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Bankruptcy Basics: A Primer

Updated October 12, 2022

Congressional Research Service

<https://crsreports.congress.gov>

R45137

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.”¹ Exercising that authority, Congress has enacted the “**Bankruptcy Code**”² which, along with other sources of law,³ governs bankruptcies in the United States. The Bankruptcy Code generally attempts to balance two competing policy concerns.⁴ On the one hand, bankruptcy aims to give honest debtors⁵ 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.’”⁶ This fresh start generally comes in the form of a “**discharge**”⁷ 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**”⁸ whose debt is discharged.⁹ 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.¹⁰ 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.”¹¹ To that end, Congress has frequently amended the Bankruptcy Code since its initial enactment in 1978 to recalibrate that balance.¹²

Because hundreds of thousands of bankruptcy filings are made every year,¹³ 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 overview¹⁴ 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.”

⁶ E.g., Grogan v. Garner, 498 U.S. 279, 286 (1991) (quoting Local Loan Co. v. Hunt, 292 U.S. 234, 244 (1934)).

⁷ See *infra* “Discharge.”

⁸ See *infra* “The Key Players in a Bankruptcy Case” and **Appendix A** for the definition of “creditor.”

⁹ *In re Walker*, 180 B.R. 834, 840 (Bankr. W.D. La. 1995). *Accord*, e.g., 11 U.S.C. § 524(a) (describing the legal effect of a bankruptcy discharge).

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).

¹² See Pamela Kohlman Webster, *The Malpractice of Health Care Bankruptcy Reform*, 32 LOY. L.A. L. REV. 1045, 1045 (1999).

¹³ Admin. Office of the U.S. Courts, *Bankruptcy Filings Drop 24 Percent* (Feb. 11, 2022), <https://www.uscourts.gov/news/2022/02/04/bankruptcy-filings-drop-24-percent> (describing “a steady decline” in bankruptcy filings during the COVID-19 pandemic, and reporting 413,616 filings in 2021 compared to 544,463 cases in 2020). The number of people filing for bankruptcy is higher than the number of bankruptcy filings themselves, because spouses may file jointly. 11 U.S.C. § 302 (2012). See Pamela Foohey *et al.*, “No Money Down” *Bankruptcy*, 90 S. CAL. L. REV. 1055, 1056-57 (2017) (noting roughly 819,000 bankruptcy petitions in 2015, but estimating that over a million people filed for bankruptcy because of joint petitions).

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*

- 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.”¹⁵ 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.¹⁶ 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.”¹⁷

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.¹⁸ 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.”¹⁹

BANKRUPTCY (16th ed. 2011) and WILLIAM L. NORTON JR. & WILLIAM L. NORTON, III, NORTON BANKRUPTCY LAW & PRACTICE (3d ed. 2018).

¹⁵ U.S. CONST. art. I, § 8, cl. 4.

¹⁶ 186 U.S. 181 (1902).

¹⁷ *Id.* at 190.

¹⁸ 419 U.S. 102 (1974).

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.

²⁰ 455 U.S. 457 (1982).

²¹ *Id.* at 468-69.

²² 142 S. Ct. 1770 (2022).

²³ U.S. Dep't of Just., *About the Program* (last updated Feb. 3, 2022), <https://www.justice.gov/ust/about-program>.

²⁴ *Siegel*, 142 S. Ct. at 1782-83.

²⁵ *Id.* at 1781.

²⁶ Michelle M. Harner, *The Corporate Governance and Public Policy Implications of Activist Distressed Debt Investing*, 77 *FORDHAM L. REV.* 703, 729 (2008).

²⁷ *See* 11 U.S.C. §§ 101-1532.

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,³² 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.³³ 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.³⁴ 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.³⁵

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 judge³⁶ may adjudicate.³⁷ Additionally, “certain sections of the Bankruptcy Code . . . expressly incorporate state law, which is often different from state to state.”³⁸

The Key Players in a Bankruptcy Case

Although many types of people and entities can potentially play critical roles in a bankruptcy proceeding,³⁹ 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)⁴⁰ and the creditors (who seek to promptly and efficiently collect as much of the money they are owed by the debtor as they can).⁴¹

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.⁴² The U.S. Courts of Appeals appoint bankruptcy

³² See FED. R. BANKR. P. 1001-9037. See also 28 U.S.C. § 2075 (governing the promulgation of bankruptcy rules).

³³ See Samuel L. Bufford, *Center of Main Interests, International Insolvency Case Venue, and Equality of Arms: The Eurofood Decision of the European Court of Justice*, 27 NW. J. INT’L L. & BUS. 351, 412 (2007).

³⁴ Daniel A. Austin, *Bankruptcy and the Myth of “Uniform Laws,”* 42 SETON HALL L. REV. 1081, 1088-90 (2012) (“Local bankruptcy rules are district-wide rules that apply to bankruptcy proceedings generally . . . Bankruptcy courts also issue orders known as ‘general procedure orders’ or ‘standing orders.’ Like local rules, standing orders govern procedures and practices in the bankruptcy court.”).

³⁵ See FED. R. BANKR. P. 9009(a) (“The Official Forms prescribed by the Judicial Conference of the United States shall be used . . .”); Official Bankruptcy Forms B 101-B 4100R.

³⁶ See *infra* “The Key Players in a Bankruptcy Case” and **Appendix A** for the definition of “bankruptcy judge.”

³⁷ See, e.g., 28 U.S.C. § 157 (specifying which cases a bankruptcy judge “may hear and determine”); *Stern v. Marshall*, 564 U.S. 462, 469 (2011) (articulating limits that Article III of the U.S. Constitution places upon a bankruptcy court’s authority to adjudicate certain matters).

³⁸ Austin, *supra* note 34, at 1082. See also *id.* at 1086-87 (listing examples of “state law incorporated into the Bankruptcy Code”).

³⁹ See, e.g., 11 U.S.C. § 1109(b) (“A party in interest, including the debtor, the trustee, a creditors’ committee, an equity security holders’ committee, a creditor, an equity security holder, or any indenture trustee, may raise and may appear and be heard on any issue in [certain types of bankruptcy cases].”).

⁴⁰ See, e.g., *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.”).

⁴¹ See, e.g., *Hoseman v. Weinschneider*, 322 F.3d 468, 475 (7th Cir. 2003) (“The administration of bankruptcy estates has twin goals of maximization of realization on creditors’ claims and of prompt and efficient administration of the estate.”).

⁴² E.g., Stephen A. Stripp, *An Analysis of the Role of the Bankruptcy Judge and the Use of Judicial Time*, 23 SETON HALL L. REV. 1329, 1336-37, 1344 (1993). See also 28 U.S.C. § 157(b) (“Bankruptcy judges may hear and determine

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,”⁴⁴ 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. Code⁴⁶ 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].”).

⁴³ 28 U.S.C. § 152(a)(1).

⁴⁴ *Stern v. Marshall*, 564 U.S. 462, 469 (2011).

