Summary

U.S. bankruptcy law has two central aims. First, it seeks to relieve debtors of certain financial obligations they are unable to satisfy by providing them with a “fresh start” from those difficulties. Second, bankruptcy law attempts to preserve the countervailing interests of creditors and other stakeholders by maximizing total creditor return on debts in an orderly and efficient fashion. Congress and the courts have established a complex system of statutes, procedural rules, and judicial precedents intended to balance these competing interests.

Various types of debtors—from individual consumers with modest incomes to the largest multinational corporations—may potentially encounter difficulty repaying their debts. To accommodate the differing needs of such debtors, the Bankruptcy Code—which is the primary source of bankruptcy law in the United States—contains a variety of “Chapters” that create several different forms of bankruptcy proceedings. Although the end goal of each of those proceedings is to balance the conflicting interests of debtors, creditors, and other stakeholders, each Chapter has its own procedures, eligibility requirements, and forms of relief. Whereas some Chapters aim to liquidate the debtor, others attempt to reorganize the debtor so that it may continue to operate as a going concern, while still others adjust the debtor’s debts.

This report serves as a primer for Members and their staffs on the basics of U.S. bankruptcy law. The report provides a brief overview of the most essential concepts necessary for an informed understanding of the U.S. bankruptcy system, including:

- the competing policies underlying the Bankruptcy Code;
- the sources of bankruptcy law;
- the organization of the Bankruptcy Code;
- the key players in a bankruptcy proceeding;
- the initiation of a bankruptcy case;
- the “automatic stay” of creditor actions against the debtor;
- the various types of proceedings established by different Chapters of the Bankruptcy Code, as well as the differences between those proceedings; and
- the “discharge” of debt.
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The U.S. Constitution grants Congress the authority “to establish . . . uniform Laws on the subject of Bankruptcies throughout the United States.” Exercising that authority, Congress has enacted the “Bankruptcy Code” which, along with other sources of law, governs bankruptcies in the United States. The Bankruptcy Code generally attempts to balance two competing policy concerns. On the one hand, bankruptcy aims to give honest debtors a “fresh start”—that is, to grant debtors relief from certain debts they cannot repay—so that they may “reorder their affairs, make peace with their creditors, and enjoy ‘a new opportunity in life with a clear field for future effort, unhampered by the pressure and discouragement of preexisting debt.” This fresh start generally comes in the form of a “discharge” of many forms of the debtor’s debts, which consists of “a legal right not to pay” the discharged debts as well as “safeguards against harassment by the creditor” whose debt is discharged. At the same time, however, the bankruptcy system also attempts to maximize total creditor return on debts by distributing a subset of the debtor’s assets or income to creditors in an orderly, equitable, and efficient fashion. Thus, “Congress and the judiciary are constantly striving to achieve a wise balance between” offering “a fresh start for debtors” and ensuring “fairness to creditors.” To that end, Congress has frequently amended the Bankruptcy Code since its initial enactment in 1978 to recalibrate that balance.

Because hundreds of thousands of bankruptcy filings are made every year, bankruptcy law is vitally important to Congress and the nation as a whole. This report provides a primer for Members and their staffs on the basics of U.S. bankruptcy law. In so doing, the report provides a broad overview of the most essential concepts necessary for an informed understanding of the U.S. bankruptcy system, including

1 U.S. Const. art. I, § 8, cl. 4.
2 11 U.S.C. §§ 101-1532. Appendix A contains a glossary that defines all terms that are highlighted in bold in this report.
3 See infra “The Bankruptcy Code and Other Sources of Bankruptcy Law.”
4 See, e.g., Flores v. Yarnell (In re Flores), Nos. NV-09-1263-DJuP, 08-21047-MKN, 2010 WL 6259989, at *6 n.14 (B.A.P. 9th Cir. Apr. 6, 2010).
5 See infra “The Key Players in a Bankruptcy Case” and Appendix A for the definition of “debtor.”
7 See infra “Discharge.”
8 See infra “The Key Players in a Bankruptcy Case” and Appendix A for the definition of “creditor.”
10 E.g., Hoseman v. Weinschneider, 322 F.3d 468, 475 (7th Cir. 2003); Schaffer v. CC Invs., LDC, 286 F. Supp. 2d 279, 281 (S.D.N.Y. 2003).
11 E.g., In re Harding, 423 B.R. 568, 575 (Bankr. S.D. Fla. 2010).
14 This report is not intended to provide an exhaustive treatment of all bankruptcy-related topics, and it intentionally omits more advanced concepts that are unnecessary for a basic understanding of the bankruptcy process. Well-known treatises that analyze U.S. bankruptcy law in greater depth include Henry J. Sommer & Richard Levin, Collier on
Bankruptcy Basics: A Primer

- constitutional limitations on Congress’s bankruptcy power;
- the competing policies underlying the Bankruptcy Code;
- the sources of bankruptcy law;
- the organization of the Bankruptcy Code;
- the key players in a bankruptcy proceeding;
- the initiation of a bankruptcy case;
- the “automatic stay” of creditor actions against the debtor;
- the various types of proceedings established by different “Chapters” of the Bankruptcy Code, as well as the differences between those proceedings; and
- the discharge of debt.

Key terms and concepts used in this report (marked in bold when first used) are defined in the report’s glossary found in Appendix A. A table noting differences between the Chapters of the Bankruptcy Code is included in Appendix B.

The Bankruptcy Clause and the Uniformity Requirement

The Bankruptcy Clause bestows upon Congress the power to establish “uniform Laws on the subject of Bankruptcies throughout the United States.” Thus, a bankruptcy statute generally must apply uniformly to a defined class of debtors, although the Supreme Court has interpreted the uniformity requirement to have a measure of flexibility.

In Moyses v. Hanover National Bank, the Court rejected a challenge to the constitutionality of the Bankruptcy Act of 1898, a statute that permitted individual debtor exemptions under state laws. The Court held that the uniformity requirement did not require Congress to eliminate existing state exemptions in bankruptcy laws, and that the “general operation of the law is uniform although it may result in certain particulars [operating] differently in different States.”

In the Regional Rail Reorganization Act Cases, the Court assessed the Regional Rail Reorganization Act of 1973, which applied only to rail carriers operating within a defined region of the country. Although the Act differentiated between regions on its face, there were no railroad reorganizations pending outside of that region, allowing the Court to conclude that, in practice, the statute “operate[d] uniformly upon all bankrupt railroads” in existence. In upholding the statute, the Court also relied on the “flexibility inherent” in the Bankruptcy Clause. The Court elaborated that the Bankruptcy Clause permits Congress to “take into account differences that exist between different parts of the country, and to fashion legislation to resolve geographically isolated problems.”

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16 186 U.S. 181 (1902).
17 Id. at 190.
19 Id. at 158-59.
Conversely, in *Railway Labor Executives’ Association v. Gibbons*, the Court struck down the Rock Island Railroad Transition and Employee Assistance Act (RITA), in which Congress altered the order of priority of claimants in a single railroad’s bankruptcy.20 The Court held that RITA was neither responsive to the problems endemic to the railroad industry nor confined to a geographic area; accordingly, it could not be construed as applying uniformly to major railroads.21

Most recently, in *Siegel v. Fitzgerald*,22 the Court addressed the 2017 Bankruptcy Judgeship Act, which imposed different fee requirements for large Chapter 11 bankruptcies based on the federal district in which a debtor filed a petition. The law imposed higher fees in districts administered by the U.S. Trustee Program.23 The Court ruled that the Act violated the uniformity requirement because the rate-funding disparity arose not out of a region-specific problem, like the law at issue in the *Regional Rail Reorganization Act Cases*, but out of Congress’s own “arbitrary” decision to separate the districts into two different systems. That decision to separate the districts, the Court held, derived not from geographical needs, but from a desire of the federal districts in two states to avoid participating in the Trustee Program.24

Taken together, this Supreme Court precedent provides that the Bankruptcy Code broadly authorizes Congress to enact legislation on bankruptcy, subject to a uniformity requirement that prohibits “arbitrary, disparate treatment of similarly situated debtors based on geography.”25

### The Bankruptcy Code and Other Sources of Bankruptcy Law

As noted above, the Bankruptcy Code is the primary source of bankruptcy law in the United States.26 The Bankruptcy Code is codified at Title 11 of the United States Code and is divided into nine distinct “Chapters.”27 The first three Chapters—Chapter 1 (General Provisions),28 Chapter 3 (Case Administration),29 and Chapter 5 (Creditors, the Debtor, and the Estate)30—contain provisions that are generally applicable to most bankruptcy cases.31 The remaining Chapters, which this report discusses below, create different types of bankruptcy proceedings for different types of debtors.

21 Id. at 468-69.
22 142 S. Ct. 1770 (2022).
24 Siegel, 142 S. Ct. at 1782-83.
25 Id. at 1781.
28 Id. §§ 101-112.
29 Id. §§ 301-366. Note that, with a single exception, the Bankruptcy Code contains no even-numbered Chapters. See id. §§ 101-1174, 1301-1532. But see id. §§ 1201-1232 (Chapter 12 of the Bankruptcy Code).
30 Id. §§ 501-562.
31 Jeffrey J. Harmon *et al.*, *Surviving a Collision at the Intersection of CERCLA and the Code*, 20 N. KY. L. REV. 47, 48 (1992) (describing the “provisions contained in Chapters 1, 3, and 5 of the Bankruptcy Code” as “generally applicable”). But see, e.g., 11 U.S.C. § 901(a) (rendering certain provisions of Chapters 3 and 5 inapplicable to bankruptcy cases filed by a municipality).
The Bankruptcy Code is not, however, the only source of U.S. bankruptcy law. For one, the Federal Rules of Bankruptcy Procedure, which are “rules promulgated by the U.S. Supreme Court (on the recommendation of the U.S. Judicial Conference and its committees, and with the consent of Congress),” provide the core procedural rules that govern bankruptcy proceedings in the United States. Many courts have supplemented the Federal Rules of Bankruptcy Procedure by promulgating their own local procedural rules and orders that govern bankruptcy cases in their respective districts. The Judicial Conference of the United States has also promulgated official bankruptcy forms that litigants must use as templates when filing certain kinds of documents in a bankruptcy case.

Other federal laws can impact bankruptcy cases as well. For example, both the U.S. Code and the U.S. Constitution restrict the types of issues that a bankruptcy judge may adjudicate. Additionally, “certain sections of the Bankruptcy Code . . . expressly incorporate state law, which is often different from state to state.”

The Key Players in a Bankruptcy Case

Although many types of people and entities can potentially play critical roles in a bankruptcy proceeding, several participants in the bankruptcy process are particularly important. Central among these are the debtor (who seeks relief from financial obligations the debtor cannot satisfy) and the creditors (who seek to promptly and efficiently collect as much of the money they are owed by the debtor as they can).

The bankruptcy judge presides over the bankruptcy proceeding; reviews and rules upon filings submitted by participants in the bankruptcy case; resolves certain types of disputes between the parties; and performs other similar duties. The U.S. Courts of Appeals appoint bankruptcy judges, and bankruptcy judges preside over bankruptcy cases. Bankruptcy judges are appointed by the U.S. District Courts by the President of the United States with the advice and consent of the Senate. A bankruptcy judge is a federal judge and is a member of the judiciary of the United States. Bankruptcy judges are appointed for life by the President, with the advice and consent of the Senate, subject to the Council of Judicial Article III Judges. A bankruptcy judge is entitled to be paid the same salary as the most recently appointed Judge of the United States Court of Appeals within the circuit in which the bankruptcy judge sits.

