1990
10 and repealed 1998). It has been suggested that the Brunner court “must have necessarily
11 contemplated that a “significant portion” of the repayment period could not have exceeded five years.
12 Rafael I. Pardo & Michelle R. Lacey, Undue Hardship in the Bankruptcy Courts: An Empirical
13 Assessment of the Discharge of Education Debt, 74 U. Cin. L. Rev. 405 (2005). The presumptive
14 repayment term under the Ford Program now exceeds 20 years. 34 C.F.R. § 685.209(c). Because the
15 loan repayment period is so extended, courts are placed in the unenviable position of trying to predict
16 what a debtor’s circumstances will be for decades, not years.

17 In Educ. Credit Mgmt. Corp v. Nys (In re Nys), 446 F.3d 938 (9th Cir. 2006), the Ninth Circuit
18 Court of Appeals clarified what a debtor must demonstrate to satisfy the second prong of Brunner:

19 [T]he burden is on the debtor to provide the court with additional circumstances, i.e.
20 “circumstances, beyond the mere current inability to pay, that show that the inability to pay
21 is likely to persist for a significant portion of the repayment period. The circumstances need
be ‘exceptional’ only in the sense that they demonstrate insurmountable barriers to the
debtors’ financial recovery and ability to pay.”

22 (quoting In re Nys, 308 B.R. 436, 444 (9th Cir. BAP 2004)). The Ninth Circuit Court then
23 clarified that the terms “additional circumstances” or “exceptional circumstances” mean:

24 [O]nly that the debtor must present something more than her current financial
25 situation.....[S]he must present the court with circumstances that she cannot reasonably
change. To prove “undue hardship,” the circumstances must indicate that the debtor cannot
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1 reasonably be expected to increase her income and make payments for a substantial portion
2 of the loan's repayment period.

3 Nys, 308 B.R. at 444, n.7.

4 Under the holding of Nys, courts are to presume a debtor's income will increase to a point where
5 payments can be made on a student loan obligation while the debtor maintains a minimal standard of
6 living; however, a debtor may rebut the presumption. 446 F.3d at 946. In deciding if a debtor has
7 overcome the presumption, courts may use the "unexhaustive" list of additional circumstances set
8 forth by the Ninth Circuit BAP in its published decision.⁷ Id.

9 In this case, a number of the factors in the Ninth Circuit BAP list are present. Greenwood never
10 completed his education (factor 3); the Greenwoods' only asset – the equity in their home - is not
11 currently accessible and is insufficient to pay off the Note (factor 10); Greenwood has unsuccessfully
12 attempted other lines of work and has unsuccessfully applied for other jobs in an attempt to increase
13 his income (factor 12). Perhaps most importantly, Greenwood has maximized his income potential in
14 his chosen field and there are no better financial options elsewhere (factors 7 and 12). This is not a
15 case where a debtor has obtained a professional (or any) degree and has then made lifestyle choices
16 such as taking a low-paying or part-time job, which makes it impossible to make payments on

17 ⁷ The factors a court may consider include, but are not limited to:

- 18 (1) Serious mental or physical disability of the debtor or the debtor's dependents which prevents employment or
19 advancement;
20 (2) The debtor's obligations to care for dependents;
21 (3) Lack of, or severely limited education;
22 (4) Poor quality of education;
23 (5) Lack of usable or marketable job skills;
24 (6) Underemployment;
25 (7) Maximized income potential in the chosen educational field, and no other more lucrative job skills;
26 (8) Limited number of years remaining in [the debtor's] work life to allow payment of the loan;
(9) Age or other factors that prevent retraining or relocation as a means for payment of the loan;
(10) Lack of assets, whether or not exempt, which could be used to pay the loan;
(11) Potentially increasing expenses that outweigh any potential appreciation in the value of the debtor's
assets and/or likely increases in the debtor's income;
(12) Lack of better financial options elsewhere.