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).

⁴⁸ *In re Davis*, 538 B.R. 368, 390 n.14 (Bankr. S.D. Ohio 2015); *In re Vance*, 120 B.R. 181, 185 (Bankr. N.D. Okla. 1990).

⁴⁹ See generally 28 U.S.C. § 586(a).

⁵⁰ In North Carolina and Alabama, the U.S. Trustee’s duties are instead performed by “Bankruptcy Administrators.” Kara Bruce, *Closing Consumer Bankruptcy’s Enforcement Gap*, 69 BAYLOR L. REV. 479, 489 n.52 (2017). See also Rafael I. Pardo & Kathryn A. Watts, *The Structural Exceptionalism of Bankruptcy Administration*, 60 UCLA L. REV. 384, 394-99 (2012) (comparing and contrasting U.S. Trustees with Bankruptcy Administrators and explaining that a “political compromise” “resulted in the [Bankruptcy Administrator] Program operating in Alabama and North Carolina and the [U.S. Trustee] Program operating everywhere else”); see *Siegel v. Fitzgerald*, 142 S. Ct. 1770 (2022) (invalidating law imposing different fees in districts with administrators but refraining from addressing the constitutionality of the dual-administrative system).

⁵¹ E.g., *Citicorp N. Am., Inc. v. Finley (In re Wash. Mfg. Co.)*, 123 B.R. 272, 275 (Bankr. M.D. Tenn. 1991) (quoting H.R. REP. NO. 95-595, 95th Cong., 1st Sess., 88 (1977)).

⁵² 28 U.S.C. § 586(c).

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.⁵⁶ A case trustee who is appointed in a Chapter 7 case is called the “Chapter 7 trustee”;⁵⁷ a case trustee appointed in a Chapter 13 case is called the “Chapter 13 trustee,”⁵⁸ and so forth. This report discusses the case trustee’s respective role under each Chapter below.⁵⁹

Filing for Bankruptcy

A debtor may declare bankruptcy by filing a document known as a bankruptcy “petition” with the clerk of the bankruptcy court.⁶⁰ Most debtors⁶¹ must also file a schedule of the debtor’s assets and liabilities;⁶² a schedule of the debtor’s current income and expenditures;⁶³ a statement of the debtor’s financial affairs;⁶⁴ and other required documents.⁶⁵ These filing requirements “are carefully designed to elicit certain information necessary to the proper administration and adjudication of the case”⁶⁶ 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.⁶⁷ Depending on the debtor’s financial circumstances, the debtor may also be required to pay a filing fee.⁶⁸ The debtor may also move for in forma pauperis status.⁶⁹

⁵⁶ See, e.g., *Fifth Third Bank v. Circulatory Ctrs. of Am., LLC* (*In re* *Circulatory Ctrs. of Am., LLC*), 579 B.R. 752, 758 (Bankr. W.D. Pa. 2017) (“The appointment of a trustee is exceptional in Chapter 11 reorganizations.”) (quoting Official Comm. of Unsecured Creditors of Cybergenics Corp. *ex rel.* *Cybergenics Corp. v. Chinery*, 330 F.3d 548, 577 (3d Cir. 2003)).

⁵⁷ See, e.g., *In re* *Levine*, 287 B.R. 683, 685 (Bankr. E.D. Mich. 2002).

⁵⁸ See, e.g., *In re* *Rivera*, 268 B.R. 292, 293 (Bankr. D.N.M. 2001).

⁵⁹ See *infra* “Types of Bankruptcy Proceedings.”

⁶⁰ 11 U.S.C. § 301(a); FED. R. BANKR. P. 1002(a), 1005; Official Bankruptcy Forms B 101 & B 201.

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).

⁶² FED. R. BANKR. P. 1007(b)(1)(A).

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

⁶⁴ FED. R. BANKR. P. 1007(b)(1)(D); Official Bankruptcy Forms B 107 & B 207.

⁶⁵ See *generally* FED. R. BANKR. P. 1007; 11 U.S.C. § 521.

⁶⁶ E.g., *Beer Sheva Realty Corp. v. Pongvitayapanu* (*In re* *Pongvitayapanu*), 487 B.R. 130, 138 (Bankr. E.D.N.Y. 2013) (quoting *Siegel v. Weldon* (*In re* *Weldon*), 184 B.R. 710, 715 (Bankr. D.S.C. 1995)).

⁶⁷ E.g., *Cho v. Park* (*In re* *Park*), 480 B.R. 627, 639 (Bankr. D. Md. 2012).

⁶⁸ See *generally* 28 U.S.C. § 1930; FED. R. BANKR. P. 1006.

⁶⁹ See *generally* 28 U.S.C. § 1930(f).

The Bankruptcy Estate

Filing a petition in the bankruptcy court creates a bankruptcy “**estate**”⁷⁰ that, subject to certain exceptions,⁷¹ is “comprised of the debtor’s property as of the commencement of the case.”⁷² The assets in the bankruptcy estate are generally used “to satisfy claims of creditors and costs of the proceedings.”⁷³

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.”⁷⁴ The Bankruptcy Code does not define what constitutes a debtor’s property or interests in property,⁷⁵ however, and courts usually answer those questions by looking to state law.⁷⁶

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.⁷⁷ For example, depending on the circumstances, an individual debtor may be able to claim articles of clothing,⁷⁸ certain medical equipment,⁷⁹ and his or her residence⁸⁰ 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

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”).

⁷⁵ *See* *Butner v. United States*, 440 U.S. 48, 54 (1979).

⁷⁶ *Rodriguez v. Fed. Deposit Ins. Corp.*, 140 S. Ct. 713, 718 (2020); *Travelers Cas. and Sur. Co. of Am. v. Pac. Gas and Elec. Co.*, 549 U.S. 443, 450-451 (2007).

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., id.* § 522(b)(2), (d)(9) (permitting a debtor to exempt “professionally prescribed health aids for the debtor or a dependent of the debtor” unless “State law . . . specifically does not so authorize”).

⁸⁰ *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.”⁸¹ Note, however, that a *non*-individual debtor, such as a corporation or other business entity, may not declare property as exempt.⁸²

The Automatic Stay

Filing for bankruptcy affords the debtor several immediate benefits. Perhaps most importantly,⁸³ “the filing of a bankruptcy petition stays the commencement or continuation of all nonbankruptcy judicial proceedings against the debtor”;⁸⁴ precludes creditors from taking “any act to collect, assess, or recover a claim against the debtor that arose before the commencement of the case”;⁸⁵ and, with certain exceptions,⁸⁶ prohibits creditors from taking almost any action “against the debtor or the property of the estate,”⁸⁷ including the enforcement of preexisting liens or judgments against the debtor and the exercise of control over the debtor’s property.⁸⁸ These protections are collectively known as the “automatic stay.”⁸⁹ The stay is “automatic” because “it operates without the necessity for judicial intervention”;⁹⁰ 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.”⁹¹ 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.⁹²

“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.”⁹³ “The automatic stay provides debtors a breathing spell from creditors by preventing ‘all collection efforts, all harassment, and all foreclosure

⁸¹ *Menninger v. Schramm (In re Schramm)*, 431 B.R. 397, 400 (B.A.P. 6th Cir. 2010).