In re Kestella, 269 B.R. 188, 192 (S.D. Ohio 2001) (“One of the most important policies behind the bankruptcy remedy is the provision of a ‘fresh start’ to debtors.”).
judges to serve “as judicial officers of the United States district court[s] established under Article III of the Constitution” for fourteen-year terms.43 Unlike U.S. District Judges, however, bankruptcy judges “enjoy neither tenure during good behavior nor salary protection,” and therefore do not exercise “the judicial power of the United States” as defined in Article III of the U.S. Constitution.45 As a consequence, both the U.S. Code and the U.S. Constitution restrict a bankruptcy judge’s authority to adjudicate certain matters.47

The United States Trustee serves as “an auxiliary to the Bankruptcy Court.”48 Among other duties,49 the Trustee oversees administrative matters in bankruptcy cases in most jurisdictions50 in order “to prevent fraud, dishonesty, and overreaching in the bankruptcy system.”51 The United States Trustee works “under the general supervision of the Attorney General” of the United States, who “provide[s] general coordination and assistance to the United States trustees.”52

Not to be confused with the United States Trustee is the case trustee,53 whose role in the bankruptcy proceeding differs depending on which Chapter of the Bankruptcy Code governs the bankruptcy case.54 Some Chapters contemplate a major role for the case trustee;55 others

all cases under [the Bankruptcy Code] and all core proceedings arising under [the Bankruptcy Code], or arising in a case under [the Bankruptcy Code].”

45 See U.S. Const. art. III, § 1 (“The judges, both of the supreme and inferior courts, shall hold their offices during good behaviour, and shall, at stated times, receive for their services, a compensation, which shall not be diminished during their continuance in office.”) (emphasis added).
46 See 28 U.S.C. § 157 (specifying which cases a bankruptcy judge “may hear and determine”).
47 See, e.g., Stern, 564 U.S. at 469 (holding that Article III of the U.S. Constitution prohibits bankruptcy judges from adjudicating certain matters).

The parties to a dispute may, however, “knowingly and voluntarily consent to adjudication by a bankruptcy judge” of certain claims that a bankruptcy judge would otherwise lack constitutional authority to adjudicate. Wellness Int’l Network Ltd. v. Sharif, 575 U.S. 665, 669 (2015).

53 See United States ex rel. Yelverton v. Fed. Ins. Co. (In re Yelverton), Case No. 09-00414, 2015 WL 525180, at *1 (Bankr. D.D.C. Feb. 5, 2015) (“However, as Yelverton apparently misapprehends, the chapter 7 case trustee is not the same entity as the United States Trustee.”).
54 Compare 11 U.S.C. § 704(a) (defining a Chapter 7 trustee’s duties), with id. § 1106(a) (defining a Chapter 11 trustee’s duties), with id. § 1202 (defining a Chapter 12 trustee’s duties), with id. § 1302 (defining a Chapter 13 trustee’s duties).
55 See, e.g., Midway Airlines, Inc. v. Nw. Airlines, Inc. (In re Midway Airlines, Inc.), 154 B.R. 248, 256-57 (N.D. Ill. 1993) (explaining that, in a case under Chapter 7 of the Bankruptcy Code, the case trustee “has the general duties of marshalling all available property, reducing it to money, distributing it to creditors, and closing up the estate”).
contemplate that a case trustee will have no role in the proceeding whatsoever absent exceptional circumstances. A case trustee who is appointed in a Chapter 7 case is called the "Chapter 7 trustee," and a case trustee appointed in a Chapter 13 case is called the "Chapter 13 trustee," and so forth. This report discusses the case trustee’s respective role under each Chapter below.

**Filing for Bankruptcy**

A debtor may declare bankruptcy by filing a document known as a bankruptcy “petition” with the clerk of the bankruptcy court. Most debtors must also file a schedule of the debtor’s assets and liabilities, a schedule of the debtor’s current income and expenditures, a statement of the debtor’s financial affairs, and other required documents. These filing requirements “are carefully designed to elicit certain information necessary to the proper administration and adjudication of the case” and to “ensure that there is adequate information available to the debtor’s creditors” to facilitate the fair and efficient distribution of the debtor’s income or assets. Depending on the debtor’s financial circumstances, the debtor may also be required to pay a filing fee. The debtor may also move for in forma pauperis status.

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59 See infra “Types of Bankruptcy Proceedings.”


Under certain circumstances, creditors may also force an unwilling debtor into bankruptcy by filing an “involuntary” bankruptcy petition against the debtor. 11 U.S.C. § 303; Fed. R. Bankr. P. 1003. Such involuntary petitions make up a small fraction of bankruptcies. Richard M. Hynes & Steven D. Walt, Revitalizing Involuntary Bankruptcy, 105 Iowa L. Rev. 1127, 1131-32 (2017) (“Federal Judicial Center data on all bankruptcy petitions filed between October 1, 2007 and September 30, 2017 [...] show that involuntary petitions account for just 0.05 percent of all bankruptcy petitions and just 2.2 percent of corporate petitions.”).

61 But see Fed. R. Bankr. P. 1007(b)(1), (d), (e) (establishing different filing requirements for municipal debtors).


63 Fed. R. Bankr. P. 1007(b)(1)(B); Official Bankruptcy Forms B 106I & B 106J.


The Bankruptcy Estate

Filing a petition in the bankruptcy court creates a bankruptcy “estate” that, subject to certain exceptions, is “comprised of the debtor’s property as of the commencement of the case.” The assets in the bankruptcy estate are generally used “to satisfy claims of creditors and costs of the proceedings.”

Importantly, however, certain types of property are either not included in the estate or may otherwise be removed from the reach of creditors. For instance, property that the debtor acquires after filing his bankruptcy petition is, with some exceptions, “generally not property of the estate.” The Bankruptcy Code does not define what constitutes a debtor’s property or interests in property, however, and courts usually answer those questions by looking to state law.

The Bankruptcy Code and applicable state law may allow an individual debtor to “exempt” certain categories of assets from the property of the estate and thereby insulate those assets from the claims of creditors. For example, depending on the circumstances, an individual debtor may be able to claim articles of clothing, certain medical equipment, and his or her residence as exempt from the claims of creditors. Permitting an individual debtor to claim certain assets as exempt “allow[s] a debtor to protect property which is necessary for the survival of both the

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70 E.g., Westmoreland Human Opportunities, Inc. v. Walsh, 246 F.3d 233, 241 (3d Cir. 2001). Accord 11 U.S.C. § 541(a) (providing that “the commencement of a case” under the Bankruptcy Code “creates an estate,” and specifying which property the “estate is comprised of”).

71 See 11 U.S.C. § 541(b) (listing categories of assets that are not included as property of the estate); see also 11 U.S.C. § 541(d) (excluding from the estate property in which the debtor holds only legal title and not an equitable interest).

72 Westmoreland Human Opportunities, 246 F.3d at 241. Accord, e.g., 11 U.S.C. § 541(a).

73 E.g., Traina v. Sewell (In re Sewell), 180 F.3d 707, 710 (5th Cir. 1999).

74 Jackson v. Novak (In re Jackson), 593 F.3d 171, 176 (2d Cir. 2010). Accord, e.g., Peters v. Wise (In re Wise), 346 F.3d 1239, 1241 (10th Cir. 2003) (“Generally, property the debtor acquires post-petition does not become property of the bankruptcy estate.”). But see, e.g., 11 U.S.C. § 541(a)(5)(B) (creating one of several exceptions to the general rule that the estate does not include post-petition property); id. § 1306(a) (expanding the definition of “property of the estate” in Chapter 13 cases to include certain assets acquired “after the commencement of the case”).


77 E.g., 11 U.S.C. § 522(b)(1) (“An individual debtor may exempt from property of the estate the property listed in either paragraph (2) or, in the alternative, paragraph (3) of this subsection.”); In re Puff ‘n Stuff of Winter Park, Inc., 183 B.R. 959, 960 (Bankr. M.D. Fla. 1995) (“Section 522(b) of the Bankruptcy Code permits debtors to exempt certain property from the claims of creditors.”).

78 See, e.g., 11 U.S.C. § 522(b)(2), (d)(3) (permitting an individual debtor to exempt “the debtor’s interest, not to exceed $400 in value in any particular item or $8,000 in aggregate value, in . . . wearing apparel [and other similar items] that are held primarily for the personal, family, or household use of the debtor or a dependent of the debtor” unless “State law . . . specifically does not so authorize”).

79 See, e.g., Goodrich v. Fuentes (In re Fuentes), 687 F. App’x 542, 543 (9th Cir. 2017) (affirming bankruptcy court’s order permitting debtor to “claim a homestead exemption in a piece of real property”). See also 11 U.S.C. § 522(b)(2), (d)(1) (permitting a debtor to exempt “the debtor’s aggregate interest, not to exceed $15,000 in value, in real property or personal property that the debtor or a dependent of the debtor uses as a residence” unless “State law . . . specifically does not so authorize”).
debtor and the debtor’s family.”\footnote{Menninger v. Schramm (In re Schramm), 431 B.R. 397, 400 (B.A.P. 6th Cir. 2010).} Note, however, that a non-individual debtor, such as a corporation or other business entity, may not declare property as exempt.\footnote{See, e.g., 11 U.S.C. § 522(b)(1) (providing that “an individual debtor may exempt” certain assets (emphasis added)); Nickless v. Prime Title Servs., Inc. (In re Prime Mortg. Fin., Inc.), Bankr. No. 08-40238-MSH, Adv. No. 09-4046, 2010 WL 4256191, at *2 (Bankr. D. Mass. Oct. 21, 2010) (“Prime Mortgage is not an individual and thus not entitled to exempt any property under § 522.”).}

The Automatic Stay

Filing for bankruptcy affords the debtor several immediate benefits. Perhaps most importantly,\footnote{See, e.g., 11 U.S.C. § 362(c)(1).} “the filing of a bankruptcy petition stays the commencement or continuation of all nonbankruptcy judicial proceedings against the debtor”\footnote{Soares v. Brockton Credit Union (In re Soares), 107 F.3d 969, 973 (1st Cir. 1997). Accord, e.g., 11 U.S.C. § 362(a)(1).},\footnote{11 U.S.C. § 362(a)(6).} \footnote{See, e.g., id. § 362(b)(1) (providing that filing a bankruptcy petition does not stay “the commencement or continuation of a criminal action or proceeding against the debtor”); id. § 362(b)(2)(v) (providing that filing a bankruptcy petition does not stay “the commencement or continuation of a civil action or proceeding . . . concerning child custody or visitation”). See generally id. § 362(b)(1)-(28).} precludes creditors from taking “any act to collect, assess, or recover a claim against the debtor that arose before the commencement of the case”\footnote{E.g., Crespo Torres v. Santander Fin. Servs. (In re Crespo Torres), 532 B.R. 195, 200 (Bankr. D.P.R. 2015) (quoting ALAN N. RESNICK & HENRY J. SOMMER, 3 COLLIER ON BANKRUPTCY § 362.03 (16th ed. 2015)).},\footnote{Ritzen Group, Inc. v. Jackson Masonry, LLC, 140 S. Ct. 582, 589 (2020).} and, with certain exceptions,\footnote{See, e.g., 11 U.S.C. § 362; see City of Chicago v. Fulton, 141 S. Ct. 585, 589 (“When a debtor files a petition for bankruptcy, the Bankruptcy Code protects the debtor’s interests by imposing an automatic stay.”).} prohibits creditors from taking almost any action “against the debtor or the property of the estate,”\footnote{E.g., LaBarge v. Vierkant (In re Vierkant), 240 B.R. 317, 320 (B.A.P. 8th Cir. 1999) (quoting Soares, 107 F.3d at 975).} including the enforcement of preexisting liens or judgments against the debtor and the exercise of control over the debtor’s property.\footnote{E.g., In re Curtis, 40 B.R. 795, 799 (Bankr. D. Utah 1984) (quoting Litton Sys., Inc. v. Frigitemp Corp. (In re Frigitemp Corp.), 8 B.R. 284, 289 (S.D.N.Y. 1981)).} These protections are collectively known as the “automatic stay.”\footnote{E.g., 11 U.S.C. § 362(b)(1).} The stay is “automatic” because “it operates without the necessity for judicial intervention”;\footnote{Id. (quoting Constitution Bank v. Tubbs, 68 F.3d 685, 691 (3d Cir. 1995)).} “it is triggered upon the filing of a bankruptcy petition regardless of whether the other parties to the stayed proceeding are aware that a petition has been filed.”\footnote{11 U.S.C. § 362(a)(6).} The automatic stay generally remains in effect until the bankruptcy court closes the case, dismisses the case, or grants the debtor a discharge, whichever comes first.\footnote{11 U.S.C. § 362(c)(2). To the extent that a creditor instead desires to take an action against specific “property of the estate,” the automatic stay “continues until such property is no longer property of the estate.” Id. § 362(c)(1).} “The policy underlying the automatic stay is to protect the debtor’s estate from ‘the chaos and wasteful depletion resulting from multifold, uncoordinated and possibly conflicting litigation’” that could occur in the absence of the stay.\footnote{See generally id. § 362(b)(1)-(28).} “The automatic stay provides debtors a breathing spell from creditors by preventing ‘all collection efforts, all harassment, and all foreclosure
actions.”