1 outstanding student loan obligation. See e.g. Holtorf v. Educ. Credit Mgmt Corp (In re Holtorf),
2 204 B.R. 567 (Bankr. S.D. Cal. 1997) (debtor was not entitled to hardship discharge, despite claims
3 he suffered from depression and drug addiction, where debtor did not attempt to make best use of his
4 medical professional training and license, and instead worked 20 hours a week at minimum wage
5 job). Greenwood falls into that category of individuals whose educations do not permit them to earn
6 substantially greater income over their working lives. As the court noted in Nys:

7 [W]e cannot say that a debtor who, in good faith, chooses a certain field but ultimately
8 cannot increase her income to a point that allows her to repay her student loans, is foreclosed
from seeking a discharge.

9 446 F.3d at 945, n.6.

10 In this case, Greenwood has successfully demonstrated that additional circumstances exist to
11 rebut the presumption that his income will increase to a point in the future where it will be possible
12 for him to make payments on the Note and maintain a minimal standard of living for himself and his
13 family. Accordingly, he has satisfied the second prong of Brunner.

14 3. Good Faith

15 Between 1994 and 1998, Greenwood paid over \$9,000 on the Note. When he did not make
16 payment, he timely requested forbearance or deferral agreements. ECMC, relying on Pa. Higher
17 Educ. Assist. Agency v. Birrane (In re Birrane), 287 B.R. 490 (9th Cir. BAP 2002), argues that
18 Greenwood cannot satisfy the good-faith prong of Brunner because he refused to take any steps
19 towards renegotiating his student loans under the Ford Program. However, the record indicates that
20 Greenwood and his counsel did have discussions with ECMC about the Ford Program. However, the
21 lowest payment available under that program is \$260 a month, an amount which the Greenwoods
22 cannot pay. Where the Ford Program offers no effective relief, failure to participate in it cannot be
23 considered to be an indication of lack of good faith. Cota v. U.S. Dept. Of Education, et al. (In re
24 Cota), 298 B.R. 408, 420 (Bankr. D. Ariz. 2003). Furthermore, a willingness to participate in a
25 repayment program, while an important indicator of good faith, is not required to satisfy the good-

1 faith prong of the Brunner test. Nys, 446 F.3d at 947 (citing Alderete v. Educ. Credit Mgmt. Corp.
2 (In re Alderete), 412 F.3d 1200, 1206 (10th Cir. 2005)). In this case, the Ford Program is not a viable
3 option given the amount of the minimum payment. By making payments when he could, by timely
4 requesting deferrals and forbearances, by attempting to maximize his income and minimize his
5 family's expenses, Mr. Greenwood has satisfied the third prong of the Brunner test.

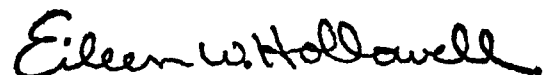
6 4. Partial Discharge

7 In the Ninth Circuit, once a debtor has established undue hardship, the court may consider
8 partially discharging the debt if the record indicates that a debtor has the ability to pay a portion of the
9 debt. See Saxman v. Educ. Credit Mgmt. Corp. (In re Saxman), 325 F.3d 1168, 1175 (9th Cir. 2003).
10 There has not been a request by ECMC for the court to consider whether a partial discharge should be
11 granted. Indeed, given the testimony of ECMC's witness about the many administrative headaches
12 created for ECMC and the Department of Education when courts enter partial discharges, it may be
13 that ECMC will not seek a partial discharge in this case. However, even if ECMC were to make the
14 request, it would not be granted. This court has determined that only the first prong of Brunner is
15 relevant to a partial discharge determination. In re Bossardet, 336 B.R. 451, 458 (Bankr. D. Ariz.
16 2005). In this case, the Greenwoods' expenses have been found to be reasonable and to exceed their
17 income. Accordingly, there are currently no excess funds available to Greenwood to make payments
18 on the Note. Therefore, there is no basis for the entry of a partial discharge.

19 CONCLUSION

20 Greenwood has satisfied all three prongs of the Brunner test. Accordingly, a judgment will be
21 entered this date in Debtor's favor on the complaint. The foregoing constitute the court's findings of
22 fact and conclusions of law as required by Fed. R. Bankr. P. 7052.

23 DATED: September 5, 2006

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25 EILEEN W. HOLLOWELL
26 UNITED STATES BANKRUPTCY JUDGE

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COPIES served as indicated below
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