⁸² *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.”).

⁸³ *See, e.g.*, *Eskanos & Adler, P.C. v. Leetien*, 309 F.3d 1210, 1214 (9th Cir. 2002) (describing the automatic stay as “one of the most important protections in bankruptcy law”).

⁸⁴ *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).

⁸⁵ 11 U.S.C. § 362(a)(6).

⁸⁶ *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).

⁸⁷ *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)).

⁸⁸ *Ritzen Group, Inc. v. Jackson Masonry, LLC*, 140 S. Ct. 582, 589 (2020).

⁸⁹ *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.”).

⁹⁰ *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).

⁹¹ *E.g., id.* (quoting *Constitution Bank v. Tubbs*, 68 F.3d 685, 691 (3d Cir. 1995)).

⁹² 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).

⁹³ *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)).

actions.”⁹⁴ “The stay protects creditors, too, by precluding certain ‘creditors from acting unilaterally in self-interest to obtain payment from a debtor to the detriment of other creditors.’”⁹⁵

Creditors who knowingly violate the automatic stay—such as by attempting to collect a debt from the debtor⁹⁶—does so at their peril.⁹⁷ “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.”⁹⁸ 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.⁹⁹ The court may grant relief from the automatic stay “for cause,”¹⁰⁰ 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,¹⁰¹ or when the debtor has filed bankruptcy in bad faith solely to prevent an impending foreclosure.¹⁰² 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.¹⁰³ 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.¹⁰⁴ The likelihood that a bankruptcy court will grant a party relief from the automatic stay varies depending on the context.¹⁰⁵

⁹⁴ *E.g.*, *In re Capgro Leasing Assocs.*, 169 B.R. 305, 310 (Bankr. E.D.N.Y. 1994) (quoting *Maritime Elec. Co. v. United Jersey Bank*, 959 F.2d 1194, 1204 (3d Cir. 1991)).

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).

⁹⁸ 11 U.S.C. § 362(k)(1).

⁹⁹ *Id.* § 362(d). *See also* FED. R. BANKR. P. 4001(a) (governing motions for relief from the automatic stay).

¹⁰⁰ 11 U.S.C. § 362(d)(1).

¹⁰¹ *E.g.*, *In re Bell*, 476 B.R. 168, 179 (Bankr. E.D. Pa. 2012).

¹⁰² *E.g.*, *In re Lippolis*, 228 B.R. 106, 112 (E.D. Pa. 1998).

¹⁰³ 11 U.S.C. § 362(d)(2).

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.”¹⁰⁶ 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.¹⁰⁷

1. liquidation proceedings under Chapter 7;¹⁰⁸
2. reorganization proceedings under Chapter 11;¹⁰⁹
3. reorganization geared toward small businesses;¹¹⁰
4. the adjustment of debts of an individual with regular income under Chapter 13;¹¹¹
5. the adjustment of debts of a family farmer or fisherman with regular annual income under Chapter 12;¹¹²
6. the adjustment of debts of a municipality under Chapter 9;¹¹³ and
7. ancillary and cross-border cases under Chapter 15.¹¹⁴

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.¹¹⁵ 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.¹¹⁶ 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.¹¹⁷ Still other debtors may not be eligible to file for bankruptcy under any Chapter of the Bankruptcy Code whatsoever.¹¹⁸

¹⁰⁶ Richard H.W. Maloy, *Comparative Bankruptcy*, 24 SUFFOLK TRANSNAT’L L. REV. 1, 10 (2000).

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.

¹⁰⁸ 11 U.S.C. §§ 701-784.

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.

¹¹⁶ *See generally* 11 U.S.C. § 109 (establishing eligibility requirements for declaring bankruptcy under the various Chapters of the Bankruptcy Code).

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

¹¹⁹ Arthur Best, *Lying Lawyers and Recumbent Regulators*, 49 IND. L. REV. 1, 13 (2015). *Accord, e.g., In re Brooks*, 784 F.3d 380, 381 (7th Cir. 2015) (same).

¹²⁰ Admin. Office of the U.S. Courts, *June 2017 Bankruptcy Filings Down 2.8 Percent* (July 21, 2017), <http://www.uscourts.gov/news/2017/07/21/june-2017-bankruptcy-filings-down-28-percent>.

¹²¹ Admin. Office of U.S. Courts, *supra* note 13.

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.”).

¹²³ *See In re Arena Football League LLC*, Case No. 19-BK-12541 (Bankr. D. Del.), Docket No. 1 (Chapter 7 bankruptcy petition).

¹²⁴ *See Siegel v. FDIC (In re Indymac Bancorp, Inc.)*, Bankr. No. 2:08-bk-21752-BB, Adv. No. 2:09-ap-01698-BB, 2012 WL 1037481, at *1 (Bankr. C.D. Cal. Mar. 29, 2012).

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).

¹²⁷ *E.g., In re Cohen*, 141 B.R. 1, 1 (Bankr. D. Mass. 1992).

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).

¹³⁰ *E.g., Midway Airlines, Inc. v. Nw. Airlines, Inc. (In re Midway Airlines, Inc.)*, 154 B.R. 248, 256-57 (N.D. Ill. 1993).

¹³¹ *In re Lopez*, No. 08-14625-SSM, 2008 WL 5786897, at *1 (Bankr. E.D. Va. Nov. 6, 2008) (quoting *Local Loan Co. v. Hunt*, 292 U.S. 234, 244 (1934)). *See generally* 11 U.S.C. § 109(b) (establishing eligibility requirements for Chapter

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

7).

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 (Bankr. M.D. Fla. 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.”

¹³⁵ *E.g., In re Richardson*, No. 08-82000, 2009 WL 65178, at *2 (Bankr. C.D. Ill. Jan. 8, 2009).

¹³⁶ 28 U.S.C. § 159.

¹³⁷ 28 U.S.C. § 159(a).

¹³⁸ Admin. Office of the U.S. Courts, *BAPCPA Report—2021* (Dec. 31, 2021), <https://www.uscourts.gov/statistics-reports/bapcpa-report-2021>.

¹³⁹ *See* 11 U.S.C. § 109(b).

¹⁴⁰ *E.g., Ormet Corp. v. Boury (In re Boury, Inc.)*, No. Civ.A. 5:01CV134, 2002 WL 32290985, at *2 (N.D. W. Va. Aug. 23, 2002).

¹⁴¹ *See infra* “Chapter 11 Reorganization.”

¹⁴² *See infra* “Conversion to Another Chapter.”

¹⁴³ 11 U.S.C. § 1112(b).