Creditors who knowingly violate the automatic stay—such as by attempting to collect a debt from the debtor—"does so at their peril." An individual injured by any willful violation of the automatic stay may potentially "recover actual damages" against the violator, "including costs and attorneys’ fees, and, in appropriate circumstances, may recover punitive damages." Thus, if a creditor or other entity subject to the automatic stay wishes to take action against the debtor or the debtor’s estate, it must usually ask the bankruptcy court to “grant relief from the stay, . . . such as by terminating, annulling, modifying, or conditioning the stay” to allow the creditor to take the requested action. The court may grant relief from the automatic stay “for cause,” as may exist when “the hardship to the movant” resulting from the enforcement of the automatic stay would outweigh “the hardship to the debtor” if the automatic stay were lifted, or when the debtor has filed bankruptcy in bad faith solely to prevent an impending foreclosure. Alternatively, the court may also grant relief “with respect to a stay of an act against property” if “the debtor does not have an equity in such property” and “such property is not necessary to an effective reorganization” of the debtor. As a result, a creditor may, for example, be able to successfully obtain relief from the automatic stay when the debtor has failed to make timely mortgage payments. The likelihood that a bankruptcy court will grant a party relief from the automatic stay varies depending on the context.

95 E.g., id. (quoting Maritime Elec. Co., 959 F.2d at 1204).
96 See, e.g., In re Capion, Nos. 98-2242 DH, 98-4140 DH, 2000 WL 35798603, at *5 (Bankr. S.D. Iowa June 28, 2000) (“The court finds that these . . . attempts to collect a debt were violations of the automatic stay.”).
97 See, e.g., Clark v. United States (In re Clark), 207 B.R. 559, 565 (Bankr. S.D. Ohio 1997) (“Unless a particular proceeding is specifically designated an exception to the automatic stay . . ., creditors must obtain relief from the stay . . . prior to taking any action involving property of the estate. To the extent creditors fail to do so, they act at their own peril.”) (internal citations omitted).
99 Id. § 362(d). See also Fed. R. Bankr. P. 4001(a) (governing motions for relief from the automatic stay).
104 See, e.g., In re Sterling, Case No. 14-12608-shl, 2018 WL 313085, at *5 (Bankr. S.D.N.Y. Jan. 5, 2018) (“The failure to make mortgage payments constitutes ‘cause’ for relief from the automatic stay and is one of the best examples of a ‘lack of adequate protection’ under Section 362(d)(1) of the Bankruptcy Code.”) (quoting In re Schuessler, 386 B.R. 458, 480 (Bankr. S.D.N.Y. 2008)).
105 Compare In re Qimonda AG, No. 09-14766-RGM, 2009 WL 2210771, at *4 (Bankr. E.D. Va. July 16, 2009) (“It is not uncommon for bankruptcy courts to grant relief from the automatic stay to allow complicated disputed claims to be liquidated in other courts.”), with Hon. John M. Tyson, Automatic Stays and Administrative Expenses: Rights and Remedies Available to Landlords and Tenants in Bankruptcy Proceedings, 31 CAMPBELL L. REV. 413, 418 (2009) (“Relief from the automatic stay in order to evict a debtor-tenant for default on an unexpired lease is rare and difficult to obtain.”).
Types of Bankruptcy Proceedings

Broadly speaking, “the United States has three methods of declaring bankruptcy: liquidation, reorganization, and adjustment of debts.” When filing a bankruptcy petition, the debtor must select which of these methods to utilize by choosing a “Chapter” of the Bankruptcy Code under which to file. The Bankruptcy Code functionally creates a menu of different bankruptcy proceedings that a debtor, with certain exceptions, may potentially utilize:

1. liquidation proceedings under Chapter 7;
2. reorganization proceedings under Chapter 11;
3. reorganization geared toward small businesses;
4. the adjustment of debts of an individual with regular income under Chapter 13;
5. the adjustment of debts of a family farmer or fisherman with regular annual income under Chapter 12;
6. the adjustment of debts of a municipality under Chapter 9; and
7. ancillary and cross-border cases under Chapter 15.

As explained in greater detail below, each of these types of proceedings has different eligibility requirements, is governed by different procedures, and results in different forms of relief. Some debtors, depending on their individual characteristics, may be eligible to file bankruptcy under more than one Chapter, and may therefore select whichever form of bankruptcy proceeding would be most advantageous in light of the debtor’s particular financial circumstances. Other debtors may be eligible to file only under a single Chapter, and must either file bankruptcy under that Chapter or not file at all. Still other debtors may not be eligible to file for bankruptcy under any Chapter of the Bankruptcy Code whatsoever.

107 For the sake of clarity, and to more clearly illustrate the pertinent differences between the various Chapters of the Bankruptcy Code, this report does not discuss these Chapters in numerical order.
109 Id. §§ 1101-1174.
110 Id. §§ 1181-1195; id. § 101(51C).
111 Id. §§ 1301-1330.
112 Id. §§ 1201-1232.
113 Id. §§ 901-946.
114 Id. §§ 1501-1532.
115 Appendix B to this report contains a table of the most important differences between each Chapter.
117 See, e.g., id. § 109(b)(1), (d) (limiting the Chapters under which a railroad may validly file for bankruptcy).
118 See, e.g., id. § 109(g) (“No individual or family farmer may be a debtor under [any Chapter of the Bankruptcy Code] who has been a debtor in a case pending under [the Bankruptcy Code] at any time in the preceding 180 days if . . . the case was dismissed by the court for willful failure of the debtor to abide by orders of the court, or to appear before the court in proper prosecution of the case.”).
Chapter 7 Liquidation

A liquidation proceeding under “Chapter 7 is the most common form of bankruptcy.”"119 According to the Administrative Office of U.S. Courts, in many years it is common for some half a million debtors to file bankruptcy pursuant to this Chapter,120 although that number has decreased during the COVID-19 pandemic.121 Notable examples of companies that have filed bankruptcy under Chapter 7 include the Bennigan’s restaurant chain,122 the Arena Football League,123 IndyMac Bancorp,124 video game company Acclaim Entertainment,125 and luxury brand Art Fashion Corporation.126

“The primary purpose” of Chapter 7 “is to liquidate the [d]ebtor[’s] assets in order to satisfy the [d]ebtor[’s] creditors.”127 To facilitate this liquidation, the case is administered by a Chapter 7 trustee128 who, among other responsibilities,129 “has the general duties of marshalling all available property, reducing it to money, distributing it to creditors, and closing up the estate.”130

Eligibility for Chapter 7 Bankruptcy

Both individual debtors and non-individual debtors (such as corporations, limited liability companies, and other business entities) may potentially be eligible for Chapter 7 relief. Chapter 7 treats the two types of debtors differently, as explained below.

Individual Debtors

Chapter 7 potentially “allows an individual who is overwhelmed by debt to obtain a ‘fresh start’ in the form of a discharge of most types of debt by surrendering for distribution his or her nonexempt property.”131 However, the Bankruptcy Code—starting in 2005 with the passage of the

122 Jack F. Williams et al., American Bankruptcy Institute Media Teleconference to Examine the Future of Retail Sector Distress, 17 AM. BANKR. INST. L. REV. 85, 93 (2009) (“Bennigan’s, for example, a casual retail dining chain, decided not to even do a chapter 11, but went straight to chapter 7 . . . And one of the key elements in that decision was that so many of their properties needed capital expenditures for improvements and there just wasn’t the money to do it.”).
125 See In re Acclaim Entm’t, Inc., Case No. 8:04-BK-85595 (Bankr. E.D.N.Y.), Docket No. 1 (Chapter 7 bankruptcy petition).
126 See In re Art Fashion Corp., Case No. 19-BK-11043 (Bankr. S.D.N.Y.), Docket No. 1 (Chapter 7 bankruptcy petition).
128 See 11 U.S.C. § 701 (providing for the appointment of an interim Chapter 7 trustee); id. § 702 (providing for the election of a permanent Chapter 7 trustee to replace the interim trustee).
129 See generally id. § 704(a)(1) (enumerating the duties of a Chapter 7 trustee).
Bankruptcy Basics: A Primer

Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA)—limits an individual debtor’s ability to obtain Chapter 7 relief by imposing a “means test” to determine whether “an individual debtor . . . whose debts are primarily consumer debts” qualifies for Chapter 7 relief.132 If the debtor’s current monthly income, reduced by certain allowable expenses, exceeds statutory thresholds established by the Bankruptcy Code, then the bankruptcy court must either dismiss the Chapter 7 case or convert the case to a debt adjustment proceeding under Chapter 13.133 “The primary purpose of the means test in Chapter 7 is to shift consumer debtors into Chapter 13 of the Bankruptcy Code—which this report discusses in greater detail below134—when those debtors are able to “pay some or all of their debts in a Chapter 13 plan.”135

Under BAPCPA, the Director of the Administrative Office of the U.S. Courts must submit an annual report to Congress on certain bankruptcy statistics (BAPCPA Report).136 The BAPCPA Report includes “statistics regarding debtors who are individuals with primarily consumer debts seeking relief under chapters 7, 11, and 13 of title 11.”137 In the most recent BAPCPA Report, for the year 2021, Chapter 7 bankruptcies made up approximately 70 percent of new petitions.138

Non-Individual Debtors

Many (though not all) types of non-individual debtors are, like individual debtors, potentially eligible for Chapter 7 bankruptcy.139 “[I]n a Chapter 7 proceeding involving a business entity, the trustee assumes control of the entity for the purpose of realizing the maximum value that is available for the benefit of the creditors.”140 Also, for reasons explained in greater detail below, some bankruptcy cases filed by non-individual debtors begin as Chapter 11 reorganizations141 but are subsequently converted to Chapter 7 liquidations.142 To convert from Chapter 11 to Chapter 7, a debtor must file a motion under Bankruptcy Code Section 1112(b).143

132 11 U.S.C. § 707(b)(1)-(2). See also, e.g., In re Fredman, 471 B.R. 540, 542 (Bankr. S.D. Ill. 2012) (“With the enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), 11 U.S.C. § 707(b) was amended to add a screening mechanism, known as the ‘means test.’ The purpose of the means test is to weed out chapter 7 debtors who are capable of funding a chapter 13 case.”); Official Bankruptcy Form 122A-2 (Chapter 7 Means Test Calculation form).
133 E.g., In re Arndt, Case No. 17-30226, 2017 WL 5164141, at *3 (Bankr. N.D. Ohio Nov. 6, 2017); In re Ralston, 400 B.R. 854, 856 (Bunk. M.D. Fl. 2009); 11 U.S.C. § 707(b)(1)-(2). See also 11 U.S.C. § 104(a) (providing that 11 U.S.C. § 707(b)’s dollar limits automatically adjust every three years “to reflect the change in the Consumer Price Index for All Urban Consumers[] published by the Department of Labor”).
134 See infra “Chapter 13 Consumer Cases.”
141 See infra “Chapter 11 Reorganization.”
142 See infra “Conversion to Another Chapter.”
Unlike an individual debtor, however, a non-individual debtor does not receive a discharge of its outstanding debts at the conclusion of a Chapter 7 liquidation. Congress opted to prohibit non-individual debtors from obtaining a discharge under Chapter 7 in order “to prevent businesses from evading liability by liquidating debtor corporations and resuming business free of debt.” “Corporate debt” therefore “survive[s] Chapter 7 proceedings” and is “charged against the corporation when it resume[s] operations.” Despite the inability to obtain a discharge, some corporations and other business entities nonetheless “choose Chapter 7 bankruptcy because it provides an efficient process by which the corporation may sell off its assets and distribute the proceeds to its creditors.” After filing Chapter 7 bankruptcy, . . . the corporate debtor is usually expected to dissolve because its debts are not ‘discharged’ and continued business will impact its relationships with creditors.