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.¹⁴⁴ 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.”¹⁴⁵ “Corporate debt” therefore “survive[s] Chapter 7 proceedings” and is “charged against the corporation when it resume[s] operations.”¹⁴⁶ “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.”¹⁴⁷ “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.”¹⁴⁸

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.”¹⁴⁹ The Bankruptcy Code establishes a complex priority framework of expenses and claims that are entitled to payment before others.¹⁵⁰ 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 defaulted¹⁵¹—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”¹⁵² any “**unsecured creditor**” who, “upon giving credit” to the debtor, took “no rights against specific property of the debtor.”¹⁵³ To name another example, claims for specified types of domestic support obligations are entitled to be paid before certain unpaid property taxes.¹⁵⁴

¹⁴⁴ *Id.* § 727(a) (“The court shall grant the debtor a discharge, *unless . . . the debtor is not an individual.*”) (emphasis added).

¹⁴⁵ *E.g.*, *NLRB v. Better Bldg. Supply Corp.*, 837 F.2d 377, 379 (9th Cir. 1988).

¹⁴⁶ *E.g.*, *id.*

¹⁴⁷ *Moody v. Tiny Treasures of Richland, Inc.*, Civil Action No. 3:08-CV-318-HTW-LRA, 2014 WL 12709475, at *5 (S.D. Miss. Feb. 20, 2014). *See also, e.g.*, *Kelley v. Cypress Fin. Trading Co., L.P. (In re Cypress Fin. Trading Co., L.P.)*, 620 F. App’x 287, 289 (5th Cir. 2015) (“A corporate Chapter 7 (and the resulting automatic stay) may allow breathing space for a neutral third party to marshal assets for orderly distribution to creditors.”).

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).

¹⁵⁰ *See generally* 11 U.S.C. §§ 507, 725, 726(a).

¹⁵¹ *See* “Secured Claim,” BLACK’S LAW DICTIONARY (10th ed. 2014); “Collateral,” BLACK’S LAW DICTIONARY (10th ed. 2014).

¹⁵² *E.g.*, *Greaves v. Office of the Del. Attorney Gen. (In re Two Springs Membership Club)*, 424 B.R. 808, 815 (Bankr. N.D. Ohio 2010). *See also* 11 U.S.C. §§ 725, 726(a).

¹⁵³ *Unsecured Creditor*, BLACK’S LAW DICTIONARY (10th ed. 2014).

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.”¹⁵⁵ 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.”¹⁵⁶ 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.¹⁵⁷

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.¹⁵⁸ 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.”¹⁵⁹ 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.¹⁶⁰ 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.¹⁶¹

Chapter 11 is “intended primarily for the use of business debtors” such as corporations and limited liability companies.¹⁶² Notable examples of large companies that have filed for

¹⁵⁵ *Czyzewski v. Jevic Holding Corp.*, 137 S. Ct. 973, 983 (2017).

¹⁵⁶ *In re Swann*, 149 B.R. 137, 145 (Bankr. D.S.D. 1993) (quoting *In re Higgins*, 29 B.R. 196, 199 (Bankr. N.D. Iowa 1983)).

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).

¹⁵⁹ *E.g.*, *Frederick Tung, Confirmation and Claims Trading*, 90 NW. U. L. REV. 1684, 1689 (1996).

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.”).

¹⁶² *Toibb v. Radloff*, 501 U.S. 157, 166 (1991).

bankruptcy under Chapter 11 include Kmart,¹⁶³ General Motors,¹⁶⁴ Alex and Ani,¹⁶⁵ and the Los Angeles Dodgers.¹⁶⁶

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.¹⁶⁷ 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 Code¹⁶⁸ may instead be able to file under Chapter 11.¹⁶⁹ 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.”¹⁷⁰ 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.¹⁷¹

“The primary goal of Chapter 11” is “to formulate a comprehensive reorganization plan”¹⁷² 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.”¹⁷³ “The chapter 11 plan becomes a binding contract between the debtor and its creditors, and governs their rights and obligations.”¹⁷⁴

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,¹⁷⁵ a Chapter 11 debtor generally remains in possession of its assets throughout the entire reorganization proceeding¹⁷⁶ “and administers them for the benefit of the creditor body.”¹⁷⁷ 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).

¹⁶⁴ See *Chenault v. Gen. Motors LLC (In re Motors Liquidation Co.)*, No. 16-CV-3764 (RA), 2017 WL 698387, at *1 (S.D.N.Y. Feb. 21, 2017).

¹⁶⁵ See *In re A and A Shareholding Co., LLC*, 21-BK-10917 (Bankr. D. Del.) Docket No. 1 (Chapter 11 bankruptcy petition).

¹⁶⁶ See *In re L.A. Dodgers LLC*, No. 11-12010 (KG), 2012 WL 1601177 (Bankr. D. Del. May 3, 2012) (order confirming Chapter 11 plan).

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.

¹⁷¹ Admin. Office of the U.S. Courts, *U.S. Bankruptcy Courts—Business and Nonbusiness Cases Commenced, by Chapter of the Bankruptcy Code, During the 12-Month Period Ending June 30, 2022* (June 30, 2022), https://www.uscourts.gov/sites/default/files/data_tables/bf_f2_0630.2022.pdf.

¹⁷² *E.g.*, *Tamir v. U.S. Trustee*, 566 B.R. 278, 283 (D. Me. 2016).

¹⁷³ *E.g.*, *Tung*, *supra* note 159, at 1690.

¹⁷⁴ *In re Nylon Net Co.*, 225 B.R. 404, 406 (Bankr. W.D. Tenn. 1998). *Accord, e.g.*, 11 U.S.C. § 1141(a).

¹⁷⁵ *E.g.*, *Midway Airlines, Inc. v. Nw. Airlines, Inc. (In re Midway Airlines, Inc.)*, 154 B.R. 248, 256-57 (N.D. Ill. 1993); 11 U.S.C. § 704(a)(1).

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.¹⁷⁸ When acting in this capacity, the debtor is known as the “debtor-in-possession.”¹⁷⁹ 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.”¹⁸⁰

With some exceptions that are dealt with immediately upon filing for bankruptcy,¹⁸¹ 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.¹⁸² However, any action the debtor-in-possession takes *outside* the ordinary course of business typically “requires notice, hearing and court approval” in advance.¹⁸³ 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,”¹⁸⁴ like a sale of “substantially all the debtor’s assets.”¹⁸⁵ 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.”¹⁸⁶

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.”¹⁸⁷ Ideally, a Chapter 11 plan is a product of negotiation between the debtor and its key stakeholders¹⁸⁸ that

affairs of the debtor by current management,” the bankruptcy court may order the appointment of a trustee to administer the debtor’s Chapter 11 case. 11 U.S.C. § 1104(a). “‘The appointment of a trustee divests the management of the debtor of authority to execute its former role as head of the debtor,’ and the debtor acts through the trustee’s authority.” *E.g.*, *South Edge LLC v. JPMorgan Chase Bank, N.A.*, Nos. 2:11-CV-00240-PMP-RJJ, 2:11-CV-00301-PMP-RJJ, 2011 WL 1626567, at *3 (D. Nev. Apr. 28, 2011) (quoting *Kranzdorf v. Alter (In re Fid. Am. Fin. Corp.)*, 63 B.R. 995, 998 (Bankr. E.D. Pa. 1986)).

¹⁷⁸ *Marvel*, 140 F.3d at 471 (quoting *In re V. Savino Oil & Heating Co.*, 99 B.R. 518, 524 (Bankr. E.D.N.Y. 1989)).

¹⁷⁹ See 11 U.S.C. §§ 1107-1108.

¹⁸⁰ Lucian Arye Bebchuk & Jesse M. Fried, *A New Approach to Valuing Secured Claims in Bankruptcy*, 114 HARV. L. REV. 2386, 2402 n.56 (2001).

¹⁸¹ See, e.g., 11 U.S.C. § 363(c)(2) (special rules governing the use and sale of “cash collateral”).

¹⁸² *E.g.*, *In re Telesphere Commc’ns, Inc.*, 148 B.R. 525, 530 (Bankr. N.D. Ill. 1992); 11 U.S.C. §§ 363(c)(1), 364(a).

¹⁸³ *Morris v. Family Motors, Inc. (In re Dooley’s Rainwater Conditioning, Inc.)*, Bankr. No. 10-14145, Adv. No. 12-5063, 2012 WL 6737501, at *3 (Bankr. D. Kan. Dec. 27, 2012). *Accord, e.g.*, 11 U.S.C. §§ 363(b)(1), 364(b).

¹⁸⁴ *E.g.*, *In re Hustling Land & Dev., Inc.*, 255 B.R. 772, 778-79 (Bankr. D. Utah 2000).

¹⁸⁵ See, e.g., *In re Med. Software Sols.*, 286 B.R. 431, 439-40 (Bankr. D. Utah 2002).

¹⁸⁶ *E.g.*, *In re Roth Am., Inc.*, 975 F.2d 949, 952 (3d Cir. 1992).

¹⁸⁷ *E.g.*, *Tamir v. U.S. Trustee*, 566 B.R. 278, 283 (D. Me. 2016).

¹⁸⁸ *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.”¹⁸⁹

The debtor may file a proposed Chapter 11 plan at any time.¹⁹⁰ 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.¹⁹¹ To name but one example, the Bankruptcy Code establishes an initial exclusivity period during which “only the debtor may file a plan.”¹⁹²

Among other requirements,¹⁹³ a proposed plan must:

- divide similarly situated debt-holders and equityholders into separate “classes.”¹⁹⁴
- identify which classes will have their claims “impaired” by the plan.¹⁹⁵ “A class is impaired if there is ‘any alteration of a creditor’s rights, no matter how minor.’”¹⁹⁶
- specify how the plan will alter the claims belonging to the impaired classes.¹⁹⁷
- treat every entity in a given class the same as other class members (unless a particular claimant agrees to less favorable treatment).¹⁹⁸
- provide adequate means for the plan’s implementation,¹⁹⁹ such as by allowing the debtor to retain certain property;²⁰⁰ selling or transferring the debtor’s property;²⁰¹ satisfying or modifying liens;²⁰² curing or waiving a default by the debtor;²⁰³ and so forth.²⁰⁴

¹⁸⁹ *E.g.*, Tung, *supra* note 159, at 1690.

¹⁹⁰ 11 U.S.C. § 1121(a).

¹⁹¹ *See generally id.* § 1121(b)-(e).

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.”).

¹⁹⁷ 11 U.S.C. § 1123(a)(3).

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 plan²⁰⁵ may then vote in favor of or against it.²⁰⁶ Generally,²⁰⁷ in order to facilitate the voting process, “a proponent of a plan must also submit a disclosure statement”²⁰⁸ 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.”²⁰⁹ The bankruptcy court will then “fix a time within which” creditors may vote on the plan.²¹⁰ Voting creditors must submit their votes in writing to the plan proponent’s attorney prior to the deadline established by the court.²¹¹ 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.²¹²

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.²¹³ A bankruptcy court cannot confirm a proposed Chapter 11 plan unless it satisfies not only the criteria enumerated in the bullet points above,²¹⁴ but also several additional prerequisites established by the Bankruptcy Code,²¹⁵ 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 11.²¹⁶ Liquidating under Chapter 11 may prove more advantageous both to the debtor and creditors, the former

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.”).

²⁰⁶ 11 U.S.C. § 1126(a).

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

²⁰⁸ *In re Del. & Hudson Ry. Co.*, 124 B.R. 169, 174 (D. Del. 1991). *See also* 11 U.S.C. § 1125; FED. R. BANKR. P. 3016.

²⁰⁹ *In re Huggins*, No. BK12-42692-T, 2013 WL 4502825, at *2 (Bankr. D. Neb. Aug. 22, 2013). *Accord, e.g.*, 11 U.S.C. § 1125; FED. R. BANKR. P. 3016.

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 requirements 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

²¹⁷ Admin. Office of U.S. Courts, *Chapter 11 - Bankruptcy Basics*, <https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-11-bankruptcy-basics> (last visited Sept. 29, 2022).

²¹⁸ *ReGen Capital I, Inc. v. Halperin (In re U.S. Wireless Data, Inc.)*, 547 F.3d 484, 495 (2d Cir. 2008). *Accord, e.g.*, 11 U.S.C. § 1129(a)(7).

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)).

²²¹ *In re River Glen Land P’ship*, Case No. 14-32732, 2015 WL 588696, at *8 (Bankr. E.D. Tenn. Feb. 11, 2015) (quoting *In re Hockenberry*, 457 B.R. 646, 653-54 (Bankr. S.D. Ohio 2011)).

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. 07-12665bif, 2007 WL 3407375, at *3 (Bankr. E.D. Pa. Nov. 9, 2007).

²²⁴ 11 U.S.C. § 1129(a)(11).

²²⁵ *Gentry*, 807 F.3d at 1225.