Liquidation and Distribution of the Estate

As noted above, in a Chapter 7 liquidation, the case trustee “sells the property of the estate and distributes the proceeds to the debtor’s creditors.” The Bankruptcy Code establishes a complex priority framework of expenses and claims that are entitled to payment before others. For example, a “secured creditor”—who has a legal right against certain property (known as “collateral”) that the debtor pledged as security against the debt in the event the debtor defaulted—is generally “entitled to be paid in full out of the proceeds of the collateral before any of those proceeds may be used to pay” any “unsecured creditor” who, “upon giving credit” to the debtor, took “no rights against specific property of the debtor.” To name another example, claims for specified types of domestic support obligations are entitled to be paid before certain unpaid property taxes.

144 Id. § 727(a) (“The court shall grant the debtor a discharge, unless . . . the debtor is not an individual.”) (emphasis added).
146 E.g., id.
148 E.g., Moody, 2014 WL 12709475, at *5. Importantly, however, “liquidation through Chapter 7 does not” itself “effect dissolution of the company.” E.g., In re Or. Homes, LLC, No. 13-33349, 2014 WL 4794861, at *4 (Bankr. N.D. Ohio Sept. 25, 2014). To officially dissolve a liquidated debtor, the debtor must instead utilize the dissolution procedures established by state law. See, e.g., Better Bldg., 837 F.2d at 379 (“Chapter 7 proceedings cannot dissolve a corporation. If the Mylans sought to dissolve their corporations, they should have used state procedures.”).
149 In re Hawk, 871 F.3d 287, 292 (5th Cir. 2017). Accord, e.g., 11 U.S.C. § 704(a)(1) (“The trustee shall . . . collect and reduce to money the property of the estate.”); id. § 725 (“The trustee, after notice and a hearing, shall dispose of any property in which an entity other than the estate has an interest, such as a lien, and that has not been disposed of under another section of this title.”); id. § 726 (governing distribution of the property of the estate).
154 Compare 11 U.S.C. § 507(a)(1)(A), with id. § 507(a)(8)(B). See also id. § 726(a) (specifying that “property of the estate shall” generally “be distributed . . . in the order specified in[ ] section 507”).
“Lower priority creditors cannot receive anything until higher priority creditors are paid in full.” If, due to a shortfall of assets in the estate, “a priority tier cannot be paid in full,” then “distribution is made pro rata among creditors within such tier.” If, by contrast, “the estate has enough assets to pay in full all . . . priority claims, distribution will be made pro rata among creditors in the lower tiers.”

Chapter 11 Reorganization

Whereas the purpose of a Chapter 7 proceeding is to liquidate the debtor, most Chapter 11 proceedings aim to reorganize the debtor’s debt structure so that the debtor may continue to operate. A Chapter 11 reorganization “is premised on the concept that the debtor is worth more as a going concern than in liquidation. That is, continuation of the debtor’s business will create more value than will dismemberment and piecemeal sale of the assets.” Thus, a debtor that aims to emerge from bankruptcy as an operating entity as opposed to shuttering its doors will likely prefer a Chapter 11 reorganization to a Chapter 7 liquidation. Some creditors may likewise prefer that the debtor reorganize under Chapter 11 instead of liquidating under Chapter 7, depending on whether or not they stand to derive a greater economic benefit from the debtor continuing to operate as a going concern than if the debtor were promptly liquidated.

Chapter 11 is “intended primarily for the use of business debtors” such as corporations and limited liability companies. Notable examples of large companies that have filed for

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157 Id. (quoting Higgins, 29 B.R. at 199).
158 Czyzewski, 137 S. Ct. at 979, Accord, e.g., Tamir v. U.S. Trustee, 566 B.R. 278, 282-83 (D. Me. 2016) (“Chapter 11 debtors are generally seeking to emerge from bankruptcy as viable, profitable individuals or enterprises.”).

That said, some Chapter 11 proceedings are intended to liquidate the debtor rather than reorganize the debtor as a going concern. See, e.g., Fla. Dep’t of Revenue v. Piccadilly Cafeterias, Inc., 554 U.S. 33, 37 n.2 (2008) (“Although the central purpose of Chapter 11 is to facilitate reorganizations rather than liquidations (covered generally by Chapter 7), Chapter 11 expressly contemplates liquidations.”); In re Poydras Manor, Inc., 242 B.R. 603, 605, 608 (Bankr. E.D. La. 2000) (confirming a “Chapter 11 liquidation” plan “under which all of [the debtor’s] assets will be liquidated and the proceeds distributed to creditors”). In contrast to a Chapter 7 liquidation, a Chapter 11 liquidation “allows a debtor in possession (who is presumably more familiar with the organization’s assets, and their values), rather than a Chapter 7 trustee, to plan for an orderly divestiture” of the debtor’s assets “over time. In a proper case, the expertise of the debtor in possession can result in a liquidation that produces more for the benefit of creditors than would a liquidation conducted by a Chapter 7 trustee.” Rachlin Cohen & Holtz, LLP v. Mirabilis Ventures, Inc. (In re Mirabilis Ventures, Inc.), Nos. 6:08-bk-04237-KSJ, 6:09-cv-1658-Orl-31, 6:09-cv-1659, 6:09-cv-1660, 2010 WL 1644915, at *5 (M.D. Fla. Apr. 21, 2010).
160 See Maloy, supra note 106, at 13 (“A debtor prefers Chapter 11 to Chapter 7 when the debtor is experiencing temporary difficulties in paying its debts due to cash flow problems, shrinking markets, or the like. In these circumstances, the debtor needs a breathing spell to work out of its financial bind.”).
161 See id. (“Supplier creditors may prefer Chapter 11 to Chapter 7 in order to keep alive a good customer, who is merely experiencing a temporary financial problem. Employee creditors may prefer Chapter 11 as well, because it will keep their paychecks coming, albeit possibly in smaller amounts. Creditors often prefer Chapter 11 because a Bankruptcy Judge will not confirm a Chapter 11 plan unless creditors are assured of receiving at least as much as they would receive under Chapter 7.”). But see Alan Schwartz, A Contract Theory Approach to Business Bankruptcy, 107 YALE L.J. 1807, 1836-37 (1998) (“Senior creditors today commonly prefer firms to use Chapter 7 . . . while junior creditors commonly prefer firms to use Chapter 11.”).
bankruptcy under Chapter 11 include Kmart, General Motors, Alex and Ani, and the Los Angeles Dodgers. Notwithstanding that Chapter 11 is “intended primarily for the use of business debtors,” “individual debtors not engaged in business” may be eligible to “file for relief under Chapter 11” as well. In particular, an individual debtor who is ineligible to file for bankruptcy under Chapter 13 because his outstanding debt exceeds statutory debt limits established by the Bankruptcy Code may instead be able to file under Chapter 11. That said, even though “Chapter 11 is not restricted to business-debtors, business entities file under Chapter 11 far more frequently than individual debtors do.” For instance, in the twelve-month period ending on June 30, 2021, “non-business” Chapter 11s accounted for only 464 of 4,429 Chapter 11 bankruptcies.

“The primary goal of Chapter 11” is “to formulate a comprehensive reorganization plan” that adjusts “the rights and obligations among the debtor and its debt- and equityholders so as to render the reorganized debtor a viable economic entity.” “The chapter 11 plan becomes a binding contract between the debtor and its creditors, and governs their rights and obligations.”

The Debtor-In-Possession

Unlike in a Chapter 7 liquidation, in which a trustee administers the debtor’s assets in order to satisfy the claims of creditors, a Chapter 11 debtor generally remains in possession of its assets throughout the entire reorganization proceeding “and administers them for the benefit of the creditor body.” Congress decided when enacting the Bankruptcy Code that “current

163 See Kmart Corp. v. Intercraft Co. (In re Kmart Corp.), 310 B.R. 107, 111 (Bankr. N.D. Ill. 2004).
167 Toibb, 501 U.S. at 166. See also 11 U.S.C. § 109(d), (g)-(h) (establishing eligibility requirements for individual Chapter 11 debtors).
168 See infra “Chapter 13 Consumer Cases.”.
169 See Anne Lawton, The Individual Chapter 11 Debtor Pre- and Post-BAPCPA, 89 AM. BANKR. L.J. 455, 468 (2015) (explaining that some (though not all) “individual chapter 11 debtors file for chapter 11, rather than chapter 13, because chapter 13’s debt limits pose a barrier to entry”). See also 11 U.S.C. § 109(e) (disqualifying any individual who owes a total amount of debt that exceeds specified statutory limits from “be[ing] a debtor under chapter 13”).
170 Maloy, supra note 106, at 10.
173 E.g., Tung, supra note 159, at 1690.
176 In re Marvel Entm’t Grp., Inc., 140 F.3d 463, 471 (3d Cir. 1998).
177 Lazzo v. Rose Hill Bank (In re Schupbach Invs., L.L.C.), 808 F.3d 1215, 1223 (10th Cir. 2015) (quoting Bowers v. Atlanta Motor Speedway, Inc. (In re SE Hotel Props., Ltd. P’ship), 99 F.3d 151, 152 n.1 (4th Cir. 1996)).

Nevertheless, under certain circumstances, including “fraud, dishonesty, incompetence, or gross mismanagement of the
management is generally best suited to orchestrate the process of rehabilitation for the benefit of creditors and other interests of the estate,” and as a result Chapter 11 typically permits the debtor (rather than a trustee) to remain in control of its assets and operations. Managers of the debtor therefore generally “prefer Chapter 11 to Chapter 7 because Chapter 11 allows them to retain control of the firm as a debtor-in-possession, whereas Chapter 7, by requiring appointment of a trustee, does not.”

With some exceptions that are dealt with immediately upon filing for bankruptcy, the debtor-in-possession may generally enter into transactions and use estate property in the ordinary course of business without first obtaining the bankruptcy court’s approval. However, any action the debtor-in-possession takes outside the ordinary course of business typically “requires notice, hearing and court approval” in advance. An action “outside the ordinary course of business” includes any transaction “that might be considered unusual, controversial, or questionable for the debtor to undertake during its Chapter 11 case,” like a sale of “substantially all the debtor’s assets.” The “ordinary course of business” standard provides the debtor-in-possession “the flexibility to engage in ordinary transactions without unnecessary creditor and bankruptcy court oversight, while protecting creditors by giving them an opportunity to be heard when transactions are not ordinary.”