²²⁶ *E.g., In re Renegade Holdings, Inc.*, Nos. 09-50140C-11W, 09-50141C-11W, 09-50143C-11W, 2013 WL 2353940, at *8 (Bankr. M.D.N.C. May 29, 2013).

sell in years past,” as “such plans are nothing more than speculative ventures which place all the risk on the . . . creditors.”²²⁷

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).²²⁸

“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.”²²⁹ Section 1129(a)(8) thereby requires that a proposed plan “be consensual, with unanimous acceptance by all of the impaired classes.”²³⁰

Nevertheless, “the failure to comply with § 1129(a)(8) is not fatal.”²³¹ “A plan that does not satisfy [§] 1129(a)(8) nonetheless can be confirmed”²³² 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.”²³³ In order for the court to deem a plan “fair and equitable” for cramdown purposes, the plan must satisfy the “absolute priority rule.”²³⁴ “That rule requires that, if a class of senior claim-holders will not receive the full value of their claims under the plan and the class does not accept the plan, no junior [claim-holder] may receive ‘any property’ ‘under the plan on account of such junior claim or interest.’”²³⁵ 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.²³⁶

Obtaining confirmation of a plan over the objection of impaired creditors in accordance with Section 1129(b) is known as a “cramdown.”²³⁷ Many (though not all) commentators agree that plan proponents utilize the Bankruptcy Code’s cramdown provisions relatively infrequently.²³⁸

²²⁷ *In re S. Canaan Cellular Invs., Inc.*, 427 B.R. 44, 63 (Bankr. E.D. Pa. 2010) (quoting *In re Calvanese*, 169 B.R. 104, 107-08 (Bankr. E.D. Pa. 1994)).

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).

²³¹ *E.g.*, *In re Frascella Enters., Inc.*, 360 B.R. 435, 452 (Bankr. E.D. Pa. 2007).

²³² *Smith*, 357 B.R. at 68.

²³³ 11 U.S.C. § 1129(b)(1).

²³⁴ *See id.* § 1129(b)(2)(A)-(B) (defining “fair and equitable”); *DISH Network Corp. v. DBSD N. Am., Inc.* (*In re DBSD N. Am., Inc.*), 634 F.3d 79, 86 (2d Cir. 2011) (referring to 11 U.S.C. § 1129(b)(2)(B) as “the absolute priority rule”).

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 [p]lan”).

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

Bankruptcy Panel Hot Chapter 11 Plan Issues, 28 EMORY BANKR. DEV. J. 283, 297 (2012) (“Most plans have to rely upon the cramdown mechanism . . . to get confirmed.”).

²³⁹ 11 U.S.C. § 1141(a).

²⁴⁰ *Id.* § 1141(b).

²⁴¹ *Lacy v. Stinky Love, Inc. (In re Lacy)*, 304 B.R. 439, 443-44 (D. Colo. 2004). *Accord, e.g.*, 11 U.S.C. § 1141(c), (d)(1).

²⁴² *In re Bahary*, 528 B.R. 763, 767-68, 769, 772-73 (Bankr. N.D. Ill. 2015). *See also, e.g.*, 11 U.S.C. § 524(a)(2). *But see* 11 U.S.C. § 1141(d)(2)-(3) (establishing certain exceptions to discharge in Chapter 11 cases); *Chemtron Corp. v. Jones*, 72 F.3d 341, 346 (3d Cir. 1995) (“Inadequate notice is a defect which precludes discharge of a claim in bankruptcy.”).

²⁴³ *E.g., Bahary*, 528 B.R. at 767-68.

²⁴⁴ *Little v. Clay (In re Clay)*, Bankr. No. 09-80909-TRC, Adv. No. 09-8039, 2010 WL 547165, at *2 (Bankr. E.D. Okla. Feb. 10, 2010). *Accord, e.g., Murdock v. Holquin*, 323 B.R. 275, 282 (N.D. Cal. 2005) (“A Chapter 11 plan of reorganization constitutes a new contract between a debtor and his or her creditors.”); 11 U.S.C. § 1141.

²⁴⁵ *E.g., Little*, 2010 WL 547165, at *2.

²⁴⁶ Chapter 11 - Bankruptcy Basics, *supra* note 217.

²⁴⁷ Robert M. Lawless, *Small Business and the 2005 Bankruptcy Law: Should Mom and Apple Pie Be Worried?*, 31 S. ILL. U. L.J. 585, 588 (2007). Additional requirements for small business cases are found at 11 U.S.C. § 1125(e).

²⁴⁸ 11 U.S.C. §§ 1181-1195.

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 1934.²⁵¹

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.²⁵² While a Chapter 11 trustee can be appointed for cause in a small business case,²⁵³ a subchapter V trustee is appointed automatically.²⁵⁴ A small business debtor must file a plan within 300 days of the filing date,²⁵⁵ whereas a subchapter V debtor must file a plan within 90 days.²⁵⁶ A small business debtor must file a disclosure statement in most cases,²⁵⁷ while there are no disclosure statements filed in subchapter V.²⁵⁸

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.”²⁵⁹ The plan may call for full repayment or, in the alternative, it may provide for creditors’ receiving a portion of their claims.²⁶⁰

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.²⁶¹ Thus, a non-individual debtor, such as a corporation or limited liability company, may not file for bankruptcy under Chapter 13.²⁶²

²⁵¹ Jonathan P. Friedland, *What is the difference between a small business debtor and a Subchapter V Debtor?*, in STRATEGIC ALTERNATIVES FOR AND AGAINST DISTRESSED BUSINESSES § 5:7; see *In re Tibbens*, No. 19-80664, 2021 WL 1087260, at *6 (Bankr. M.D.N.C. Mar. 19, 2021).

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. RESNICK & HENRY J. SOMMER, 8 COLLIER ON BANKRUPTCY ¶ 1300.01).

²⁶⁰ *Pierre*, 468 B.R. at 424-25.

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).

²⁶² See, e.g., *In re JAC Family Found.*, 356 B.R. 554, 557 (Bankr. N.D. Ga. 2006).

Unlike a Chapter 7 case, the debtor in a Chapter 13 case “remains in possession of the property of the estate.”²⁶³ 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.”²⁶⁴ 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.²⁶⁵ For that reason, eligible debtors who own homes may prefer filing under Chapter 13 instead of filing under Chapter 7.²⁶⁶

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. Trustee²⁶⁷ appoints standing Chapter 13 trustees who “oversee all Chapter 13 cases filed in” their respective districts.²⁶⁸ Among other duties,²⁶⁹ the Chapter 13 trustee:

- ensures “that the debtor commences making timely payments” that will be distributed to creditors;²⁷⁰
- receives monthly payments made by debtors and distributes the proceeds to creditors;²⁷¹ and
- investigates the debtor’s financial affairs.²⁷²

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.²⁷³ Among other requirements,²⁷⁴ 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.”²⁷⁵ 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).

²⁶⁵ *In re McKinney*, 344 B.R. 1, 3-4 (Bankr. D. Me. 2006) (analyzing 11 U.S.C. § 1322(b)-(c)).

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.

²⁶⁹ *See generally* 11 U.S.C. § 1302.

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.”).

²⁷² 11 U.S.C. §§ 1302(b)(1), 704(a)(4).

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”).

²⁷⁵ *Bullard v. Blue Hills Bank*, 575 U.S. 496, 498 (2015). *See also, e.g.*, 11 U.S.C. § 1322(a)(1) (“The plan . . . shall

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.”).

²⁷⁷ *In re Mason*, 456 B.R. 245, 249 (Bankr. N.D. W.Va. 2011). *Accord, e.g., In re Brisco*, 502 B.R. 212, 218 (Bankr. N.D. Ill. 2013) (“Chapter 13 creditors do not vote on a chapter 13 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)).

²⁷⁹ *Hamilton v. Lanning*, 560 U.S. 505, 508-09 (2010) (quoting 11 U.S.C. § 1325(b)(1)).

²⁸⁰ 11 U.S.C. § 1325(a). *Accord, e.g., In re Colcord*, Case No. 15-46941, 2015 WL 5461543, at *1 (Bankr. E.D. Mich. Sept. 16, 2015) (“A bankruptcy court must confirm a plan that complies with the applicable provisions of Chapter 13.”).

²⁸¹ 11 U.S.C. § 1327(a).

²⁸² *In re Curran*, No. 09-27858-svk, 2009 WL 2591640, at *1 (Bankr. E.D. Wis. Aug. 20, 2009).

²⁸³ *In re Idlett*, No. 09-60169, 2009 WL 4756260, at *1 (Bankr. S.D. Tex. Dec. 8, 2009).

²⁸⁴ *Schwindler v. Screen* (*In re Screen*), No. 04-40615, 2004 WL 6044672, at *1 (Bankr. S.D. Ga. May 20, 2004) (quoting H.R. REP. NO. 95-595, at 118 (1977)).

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.”²⁸⁶

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.²⁸⁷ 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.”²⁸⁸ 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.²⁸⁹

“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 13,²⁹⁰ especially debtors who do not own a home that Chapter 13 could protect.²⁹¹ 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.²⁹²

On the other hand, “unsecured creditors often receive more money under successful Chapter 13 plans than they would under a Chapter 7 liquidation bankruptcy,”²⁹³ 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.”²⁹⁴ 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.²⁹⁵ As mentioned above,²⁹⁶ this eligibility provision is called

²⁸⁶ *In re Okosisi*, 451 B.R. 90, 94 (Bankr. D. Nev. 2011). *Accord, e.g.*, 11 U.S.C. § 1328.

²⁸⁷ *Ferrell v. Countryman*, 398 B.R. 857, 868 (E.D. Tex. 2009) (quoting *Jutla v. Rodgers (In re Jutla)*, 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).

²⁸⁹ *In re McNair*, No. 05-12064, 2007 WL 831824, at *1 (Bankr. M.D. Ala. Jan 12, 2007). *Accord, e.g.*, 11 U.S.C. § 362(c)(2)(B) (providing that the dismissal of a case terminates the automatic stay).

²⁹⁰ Shaun Mulreed, *In re Blair Misses the Mark: An Alternative Interpretation of the BAPCPA’s Homestead Exemption*, 43 SAN DIEGO L. REV. 1071, 1075 (2006).

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.”).

²⁹² Joseph W. Doherty, *One Client, Different Races: Estimating Racial Disparity in Chapter Choice Using Matched Pairs of Debtors*, 20 AM. BANKR. INST. L. REV. 651, 668 (2012).

²⁹³ *McDonald v. Master Fin., Inc. (In re McDonald)*, 205 F.3d 606, 614 (3d Cir. 2000).

²⁹⁴ Robert J. Landry, III, *An Empirical Analysis of the Causes of Consumer Bankruptcy: Will Bankruptcy Reform Really Change Anything?*, 3 RUTGERS BUS. L.J. 2, 48 n.175 (2006).

²⁹⁵ 11 U.S.C. § 707(b)(1)-(2). *Accord, 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 (Bankr. M.D. Fla. 2009). *See also* Official Bankruptcy Form 122A-2 (Chapter 7 Means Test Calculation form); 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”).

²⁹⁶ *See supra* “Individual Debtors.”

the “means test,”²⁹⁷ and it is “designed to force some debtors into chapter 13 when they would prefer chapter 7.”²⁹⁸

Chapter 12 Family Farmer/Family Fisherman Cases

Chapter 12 of the Bankruptcy Code²⁹⁹ offers a form of bankruptcy relief that is “similar to that available” to individual consumers “under chapter 13,”³⁰⁰ but is only available to family farmers and family fishermen with regular annual income.³⁰¹ Although Chapter 12 is infrequently utilized,³⁰² 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.”³⁰³ 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.³⁰⁴

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.³⁰⁵ 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.³⁰⁶

“Chapter 12 was modeled on chapter 13,” and as a result “many of the provisions” of both Chapters “are identical.”³⁰⁷ 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.³⁰⁸ Nevertheless, “there are significant differences between Chapter 12 and Chapter 13.”³⁰⁹ To name just one example, Chapter 13 “is substantially less permissive than

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.”).

²⁹⁹ 11 U.S.C. §§ 1201-1232.

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 been rarely used” and positing reasons why Chapter 12 filings may be relatively infrequent).

³⁰³ *E.g.*, *In re Pertuset*, 492 B.R. 232, 259 (Bankr. S.D. Ohio 2012).

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 “operat[e] the debtor’s farm or commercial fishing operation”).

³⁰⁵ *See* 11 U.S.C. § 101(18)-(19B).

³⁰⁶ *Id.* § 101(18)(A), (18)(B)(ii), (19A)(A)(i), (19A)(B)(ii)(II).

³⁰⁷ *Hall v. United States*, 566 U.S. 506, 516 (2012) (quoting HENRY J. SOMMER & RICHARD LEVIN, 8 COLLIER ON BANKRUPTCY ¶ 1200.01[5] (16th ed. 2011)). *See also In re LaRosa Greenhouse, LLP*, 565 B.R. 304, 309-10 (Bankr. D.N.J. 2017) (listing ways in which Chapters 12 and 13 are similar).

³⁰⁸ *Hall*, 566 U.S. at 509 (quoting *Hamilton v. Lanning*, 560 U.S. 505, 508 (2010)). *See also, e.g.*, *Baker v. Baker (In re Baker)*, Bankr. Case No. 10-70221-HDH-12, Civil Action No. 7:13-CV-00049-O, 2014 WL 1373471, at *2 (N.D. Tex. Apr. 8, 2014) (“Chapter 12 of the Bankruptcy Code allows farmer debtors with regular annual income to adjust their debts subject to a reorganization plan.”).

³⁰⁹ *Cohen v. Lopez (In re Lopez)*, 372 B.R. 40, 45-46 (B.A.P. 9th Cir. 2007).

Chapter 12 regarding the scope of allowed modifications of secured debt, particularly regarding modifications of claims secured by residences.”³¹⁰

Chapter 9 Municipality Cases

Chapter 9 of the Bankruptcy Code authorizes certain municipal debtors³¹¹ to restructure their debts so that they may “provide adequate municipal services” to residents.³¹² Because municipalities provide essential services to their residents, such as police protection, fire protection, garbage removal, and the like,³¹³ a “municipality cannot be liquidated, its assets sold, and the proceeds used to pay its creditors.”³¹⁴ Chapter 9 therefore permits municipalities to adjust their debts pursuant to a confirmed adjustment plan,³¹⁵ “which fosters the continuance of municipalities rather than their dissolution.”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.”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.”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.”³¹⁹ Additionally, to avoid further “encroaching on state sovereignty,” there is little to no role for a case trustee in a Chapter 9 case.³²⁰

³¹⁰ *Id.*

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.” *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: *The Political Economy of Chapter 9*, 92 AM. BANKR. L.J. 73, 79 (2017).