The Chapter 11 Plan

As noted above, “the primary goal of Chapter 11” is “to formulate a comprehensive reorganization plan that will ultimately rehabilitate financially distressed debtors.” Ideally, a Chapter 11 plan is a product of negotiation between the debtor and its key stakeholders that


See, e.g., 11 U.S.C. § 363(c)(2) (special rules governing the use and sale of “collateral”).


E.g., In re Roth Am., Inc., 975 F.2d 949, 952 (3d Cir. 1992).


E.g., In re AG Consultants Grain Div., Inc., 77 B.R. 665, 671 (N.D. Ind. 1987) (“Chapter 11 is essentially, or should be, a negotiated process; a system to induce compromise.”); Harry D. Lewis, Enjoining Regulatory Action Against Chapter 11 Debtors, 96 COM. L.J. 335, 351 (1991) (“The Chapter 11 process contemplates that all interested parties participate to negotiate a Chapter 11 plan which will ... reorganize ... the Chapter 11 debtor in an orderly fashion.”).
adjusts “the rights and obligations among the debtor and its debt- and equityholders . . . so as to render the reorganized debtor a viable economic entity.”

The debtor may file a proposed Chapter 11 plan at any time. Although an interested party to the bankruptcy case, such as a creditor, may potentially file a proposed Chapter 11 plan of its own, the Bankruptcy Code circumscribes a non-debtor’s ability to propose a Chapter 11 plan in several respects. To name but one example, the Bankruptcy Code establishes an initial exclusivity period during which “only the debtor may file a plan.”

Among other requirements, a proposed plan must:

- divide similarly situated debt-holders and equityholders into separate “classes.”
- identify which classes will have their claims “impaired” by the plan. “A class is impaired if there is ‘any alteration of a creditor’s rights, no matter how minor.’”
- specify how the plan will alter the claims belonging to the impaired classes.
- treat every entity in a given class the same as other class members (unless a particular claimant agrees to less favorable treatment).
- provide adequate means for the plan’s implementation, such as by allowing the debtor to retain certain property; selling or transferring the debtor’s property; satisfying or modifying liens; curing or waiving a default by the debtor; and so forth.

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189 E.g., Tung, supra note 159, at 1690.
191 See generally id. § 1121(b)-(c).
192 Id. § 1121(b). The bankruptcy court “may for cause reduce or increase the” exclusivity period so long as the period does not extend beyond certain statutorily defined limits. See id. § 1121(d). Small business cases under Chapter 11 are governed by slightly different exclusivity requirements. See id. § 1121(e).
193 See generally id. § 1123(a).
194 Id. § 1123(a)(1) (requiring the plan to “designate . . . classes of claims”); id. § 1122 (providing, with certain exceptions, that “a plan may place a claim or an interest in a particular class only if such claim or interest is substantially similar to the other claims or interests of such class”).
195 Id. § 1123(a)(2) (requiring the plan to “specify any class of claims or interests that is not impaired under the plan”); id. § 1123(a)(3) (requiring the plan to “specify the treatment of any class of claims or interests that is impaired under the plan”); id. § 1124 (defining “impaired”); id. § 1123(b)(1) (“A plan may . . . impair or leave unimpaired any class of claims . . . or of interests.”).
196 In re Woodbrook Assocs., 19 F.3d 312, 321 n.10 (7th Cir. 1994) (quoting In re Windsor on the River Assocs., Ltd., 7 F.3d 127, 130 (8th Cir. 1993)). Accord, e.g., In re Armstrong World Indus., Inc., 432 F.3d 507, 511 n.2 (3d Cir. 2005) (“A class is impaired if its legal, equitable, or contractual rights are altered under the reorganization plan.”).
198 Id. § 1123(a)(4).
199 Id. § 1123(a)(5).
200 Id. § 1123(a)(5)(A).
201 Id. § 1123(a)(5)(B), (D).
202 Id. § 1123(a)(5)(E).
203 Id. § 1123(a)(5)(G). See also id. § 1123(d) (“If it is proposed in a plan to cure a default the amount necessary to cure the default shall be determined in accordance with the underlying agreement and applicable nonbankruptcy law.”).
204 See generally id. § 1123(a)(5).
After a party proposes a plan, creditors who are adversely affected by the plan may then vote in favor of or against it. Generally, in order to facilitate the voting process, “a proponent of a plan must also submit a disclosure statement” that gives parties potentially affected by the plan “information sufficient to enable” them “to make an informed judgment . . . as to whether they should vote in favor of the plan.” The bankruptcy court will then “fix a time within which” creditors may vote on the plan. Voting creditors must submit their votes in writing to the plan proponent’s attorney prior to the deadline established by the court. A class of creditors has accepted—that is, voted in favor of—a proposed plan if “creditors . . . that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class” have voted in favor of the plan.

After the voting deadline expires, the court must hold a hearing to decide whether the plan shall become effective—that is, whether to “confirm” the plan. A bankruptcy court cannot confirm a proposed Chapter 11 plan unless it satisfies not only the criteria enumerated in the bullet points above, but also several additional prerequisites established by the Bankruptcy Code, the most notable of which are discussed in the subsections that follow.

In the alternative, a debtor may propose a plan of liquidation under Chapter 11. Liquidating under Chapter 11 may prove more advantageous both to the debtor and creditors, the former

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205 Only impaired classes may vote on a proposed Chapter 11 plan; classes that are not impaired under the plan are conclusively deemed to have accepted the plan and are therefore not entitled to vote on whether to accept or reject it. See id. § 1126(f) (“A class that is not impaired under a plan, and each holder of a claim or interest of such class, are conclusively presumed to have accepted the plan, and solicitation of acceptances with respect to such class from the holders of claims or interests of such class is not required.”); In re Ultra Petroleum Corp., 943 F.3d 758, 761 (5th Cir. 2019); In re Edgefield Inn, LLC, 521 B.R. 116, 121 (Bankr. D.S.C. 2014) (“Unimpaired classes . . . have no vote in the reorganization process.”).


207 But see id. § 1125(f) (providing for alternate procedures in small business cases).


210 Fed. R. Bankr. P. 3017(c). Accord Fed. R. Bankr. P. 3018(a) (“A plan may be accepted or rejected in accordance with § 1126 of the Code within the time fixed by the court pursuant to Rule 3017.”).

211 Fed. R. Bankr. P. 3018(a), (c); Official Bankruptcy Forms B 314 (form ballot for accepting or rejecting plan of reorganization, which specifies that the creditor should return the completed ballot to the “proponent’s attorney” or another “appropriate address”).

212 11 U.S.C. § 1126(c). But see id. § 1126(c), (e) (authorizing the court to disregard the vote of any creditor “whose acceptance or rejection of” a proposed “plan was not in good faith”).

213 Id. § 1128(a).

214 See id. § 1129(a)(1) (“The court shall confirm a plan only if . . . the plan complies with the applicable provisions of this title.”); id. § 1123(a) (listing criteria that “a plan shall” satisfy).

215 See generally id. § 1129 (listing the requirements a proposed plan must satisfy). Accord, e.g., In re Chadda, No. 07-12665bif, 2007 WL 3407375, at *3 (Bankr. E.D. Pa. Nov. 9, 2007) (“Confirmation of a chapter 11 plan requires that the plan proponent meet all the prerequisites of section 1129(a) [of the Bankruptcy Code], except that of 1129(a)(8) . . . . If all the provisions of section 1129(a) are established, save that of section 1129(a)(8), then the plan proponent can seek confirmation under section 1129(b).”).

216 11 U.S.C. § 1123(b)(4) (stating that a plan may “provide for the sale of all or substantially all of the property of the estate.”).
because it will liquidate under more “economically advantageous” circumstances, and the latter because they may take a more active role in the liquidation process. 217

**Best Interests of Creditors**

“[A] Chapter 11 reorganization plan may not be confirmed unless it satisfies the ‘best interests of creditors’ test.” 218 This test requires that each holder of an impaired claim or interest either accept the plan or receive under the plan not less than it would receive in a Chapter 7 liquidation.” 219 This means that, absent consent, a creditor must receive property that has a present value equal to that participant’s hypothetical chapter 7 distribution if the debtor were liquidated instead of reorganized on the plan’s effective date.” 220 As a result, because having, for example, a dollar in hand today is typically more valuable than receiving that same dollar several years from now, “a Chapter 11 plan does not satisfy the best-interests-of-creditors test if the debtor, rather than paying a creditor the amount it would receive in a Chapter 7 liquidation in full on the effective date of the plan, proposes instead to pay that same amount over time.” 221 Where, by contrast, impaired creditors would receive nothing in a hypothetical Chapter 7 liquidation, the plan will likely satisfy the best interests of creditors test because a Chapter 11 plan mathematically cannot pay creditors less than zero. 222

**Feasibility**

Additionally, “to be confirmed, every chapter 11 plan must be ‘feasible.’” 223 This means that the plan proponent must show that “confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor . . . unless such liquidation or reorganization is proposed in the plan.” 224 In other words, a plan is feasible not when it guarantees success but when it “offers a reasonable assurance of success.” 225 “The purpose of this feasibility requirement is to prevent confirmation of unrealistic plans which promise creditors and equity security holders more than the debtor can likely attain after confirmation.” 226 A plan is infeasible, for example, if it proposes to “keep creditors ‘on hold’ without receipt of payments while the debtor seeks to sell real estate which it has been unable to

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219 ReGen, 547 F.3d at 495. Accord, e.g., In re Monticello Realty Invs., LLC, 526 B.R. 902, 914 (Bankr. M.D. Fla. 2015) (“The plan proponent must prove that each rejecting claimant in an impaired class will receive no less in the Chapter 11 than the claimant would have received if the debtor were liquidated in Chapter 7.”); 11 U.S.C. § 1129(a)(7).
220 In re SAI Holdings Ltd., No. 06-33227, 2007 WL 927936, at *7 (Bankr. N.D. Ohio Mar. 26, 2007) (quoting 7 ALAN N. RESNICK ET AL., COLLIER ON BANKRUPTCY ¶ 1129.03[7][b] (15th ed. 2004)).
222 See, e.g., In re Friedman, No. 4:07-bk-02135-JMM, 2012 WL 5409194, at *5 (Bankr. D. Ariz. Nov. 5, 2012) (confirming Chapter 11 plan where the estimated recovery for unsecured creditors in a hypothetical liquidation was “zero”).
223 See In re Gentry, 807 F.3d 1222, 1225-26 (10th Cir. 2015); In re Chadda, No. 07-12665bhf, 2007 WL 3407375, at *3 (Bankr. E.D. Pa. Nov. 9, 2007).
225 Gentry, 807 F.3d at 1225.
sell in years past,” as “such plans are nothing more than speculative ventures which place all the risk on the . . . creditors.”

Cramdown

Nor may a bankruptcy court confirm a proposed Chapter 11 plan unless it either (1) satisfies a requirement codified at Section 1129(a)(8) of the Bankruptcy Code that all classes of impaired creditors accept the proposed plan; or (2) satisfies what are called the “cramdown” requirements of Section 1129(b).

“Section 1129(a)(8) can be satisfied only if each class” of creditors “under a proposed plan either has accepted the plan or is not impaired under the plan.” Section 1129(a)(8) thereby requires that a proposed plan “be consensual, with unanimous acceptance by all of the impaired classes.”

Nevertheless, “the failure to comply with § 1129(a)(8) is not fatal.” “A plan that does not satisfy § 1129(a)(8) nonetheless can be confirmed” pursuant to Section 1129(b) if the plan “does not discriminate unfairly, and is fair and equitable, with respect to each class of claims or interests that is impaired under, and has not accepted, the plan.” In order for the court to deem a plan “fair and equitable” for cramdown purposes, the plan must satisfy the “absolute priority rule.”

A senior claim-holder is defined as a creditor holding a claim that is entitled to payment before other claims in the hierarchy of distribution to creditors, whereas a junior claim-holder holds a claim that is ranked lower in the hierarchy.

Obtaining confirmation of a plan over the objection of impaired creditors in accordance with Section 1129(b) is known as a “cramdown.” Many (though not all) commentators agree that plan proponents utilize the Bankruptcy Code’s cramdown provisions relatively infrequently.

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228 E.g., In re Smith, 357 B.R. 60, 68 (Bankr. M.D.N.C. 2006); 11 U.S.C. § 1129(a)(8), (b).
229 E.g., Smith, 357 B.R. at 68.
230 E.g., In re Armstrong World Indus., Inc., 432 F.3d 507, 511 (3d Cir. 2005).
232 Smith, 357 B.R. at 68.
235 DISH, 634 F.3d at 86 (quoting 11 U.S.C. § 1129(b)(2)(B)).
236 See In re Allied Consol. Indus., Inc., 569 B.R. 284, 295 (Bankr. N.D. Ohio 2017) (explaining that the absolute priority rule requires “that the values represented by the higher-ranking claims are fully satisfied by the values distributed under the plan”).
237 E.g., In re Bryant, 439 B.R. 724, 740 (Bankr. E.D. Ark. 2010).
238 See Richard M. Hynes, Reorganization as Redemption, 6 VA. L. & BUS. REV. 183, 220 (2011) (noting the “observation of empirical researchers that cramdown is extremely rare”); Adam J. Levitin, Bankruptcy Markets: Making Sense of Claims Trading, 4 BROOK J. CORP. FIN. & COM. L. 67, 106 (2009) (“Cramdown plans, where a broad negotiated deal could not be reached, continue to remain relatively rare.”). But see Scott Alberino et al., Corporate
The Effect of Confirmation

A confirmed Chapter 11 plan binds the debtor, the creditors (including creditors who did not vote in favor of the plan), and other parties.239 “Except as otherwise provided in the plan or the order confirming the plan, the confirmation of a plan vests all of the property of the estate in the debtor.”240 Additionally, the confirmation of a Chapter 11 plan “generally discharges the debtor from its pre-confirmation debt and substitutes the obligations of the plan for the debtor’s prior indebtedness.”241 This discharge operates as an injunction that, with some exceptions, prohibits creditors from “commenc[ing] or continu[ing] an action, employ[ing] process, or act[ing], to collect, recover, or offset any debt that was subject to discharge.”242 A creditor who violates the discharge injunction is potentially subject to civil contempt proceedings.243

“A confirmed plan creates a new contract between the debtor and interested parties, which replaces pre-petition obligations with a new contractual obligation in accordance with the creditor’s treatment under the confirmed plan.”244 Thus, “where a debtor fails to make payments or act in accordance with a confirmed plan, a creditor’s remedy may be for breach of contract or suit to enforce the debtor’s obligation.”245

Small Business Reorganizations

Small-business debtors may avail themselves of two special Chapter 11 categories.246 First, under BAPCPA, Congress added definitions to the Bankruptcy Code for “small business case” and “small business debtor,” codified at 11 U.S.C. §§ 101(51C) and 101(51D), respectively.247 Second, Congress created a Chapter 11 variant with the passage of the Small Business Reorganization Act of 2019; Chapter 11, subchapter V, reorganization of small business debtors.248 A debtor may elect either of these two options, subject to certain eligibility criteria.249

Both types of bankruptcies are similar based on their accelerated timelines.250 They also are alike in that a debtor cannot have its primary business be ownership of single asset real estate and it

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240 Id. § 1141(b).
243 E.g., Bahary, 528 B.R. at 767-68.
245 E.g., Little, 2010 WL 547165, at *2.
246 Chapter 11 - Bankruptcy Basics, supra note 217.
249 Chapter 11 - Bankruptcy Basics, supra note 217.
250 Id.
must not be a corporation or be an affiliate of a corporation that is subject to the reporting requirements under Sections 13 or 15(d) of the Securities Exchange Act of 1934.  

The two types of bankruptcies differ, however, in several respects. The maximum amount of debt to qualify for a subchapter V bankruptcy is more than twice that of a small business debtor.

While a Chapter 11 trustee can be appointed for cause in a small business case, a subchapter V trustee is appointed automatically. A small business debtor must file a plan within 300 days of the filing date, whereas a subchapter V debtor must file a plan within 90 days. A small business debtor must file a disclosure statement in most cases, while there are no disclosure statements filed in subchapter V.

Chapter 13 Consumer Cases

The purpose of Chapter 13 of the Bankruptcy Code—titled “Adjustment of Debts of an Individual With Regular Income”—“is to enable an individual, under court supervision and protection, to develop and perform under a plan for the repayment of his debts.” The plan may call for full repayment or, in the alternative, it may provide for creditors’ receiving a portion of their claims.

A debtor may not file for bankruptcy under Chapter 13 unless the debtor is an “individual with regular income” who owes a total amount of debt that does not exceed a maximum debt threshold established by statute. Thus, a non-individual debtor, such as a corporation or limited liability company, may not file for bankruptcy under Chapter 13.

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252 11 U.S.C. §§ 101(51D) ($3,024,725), 1182 ($7,500,000).

253 Id. § 1104.

254 Id. § 1183.

255 Id. § 1121(e).

256 Id. § 1189(b).

257 Id. § 1125(f).

258 Id. § 1181(b).

259 *In re Pierre*, 468 B.R. 419, 424-25 (Bankr. M.D. Fla. 2012) (quoting H.R. REP. No. 95-595, 95th Cong., 1st Sess. 118 (1977)); *see also* Branigan v. Bateman (*In re Bateman*), 515 F.3d 272, 275 n.2 (4th Cir. 2008) (Chapter 13 “is essentially a reorganization that allows the debtor to ‘deal comprehensively with’” his or her debts) (quoting ALAN N. RIESNICK & HENRY J. SOMMER, 8 COLLIER ON BANKRUPTCY ¶ 1300.01).


261 11 U.S.C. § 109(e) (“Only an individual with regular income that owes, on the date of the filing of the petition, noncontingent, liquidated debts of less than $2,750,000 or an individual with regular income and such individual’s spouse, except a stockbroker or a commodity broker, that owe, on the date of the filing of the petition, noncontingent, liquidated debts that aggregate less than $2,750,000 may be a debtor under Chapter 13.”). These dollar figures adjust automatically every three years “to reflect the change in the Consumer Price Index for All Urban Consumers[] published by the Department of Labor.” Id. § 104(a).

See also id. § 101(30) (“The term ‘individual with regular income’ means individual whose income is sufficiently stable and regular to enable such individual to make payments under a plan under chapter 13 . . . other than a stockbroker or a commodity broker.”); id. § 109(g)-h (establishing additional eligibility requirements for individual debtors).

Unlike a Chapter 7 case, the debtor in a Chapter 13 case “remains in possession of the property of the estate.”

In another difference from proceedings governed by Chapter 7, “where a debtor’s nonexempt assets are sold to pay creditors, Chapter 13 permits debtors to keep assets such as their home and car so long as they . . . comply with their obligations under their confirmed plan of reorganization.” Chapter 13 thereby potentially permits a debtor “to save his or her home from foreclosure by curing a mortgage default and, while continuing to pay the mortgage obligation as installments come due, curing” arrearages that the debtor incurred before he filed bankruptcy.

For that reason, eligible debtors who own homes may prefer filing under Chapter 13 instead of filing under Chapter 7.

Notwithstanding the differences between Chapter 13 and Chapter 7, Chapter 13 cases are similar to Chapter 7 cases to the extent that a case trustee administers both types of proceedings. In many judicial districts, the U.S. Trustee appoints standing Chapter 13 trustees who “oversee all Chapter 13 cases filed in” their respective districts. Among other duties, the Chapter 13 trustee:

- ensures “that the debtor commences making timely payments” that will be distributed to creditors;
- receives monthly payments made by debtors and distributes the proceeds to creditors, and
- investigates the debtor’s financial affairs.

Chapter 13 cases are also similar to Chapter 11 cases to the limited extent that both ideally result in the confirmation of a plan that alters the debtor’s relationships with creditors. Among other requirements, a Chapter 13 plan must propose “to use future income to repay a portion (or in the rare case all) of” the debtor’s “debts over the next three to five years.” Only the debtor may

263 Smith v. Rockett, 522 F.3d 1080, 1081 (10th Cir. 2008). Accord, e.g., 11 U.S.C. § 1306(b) (“Except as provided in a confirmed plan or order confirming a plan, the debtor shall remain in possession of all property of the estate.”).

264 In re Blendheim, 803 F.3d 477, 485 (9th Cir. 2015).


266 Katherine Porter, Life After Debt: Understanding the Credit Restraint of Bankruptcy Debtors, 18 AM. BANKR. INST. L. REV. 1, 9 n.32 (2010).

267 28 U.S.C. § 586(b) (“If the number of cases under chapter . . . 13 of title 11 commenced in a particular region so warrants, the United States trustee for such region may . . . appoint one or more individuals to serve as standing trustee.”); 11 U.S.C. § 1302(a) (“If the United States trustee appoints an individual under section 586(b) of title 28 to serve as standing trustee in cases under this chapter . . . then such individual shall serve as trustee in the case.”).

268 Austin, supra note 34, at 1093.


270 Id. § 1302(b)(5).

271 See Austin, supra note 34, at 1093. Accord, e.g., 11 U.S.C. § 1326(c) (“Except as otherwise provided in the plan or in the order confirming the plan, the trustee shall make payments to creditors under the plan.”).


273 See, e.g., In re Childs, 466 B.R. 924, 926 (Bankr. S.D. Tex. 2012) (“Chapter 13 cases are similar to Chapter 11 cases—at least insofar as plans are confirmed and thereafter implemented.”). But see In re Fielding, Case No. 13-43212-DML-13, 2015 WL 1676877, at *4 (Bankr. N.D. Tex. Apr. 10, 2015) (noting “inherent differences between a plan proposed under chapter 11 as opposed to one proposed under chapter 13”).

274 See generally 11 U.S.C. §§ 1322(a), 1325; FED. R. BANKR. P. 3015(c). See also In re Blendheim, 803 F.3d 477, 485-86 (9th Cir. 2015) (discussing “mandatory provisions which all Chapter 13 plans must contain in order to qualify for confirmation”).

file a proposed plan under Chapter 13.276 Unlike Chapter 11, creditors in a Chapter 13 case are not allowed to vote on a proposed plan.277 Though the Chapter 13 trustee or certain parties with a pecuniary interest in the Chapter 13 case may object to a proposed plan that does not comply with certain requirements established by the Bankruptcy Code,278 If an unsecured creditor or the bankruptcy trustee objects to confirmation” of the proposed plan, Chapter 13 “requires the debtor either to pay unsecured creditors in full or pay all ‘projected disposable income’ to be received by the debtor over the duration of the plan”; otherwise, the “bankruptcy court may not approve the plan.”279 If the proposed plan complies with Chapter 13’s requirements, “the court shall confirm” it.280 “The provisions of a confirmed plan” under Chapter 13 “bind the debtor and each creditor.”281

Generally speaking, “all payments to creditors must be made through the Chapter 13 trustee.”282 That is, “the Chapter 13 Trustee must collect payments as provided in the plan” from the debtor “and must distribute those payments” to creditors “as provided in the plan.”283 “During the repayment period, creditors may not harass the [d]ebtor or seek to collect their debts. They must receive payments only under the plan.”284

“With certain exceptions . . . when a chapter 13 debtor completes all payments under a chapter 13 plan, the Court must grant the debtor a discharge of all debts provided for by the plan.”285 Thus, “unlike the chapter 7 discharge, which is typically granted relatively quickly, the chapter 13

provide for the submission of all or such portion of future earnings or other future income of the debtor to the supervision and control of the trustee as is necessary for the execution of the plan.”; id. § 1322(d) (governing the permissible length of a Chapter 13 plan).