³¹² *In re City of Detroit*, Mich., 524 B.R. 147, 256 (Bankr. E.D. Mich. 2014).

³¹³ *E.g.*, *In re Addison Cmty. Hosp. Auth.*, 175 B.R. 646, 648 (Bankr. E.D. Mich. 1994).

³¹⁴ *Franklin High Yield Tax-Free Income Fund v. City of Stockton*, Cal. (*In re City of Stockton*, Cal.), 542 B.R. 261, 284 (B.A.P. 9th Cir. 2015) (quoting ALAN N. RESNICK & HENRY J. SOMMER, 6 COLLIER ON BANKRUPTCY ¶ 943.03[7][a] (16th ed. 2011)).

³¹⁵ 11 U.S.C. §§ 941, 943.

³¹⁶ *Addison*, 175 B.R. at 648.

Note also that the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) contains a subchapter that authorizes certain territorial entities to adjust their debts and resembles Chapter 9 of the Bankruptcy Code. See 48 U.S.C. §§ 2101-2241.

³¹⁷ *Addison*, 175 B.R. at 649.

³¹⁸ *Ass’n of Retired Emps. of City of Stockton v. City of Stockton*, Cal. (*In re City of Stockton*, Cal.), 478 B.R. 8, 20 (Bankr. E.D. Cal. 2012).

³¹⁹ *Addison*, 175 B.R. at 649 (quoting 121 CONG. REC. H39409-10 (1975) (statement of Rep. Edwards)). See also, *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”); *id.* § 904 (limiting the court’s jurisdiction and power in Chapter 9 cases).

³²⁰ *Stockton*, 478 B.R. at 20. *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); *id.* § 926(a) (providing that “the court may appoint a trustee” in a

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.”³²¹ High-profile examples of municipalities that have filed bankruptcy under Chapter 9 include the City of Detroit, Michigan;³²² the City of San Bernardino, California;³²³ Jefferson County, Alabama;³²⁴ and the City of Fairfield, Alabama.³²⁵

Chapter 15 Ancillary and Cross-Border Cases

Congress enacted Chapter 15 of the Bankruptcy Code³²⁶ “as a means to facilitate international cooperation in the administration of cross-border insolvencies”³²⁷ and to “incorporate the Model Law on Cross-Border Insolvency . . . promulgated by the United States Commission on International Trade Law.”³²⁸ 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.”³²⁹

“Filings under Chapter 15” are “relatively infrequent.”³³⁰

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.³³¹ For example, if a Chapter 11 debtor engages in “gross mismanagement of the estate,”³³² 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.”³³³ Similarly, “a chapter 13 debtor who is unable to complete plan payments may request that the case be converted to Chapter 7.”³³⁴

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).

³²¹ Laura N. Coordes, *Gatekeepers Gone Wrong: Reforming the Chapter 9 Eligibility Rules*, 94 WASH. U. L. REV. 1191, 1195 (2017).

³²² See *Lyda v. City of Detroit, Mich.* (*In re City of Detroit, Mich.*), 841 F.3d 684, 688 (6th Cir. 2016).

³²³ See *City of San Bernardino, Cal.*, 499 B.R. 776, 778 (Bankr. C.D. Cal. 2013).

³²⁴ See *In re Jefferson Cty., Ala.*, 469 B.R. 92, 97 (Bankr. N.D. Ala. 2012).

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).

³²⁶ 11 U.S.C. §§ 1501-1532.

³²⁷ *O’Sullivan v. Loy* (*In re Loy*), 432 B.R. 551, 554-55 (E.D. Va. 2010).

³²⁸ *In re SPhinX, Ltd.*, 351 B.R. 103, 112 & n.11 (Bankr. S.D.N.Y. 2006) (quoting 11 U.S.C. § 1501(a)).

³²⁹ *Jaffe v. Samsung Elecs. Co.*, 737 F.3d 14, 24-25 (4th Cir. 2013) (quoting *In re ABC Learning Ctrs. Ltd.*, 728 F.3d 301, 307 (3d Cir. 2013)).

³³⁰ Andrew B. Dawson, *The Problem of Local Methods in Cross-Border Insolvencies*, 12 BERKELEY BUS. L.J. 45, 79 (2015).

³³¹ 11 U.S.C. §§ 706, 1112, 1208, 1307.

³³² See *id.* § 1112(b)(4).

³³³ See *In re Chao*, No. 11-38131, 2011 WL 5855276, at *4, *6-7 (Bankr. S.D. Tex. Nov. 21, 2011).

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

case under chapter 7 of this title at any time.”).

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).

³³⁸ *Johnston v. Valley Credit Servs. (In re Johnston)*, Bankr. No. 05-6288, Adv. No. 06-180, 2007 WL 3166941, at *3 (Bankr. N.D. W. Va. Oct. 25, 2007).

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.”³⁴⁶
- 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.”³⁴⁷
- 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.”³⁴⁸

Also, as a general matter, a discharge order does not discharge claims against the debtor that arise *after* the debtor filed a bankruptcy petition.³⁴⁹ 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.”³⁵⁰

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.³⁵¹ 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.³⁵²

quotation marks omitted)).

³⁴⁶ 11 U.S.C. § 523(a)(5).

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)).

³⁵⁰ *Guar. Co. of N. Am., USA v. Clark (In re Clark)*, Bankr. No. 09-27955-JS, Adv. No. 10-00063-JS, 2013 WL 5429866, at *3 (Bankr. D. Md. 2013) (interpreting 11 U.S.C. § 506(d)).

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 Code	A set of statutes codified at 11 U.S.C. §§ 101-1532 of the United States Code that govern bankruptcy cases.
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 Code³⁵³

	Chapter 7	Chapter 9	Chapter 11	Chapter 12	Chapter 13
Who May File?	Certain individuals and non-individuals	Certain municipalities	Certain individuals and non-individuals	Certain family farmers and family fishermen with regular income	Certain individuals with regular income
End Goal	Liquidation of the debtor	Adjustment of the debtor's debts	Usually, reorganization of the debtor, but occasionally liquidation	Adjustment of the debtor's debts	Adjustment of the debtor's debts
Ideally Results in a Confirmed Plan?	No	Yes	Yes	Yes	Yes
Case Trustee Appointed?	Yes	Almost never, and only for limited purposes	Rarely	Yes—usually a standing trustee	Yes—usually a standing trustee
Debtor Typically Retains Control of its Assets and Operations During Case?	No	Yes	Yes, unless trustee appointed	Yes	Yes

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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.

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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