276 See, e.g., 11 U.S.C. § 1321 (“The debtor shall file a plan.”); In re Ellsworth, 455 B.R. 904, 916 (B.A.P. 9th Cir. 2011) (“A chapter 13 debtor . . . unlike a chapter 11 debtor, is the only entity that may file a plan.”).


278 See, e.g., 11 U.S.C. § 1324 (“A party in interest may object to confirmation of [a proposed Chapter 13] plan.”); In re Lilienthal, No. BK09-80928-TLS, 2009 WL 3103735, at *1 (Bankr. D. Neb. Sept. 23, 2009) (sustaining Chapter 13 trustee’s objection that debtors’ proposed plan violated 11 U.S.C. § 1325(a)(3)); In re Shelton, 428 B.R. 457, 461 (Bankr. N.D. Ohio 2010) (“Where a creditor finds its treatment in a debtor’s proposed plan to be improper, the Code contemplates that the creditor bring the matter to the Court’s attention by filing an objection.”); In re McDonald, 508 B.R. 187, 198 (Bankr. D. Colo. 2014) (holding that “anyone who has an interest in the property to be administered and distributed under the Chapter 13 plan” is a “party in interest” who may object to a proposed plan under 11 U.S.C. § 1324) (quoting Davis v. Mather (In re Davis), 239 B.R. 573, 579 (B.A.P. 10th Cir. 1999)).


285 In re Hornstra, No. 03-40528, 2007 WL 1428737, at *1 (Bankr. D.S.D. May 11, 2007). Accord, e.g., 11 U.S.C. § 1328 (providing, with certain exceptions, that “the court shall grant the debtor a discharge of” many types of debts “as soon as practicable after completion by the debtor of all payments under the plan”). The discharge in Chapter 13 affords the debtor relief from a wider variety of debts than a Chapter 7 discharge would cover. E.g., In re Self, No. 06-40228, 2009 WL 2969489, at *7 (Bankr. D. Kan. Sept. 11, 2009) (“There are distinct advantages in filing a Chapter 13 proceeding over a Chapter 7 proceeding, such as obtaining a broader discharge of debts.”). Compare 11 U.S.C. § 1328 (delineating the scope of a Chapter 13 discharge), with id. § 727(b) (delineating the scope of a Chapter 7 discharge).
debtor must, in most situations, successfully complete all plan payments before they may be granted a discharge.”

If, however, the “debtor fails to make timely payments under his plan,” the Chapter 13 trustee may (1) ask the court to either (i) dismiss the case or (ii) convert it to a Chapter 7 liquidation; or (2) seek modification of the plan. Dismissal of a Chapter 13 case usually “provide[s] no relief for the debtor, as it generally restores the debtor to the status quo ante.” When the court dismisses a debtor’s Chapter 13 case, the automatic stay “terminate[s] by operation of law,” and the debtor’s creditors may once again attempt to collect their outstanding debts to the extent they have not already been paid through the plan.

“Because Chapter 7 provides a quicker discharge of the debtor’s obligations” than Chapter 13, many debtors would “typically prefer” to file under Chapter 7 rather than Chapter 13, especially debtors who do not own a home that Chapter 13 could protect. Debtors may also “prefer to file chapter 7 when their debts overwhelmingly outweigh their assets,” as Chapter 7 allows debtors to discharge debts without pledging their future income to creditors.

On the other hand, “unsecured creditors often receive more money under successful Chapter 13 plans than they would under a Chapter 7 liquidation bankruptcy,” and some “policymakers prefer Chapter 13 to Chapter 7 because it includes an acknowledgement by filers to pay as much of their debts as they can, whereas Chapter 7 filers are asking to be relieved of the burden of paying anything towards the debts they have incurred.” For those reasons, “an individual debtor . . . whose debts are primarily consumer debts” is ineligible for Chapter 7 relief if his current monthly income, reduced by certain allowable expenses, exceeds statutory thresholds established by the Bankruptcy Code. As mentioned above, this eligibility provision is called

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287 Ferrell v. Countryman, 398 B.R. 857, 868 (E.D. Tex. 2009) (quoting Jutila v. Rodgers (In re Jutila), 111 B.R. 621, 624 (W.D. Mich. 1989)). Accord, e.g., 11 U.S.C. § 1307 (authorizing the court to “convert a case under [Chapter 13] to a case under chapter 7” or dismiss the case); id. § 1329(a) (“At any time after confirmation of the plan but before the completion of payments under such plan, the plan may be modified, upon request of . . . the trustee.”).
288 Alan M. Ahart, Whether to Grant a Hardship Discharge in Chapter 13, 87 AM. BANKR. L.J. 559, 559 (2013).
291 Porter, supra note 266, at 9 n.32 (“Fewer homeowners file chapter 7 bankruptcy; many prefer chapter 13 bankruptcy because it provides specific benefits to homeowners who may be in arrears on their mortgage loans.”).
293 McDonald v. Master Fin., Inc. (In re McDonald), 205 F.3d 606, 614 (3d Cir. 2000).
296 See supra “Individual Debtors.”
Chapter 12 Family Farmer/Family Fisherman Cases

Chapter 12 of the Bankruptcy Code offers a form of bankruptcy relief that is “similar to that available” to individual consumers “under chapter 13,” but is only available to family farmers and family fishermen with regular annual income. Although Chapter 12 is infrequently utilized, Chapter 12 exists to give family farmers and family fishermen “a chance to reorganize their debts and keep their farms while preserving the fair treatment of creditors.” To that end, “a Chapter 12 debtor has the right to continue to operate the farm [or fishing] business” during the pendency of the bankruptcy case.

To qualify as a “family farmer” or “family fisherman” within the meaning of Chapter 12, the debtor must satisfy a complicated series of statutory prerequisites. Among other requirements, the debtor’s aggregate debt must not exceed certain statutory limits, and a statutorily defined percentage of the debtor’s debts must arise out of a farming operation or commercial fishing operation.

“Chapter 12 was modeled on chapter 13,” and as a result “many of the provisions” of both Chapters “are identical.” Most pertinently, Chapter 12 debtors may “preserve existing assets subject to a ‘court-approved plan under which they pay creditors out of their future income’” like Chapter 13 debtors. Nevertheless, “there are significant differences between Chapter 12 and Chapter 13.” To name just one example, Chapter 13 “is substantially less permissive than

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297 E.g., In re Fredman, 471 B.R. 540, 542 (Bankr. S.D. Ill. 2012) (“With the enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (BAPCPA), 11 U.S.C. § 707(b) was amended to add a screening mechanism, known as the ‘means test.’ The purpose of the means test is to weed out chapter 7 debtors who are capable of funding a chapter 13 case.”).

298 William C. Whitford, A History of the Automobile Lender Provisions of BAPCPA, 2007 U. ILL. L. REV. 143, 156. See also McDonald, 205 F.3d at 614 (“Courts have repeatedly emphasized Congress’s preference that individual debtors use Chapter 13 instead of Chapter 7.”).


300 E.g., First Brandon Nat’l Bank v. Kerwin (In re Kerwin), 996 F.2d 552, 559-560 (2d Cir. 1993).

301 See 11 U.S.C. § 109(f) (“Only a family farmer or family fisherman with regular annual income may be a debtor under Chapter 12.”).

302 Katherine M. Porter, Phantom Farmers: Chapter 12 of the Bankruptcy Code, 79 AM. BANKR. L.J. 729, 740-47 (2005) (noting that “Chapter 12 has rarely been used” and positing reasons why Chapter 12 filings may be relatively infrequent).


304 In re Eckberg, 446 B.R. 909, 918 (Bankr. C.D. Ill. 2011). Accord, e.g., 11 U.S.C. § 1203 (granting the debtor the right to “operate[e] the debtor’s farm or commercial fishing operation”).


Chapter 12 regarding the scope of allowed modifications of secured debt, particularly regarding modifications of claims secured by residences.\textsuperscript{310}

Chapter 9 Municipality Cases

Chapter 9 of the Bankruptcy Code authorizes certain municipal debtors\textsuperscript{311} to restructure their debts so that they may “provide adequate municipal services” to residents.\textsuperscript{312} Because municipalities provide essential services to their residents, such as police protection, fire protection, garbage removal, and the like,\textsuperscript{313} a “municipality cannot be liquidated, its assets sold, and the proceeds used to pay its creditors.”\textsuperscript{314} Chapter 9 therefore permits municipalities to adjust their debts pursuant to a confirmed adjustment plan,\textsuperscript{315} “which fosters the continuance of municipalities rather than their dissolution.”\textsuperscript{316}

“The general policy considerations underlying the municipal debt adjustment plan of chapter 9 are the same as that of chapter 11 reorganization: to give the debtor a breathing spell from debt collection efforts and establish a repayment plan with creditors.”\textsuperscript{317} However, unlike Chapter 11, “the entire structure of chapter 9 has been influenced by th[e] pervasive concern to preserve the niceties of the state-federal relationship.”\textsuperscript{318} To that end, Chapter 9 restricts the bankruptcy court’s ability to “interfere with the political or governmental powers of the petitioner, the property or revenue of the petition, or any income-producing powers” in order to preserve “the sovereignty of the states.”\textsuperscript{319} Additionally, to avoid further “encroaching on state sovereignty,” there is little to no role for a case trustee in a Chapter 9 case.\textsuperscript{320}

\begin{itemize}
\item \textsuperscript{310} \textit{Id.}
\item \textsuperscript{311} See 11 U.S.C. § 109(c) (establishing requirements a municipality must fulfill in order to declare bankruptcy under Chapter 9). Among other requirements, a municipality “may be a debtor under chapter 9” of the Bankruptcy Code “if and only if such entity . . . is specifically authorized . . . to be a debtor under such chapter by State law, or by a governmental officer or organization empowered by State law to authorize such entity to be a debtor under such chapter.” \textit{Id.} § 109(c)(2). “Some states outright prohibit municipalities from availing themselves of chapter 9 protection; others provide express and unconditional or express but qualified authorization.” Diane Lourdes Dick, Bondholders v. Retirees in Municipal Bankruptcies: \textit{The Political Economy of Chapter 9, 92 AM. BANKR. L.J. 73, 79 (2017)}.
\item \textsuperscript{312} \textit{In re} City of Detroit, Mich., 524 B.R. 147, 256 (Bankr. E.D. Mich. 2014).
\item \textsuperscript{314} Franklin High Yield Tax-Free Income Fund v. City of Stockton, Cal. (\textit{In re} City of Stockton, Cal.), 542 B.R. 261, 284 (B.A.P. 9th Cir. 2015) (quoting \textit{ALAN N. RESNICK & HENRY J. SOMMER, 6 COLLIER ON BANKRUPTCY ¶ 943.03[7][a] (16th ed. 2011)}).
\item \textsuperscript{315} 11 U.S.C. §§ 941, 943.
\item \textsuperscript{316} \textit{Addison}, 175 B.R. at 648.
\item \textsuperscript{317} \textit{Addison}, 175 B.R. at 649.
\item \textsuperscript{318} Ass’n of Retired Emps. of City of Stockton v. City of Stockton, Cal. (\textit{In re} City of Stockton, Cal.), 478 B.R. 8, 20 (Bankr. E.D. Cal. 2012).
\item \textsuperscript{319} \textit{Addison}, 175 B.R. at 649 (quoting 121 \textit{CONG. REC.} H39409-10 (1975) (statement of Rep. Edwards)). \textit{See also}, \textit{e.g.}, 11 U.S.C. § 903 (providing that Chapter 9 “does not limit or impair the power of a State to control, by legislation or otherwise, a municipality of or in such State in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise”); \textit{id.} § 904 (limiting the court’s jurisdiction and power in Chapter 9 cases).
\item \textsuperscript{320} \textit{Stockton}, 478 B.R. at 20. \textit{Accord} 11 U.S.C. § 901(a) (providing that Chapter 11’s provisions governing the appointment of a trustee do not apply in Chapter 9); \textit{id.} § 926(a) (providing that “the court may appoint a trustee” in a
\end{itemize}
Although Chapter 9 bankruptcies are relatively infrequent, some commentators predict that municipal bankruptcies could potentially become more common in the future “as increasing numbers of cities and towns face fiscal distress.” High-profile examples of municipalities that have filed bankruptcy under Chapter 9 include the City of Detroit, Michigan; the City of San Bernardino, California; Jefferson County, Alabama; and the City of Fairfield, Alabama.

Chapter 15 Ancillary and Cross-Border Cases

Congress enacted Chapter 15 of the Bankruptcy Code “as a means to facilitate international cooperation in the administration of cross-border insolvencies” and to “incorporate the Model Law on Cross-Border Insolvency . . . promulgated by the United States Commission on International Trade Law.” Chapter 15 “authorizes an ‘ancillary’ proceeding in a United States bankruptcy court that is largely designed to complement and assist a foreign insolvency proceeding by, among other things, ‘bringing people and property beyond the foreign main proceeding’s jurisdiction into the foreign main proceeding through the exercise of the United States’ jurisdiction.”

“Filings under Chapter 15” are “relatively infrequent.”

Conversion to Another Chapter

Under certain circumstances, a bankruptcy court may convert a case commenced under one Chapter of the Bankruptcy Code to a case under another Chapter. For example, if a Chapter 11 debtor engages in “gross mismanagement of the estate,” the bankruptcy court may convert the case to a Chapter 7 liquidation and thereby place the debtor’s assets under the control of a Chapter 7 trustee to “liquidate the property so as to maximize distribution to creditors of the estate.” Similarly, “a chapter 13 debtor who is unable to complete plan payments may request that the case be converted to Chapter 7.”

Chapter 9 case only for the limited purpose of pursuing certain causes of action, and only “if the debtor refuses to pursue” those causes of action).


325 See *In re* City of Fairfield, Ala., Case No. 20-BK-1800 (Bankr. N.D. Ala. 2020), Docket No. 1 (Chapter 9 bankruptcy petition).


332 See *id.* § 1112(b)(4).


334 Ahart, *supra* note 288, at 576. See also 11 U.S.C. § 1307(a) (“The debtor may convert a case under [Chapter 13] to a
Discharge

As noted above, most types of bankruptcy cases ideally culminate in a “discharge” of many of the debtor’s preexisting debts.\(^{335}\) Generally speaking, a discharge:

- “Voids any judgment . . . to the extent that such judgment is a determination of the personal liability of the debtor with respect to” the discharged debt;\(^{336}\) and
- “Operates as an injunction against the commencement or continuation of” any “action” or “act to collect or recover” the discharged debt.\(^{337}\)

A creditor who “attempt[s] to collect on a debt that has been discharged in a bankruptcy proceeding” may potentially be “punished by contempt of court.”\(^{338}\) A court’s contempt authority for violation of a discharge order comes from Sections 105 and 524(a)(2) of the Bankruptcy Code.\(^{339}\) A court may hold a creditor in civil contempt for violating a discharge order where there is not a “fair ground of doubt” as to whether the creditor’s conduct might be lawful under the discharge order.\(^{340}\)

Exceptions and Limitations to Dischargeability

Although most debts that arise prior to the date on which the debtor filed the petition are typically dischargeable in bankruptcy,\(^{341}\) “Congress has decided” that, in some circumstances, “public policy considerations override the need to provide the debtor with a fresh start.”\(^{342}\) The Bankruptcy Code accordingly specifies certain categories of debts that are presumptively or categorically nondischargeable in bankruptcy.\(^{343}\) For instance:

- A debtor may not discharge a debt “for death or personal injury caused by the debtor’s operation of a motor vehicle, vessel, or aircraft if such operation was unlawful because the debtor was intoxicated from using alcohol, a drug, or another substance.”\(^{344}\)
- A debtor may not obtain a discharge from “any debt . . . for money, property, services, or an extension, renewal, or refinancing of credit, to the extent obtained by fraud.”\(^{345}\)

\(^{335}\) See, e.g., 11 U.S.C. §§ 524, 727, 1141(d), 1328.
\(^{336}\) Id. § 524(a)(1).
\(^{337}\) Id. § 524(a)(2)-(3). But see id. § 524(b) (specifying situations in which the discharge provision codified at 11 U.S.C. § 524(a)(3) does not apply).
\(^{339}\) See Taggart v. Lorenzen, 139 S. Ct. 1795, 1801 (2019).
\(^{340}\) Id. at 1804.
\(^{341}\) E.g., Grable v. IRS (In re Grable), 188 B.R. 595, 595 (Bankr. W.D. Mo. 1995) (“Most pre-petition debts are dischargeable.”).
\(^{342}\) In re Chambers, 348 F.3d 650, 653 (7th Cir. 2003).
\(^{343}\) See generally, e.g., 11 U.S.C. §§ 523, 727(b), 1141(d)(2), 1328(a)(2) & (c)(2).
\(^{344}\) Id. § 523(a)(9).
\(^{345}\) Id., § 523(a)(2); see Lamar, Archer, & Cofrin, LLP v. Appling, 138 S. Ct. 1752, 1758 (2018) (“This exception is keeping with the basic policy animating the Code of affording relief only to an honest but unfortunate debtor.” (internal
- Nor may a debtor discharge “a domestic support obligation.”

- A Chapter 7 debtor may not discharge a debt “for willful and malicious injury by the debtor to another entity or to the property of another entity.”

- A debtor may not discharge a student loan “unless excepting such debt from discharge . . . would impose an undue hardship on the debtor and the debtor’s dependents.”

Also, as a general matter, a discharge order does not discharge claims against the debtor that arise after the debtor filed a bankruptcy petition. Furthermore, with some exceptions, liens against the debtor’s property generally “continue in effect despite the entry of a bankruptcy discharge, which discharges only a debtor’s personal liability on an unpaid debt.”

Additionally, under certain circumstances, a bankruptcy court may deny a discharge to a debtor who might otherwise be eligible to receive one. For instance, a bankruptcy court may deny a discharge to certain debtors who commit misconduct during the bankruptcy case or otherwise fail to comply with certain requirements of the Bankruptcy Code. A debtor who files bankruptcy a second time too soon after receiving a discharge in an earlier bankruptcy case may likewise be ineligible for a discharge.

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347 Id. § 523(a)(6). But see id. § 1328(a)(2) (providing that Section 523(a)(6) does not apply in Chapter 13 cases).
348 Id. § 523(a)(8). See generally CRS Report R45113, Bankruptcy and Student Loans, by Kevin M. Lewis.
349 E.g., Wood v. Wood (In re Wood), 825 F.2d 90, 94 (5th Cir. 1987) (“Generally, post-petition claims are not dischargeable in bankruptcy.”); 11 U.S.C. § 727(b) (“A discharge . . . discharges the debtor from all debts that arose before the date of the order for relief under this chapter.”) (emphasis added)).
351 See generally, e.g., 11 U.S.C. §§ 727(a)(2)-(7), (11), 1328(g)(1). See also id. §§ 727(d)-(e), 1144(2), 1328(e) (authorizing the revocation of a discharge previously granted by the bankruptcy court if the debtor has committed misconduct).
352 See generally, e.g., id. §§ 727(a)(8)-(9), 1328(f).
Appendix A. Glossary

Automatic Stay  A protection that the Bankruptcy Code provides the debtor against collection activities and many other actions by creditors.


Bankruptcy Judge  A judicial officer established under Article I of the Constitution who rules on issues in bankruptcy cases.

Case Trustee  The representative of the bankruptcy estate whose role and duties vary depending on which Chapter of the Bankruptcy Code the debtor has invoked. A case trustee appointed to administer a case under Chapter 7 of the Bankruptcy Code is known as the “Chapter 7 trustee”; a case trustee appointed under Chapter 13 is known as the “Chapter 13 trustee,” and so forth. Not to be confused with the United States Trustee.

Collateral  Property that is pledged as security against a debt.

Confirmation  If a proposed plan satisfies the applicable provisions of the Bankruptcy Code, the bankruptcy judge may “confirm” it. Confirmation causes the plan to become effective and thereby bind interested parties.

Cramdown  Confirming a plan over the objection of certain creditors.

Creditor  One to whom the debtor owes money or who claims to be owed money by the debtor.

Debtor  A person or entity that owes debts to creditors and has filed a petition for relief under the Bankruptcy Code.

Discharge  Relief from some or all of a debtor’s debts. A discharge generally consists of a legal right not to pay the discharged debts as well as safeguards against harassment by the creditor whose debt is discharged.

Estate  With certain exceptions, the estate consists of the debtor’s property as of the commencement of the case. The estate is created upon the filing of a bankruptcy petition.

Exemption  Allows debtors to remove certain categories of assets from the property of the estate and thereby insulate those assets from the claims of creditors.

Plan  A proposal to adjust the relationships between (1) the debtor; (2) the debtor’s creditors; and (3) other stakeholders. A confirmed plan becomes a binding contract between the debtor, its creditors, and other stakeholders, and governs their respective rights and obligations.

Secured Creditor  A creditor who has a legal right against specific property that the debtor has pledged as security against the debt in the event the debtor defaults. Compare to Unsecured Creditor.

United States Trustee  An officer of the U.S. Department of Justice who oversees bankruptcy cases in most jurisdictions. Not to be confused with the Case Trustee.

Unsecured Creditor  A creditor who takes no rights to any specific property of the debtor in exchange for extending the debtor credit. Compare to secured creditor.
Appendix B. Table Illustrating Differences Between Chapters of the Bankruptcy Code

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<td>Liquidation of the debtor</td>
<td>Adjustment of the debtor's debts</td>
<td>Usually, reorganization of the debtor, but occasionally liquidation</td>
<td>Adjustment of the debtor's debts</td>
<td>Adjustment of the debtor's debts</td>
</tr>
<tr>
<td>Ideally Results in a Confirmed Plan?</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Case Trustee Appointed?</td>
<td>Yes</td>
<td>Almost never, and only for limited purposes</td>
<td>Rarely</td>
<td>Yes—usually a standing trustee</td>
<td>Yes—usually a standing trustee</td>
</tr>
<tr>
<td>Debtor Typically Retains Control of its Assets and Operations During Case?</td>
<td>No</td>
<td>Yes</td>
<td>Yes, unless trustee appointed</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Author Information

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Legislative Attorney

Acknowledgments

Former Legislative Attorney Kevin Lewis was the original author of this report. Future inquiries from congressional clients on this issue can be submitted to Michael Contino, who is listed as coordinator for this product but is not the original author.

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353 Because “a Chapter 15 case is” so “fundamentally different than one under other chapters of the Bankruptcy Code,” Dawson, supra note 330, at 78, adding a column for Chapter 15 to this table would inhibit clarity. This table therefore only illustrates the most pertinent differences between Chapters 7, 9, 11, 12, and 13.
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