

# Enactment of The SBRA

“The Small Business Reorganization Act is a breakthrough for Main Street businesses to finally have the restructuring tools now available only to large companies.”

- Samuel Gerdano - ABI's Executive Director

“Our districts depend on its small businesses, where constituents shop local and support their neighbors. They are convenience stores, restaurants, and pharmacies. Those who endeavor to open and run a small business are proud of their work and their standing in our communities. When they are forced to close, it has a great impact on the communities these businesses call home.”

- Representative Ben Cline, 6<sup>th</sup> District, Virginia  
6/19/19 Press Release on the Introduction of H.R. 3311

# **Understanding the Nuts and Bolts of the “New” Subchapter V Small Business Chapter 11**

American Bankruptcy Institute  
Consumer Bankruptcy Committee

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# SBRA: Small Business Reorganization Act of 2019

- Signed by the President on August 23, 2019
- Enacts a new Subchapter V of Chapter 11
- Codified as new 11 U.S.C. §§ 1181-1195
- Effective: February 19, 2020 – 180 days after its enactment
- Recently amended as part of Coronavirus Aid Relief and Economic Security Act (“CARES Act”)

# Small Business Cases – Versus – Subchapter V Cases

- SBRA does not repeal existing provisions that govern small business debtors in Chapter 11 cases
- Prior provisions under BAPCPA: apply to small business debtors who do not elect to proceed under Subchapter V
- Result: two sets of provisions in Chapter 11 for small business debtors

## 3 Types of Chapter 11 Cases

- “Standard” Chapter 11 case
- “Subchapter V case”: case of an electing small business debtor
- “Non-subchapter V small business case”: case of a non-electing debtor

## SBRA: Intro

- Subchapter V applies in cases in which a small business debtor elects application
- Absent an election, existing provisions that govern small business cases continue to apply
- There have been a number of opinions issued about the timing and circumstances following election

# Debtor's Election of Subchapter V

- Subchapter V applies in cases in which a small business debtor elects it
- If a small business debtor does not make the election, the current provisions of Chapter 11 governing small business cases apply
- Interim Rule 1020 requires that the debtor state in the petition whether the debtor elects application of Subchapter V
- Case proceeds under Subchapter V unless the court finds that election was incorrect after objection by UST or party-in-interest

# SBRA Provisions Applicable to All Small Business Cases

## 1. New definitions in small business cases

- Definition of “Small business case” excludes debtor who elects subchapter V. [Amended § 101(51C)]
- Modified definition of small business debtor [Amended § 101(51D)]
- CARES Act adds new definition in SBRA to temporarily increase debt limit [New § 1182]

## 2. No unsecured creditors committee unless court orders it “for cause”



# Who is a Small Business Debtor: Current Definition (pre-SBRA)

- § 101(51D) defines a “small business debtor”
- Person engaged in commercial or business activities
- Excludes debtor whose principal activity is the business of owning or operating real property
- Aggregate noncontingent liquidated secured and unsecured debts of \$2,725,625 or less (excluding debts to affiliates or insiders)
- UST has not appointed an unsecured creditors committee

# Who is a Small Business Debtor: Revised Definition (Under SBRA)

- Same requirement that the debtor be engaged in “commercial or business activities”
- CARES Act temporarily raises the aggregate debt limit to \$7,500,000 for one year (March 27, 2021) [§ 1182(1)] – significant difference from non-Sub V small business case
- Increased debt limit in CARES Act only applies to cases filed after March 27, 2020
- New requirement: 50 percent (or more) of the debt must arise from debtor’s commercial or business activities
- Excludes debts owed to insiders and affiliates
- Small business debtor may be engaged in owning or operating real property
- Exception: debtor whose primary activity is owning or operating single asset real estate ≠ small business debtor

# Definition of Single Asset Real Estate

11 U.S.C. § 101(51B) defines “single asset real estate” as “real property constituting a single property or project, other than residential real property with fewer than 4 residential units, which generates substantially all of the gross income of a debtor ... and on which no substantial business is being conducted by a debtor other than the business of operating the real property and activities incidental thereto.”

# Compare Chapter 12 Eligibility

- 50 percent of the debts must arise from a farming operation
- 50 percent of the debtor's income must be received from the farming operation
- Subchapter V Chapter 11 debtor does not have a business income requirement

# Debtors Subject to Securities Regulation

- A corporate debtor subject to the reporting requirements under section 13 or 15(d) of the Securities Exchange Act of 1934 - excluded from being a small business debtor
- Code also excludes, “any debtor that is an affiliate of an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c)).” Technical amendment to § 101(51D) in the CARES Act.

# Overview of Subchapter V Provisions

- “Subchapter V Trustee” participates while the debtor remains in possession of assets and operates the business
- Modifies confirmation requirements
- Alters the rules for the debtor’s discharge
- Changes treatment of property of the estate which debtor acquires postpetition and from postpetition earnings

# How the Statute Works

- SBRA Section 2 enacts Subchapter V:

New §§ 1181-1195

- New §1181 states provisions of chapter 11 that are not applicable in subchapter V cases. Some are applicable only if the court orders otherwise.
- Section 4 makes changes to provisions in other chapters & Title 28 to take account of the new subchapter V provisions.

# New Rules: FRBP Changes

- Committee on Rules of Practice and Procedure of the Judicial Conference (“Rules Committee”) proposes FRBP amendments
- Rules Committee had authority to make changes in the Official Forms prior to SBRA effective date
- FRBP changes normally take three years or more under Rules Enabling Act
- Rules Committee proposed interim SBRA rules for adoption as local rules or by general order



# How Subchapter V is Different

1. Trustee in all cases
2. Different procedures (plan deadlines) & no disclosure statement
3. Plan may modify (some) residential mortgages (if not PMSI and loan proceeds primarily used in connection with business)
4. New cramdown rules
5. Discharge is different and dependent upon type of confirmation (*i.e.* consensual or cramdown)

# Appointment of Subchapter V Trustee

- Subchapter V provides for a trustee in all cases
- Court has no role in the appointment of the trustee
- UST Program has selected a pool of persons (lawyers and financial persons) who may be appointed on a case-by-case basis in Sub V cases rather than appointing standing trustees

# The Sub-V Trustee: Like a Chapter 12 Trustee

- Subchapter V trustee resembles Chapter 12 trustee
- A trustee appointed while leaving the debtor in possession of assets and control of the business
- Trustee has oversight and monitoring duties, as well as charged with facilitating a consensual plan
- In some (but not all) cases, the trustee may make disbursements to creditors

## Subchapter V Trustee's Duties: Supervise and Monitor the Case and Facilitate Confirmation

- Duty to “facilitate the development of a consensual plan of reorganization.” New § 1183(b)(7)
- Chapter 13 trustee has the duty to “advise, other than on legal matters, and assist the debtor in performance under the plan.” § 1302(b)(4)

# Subchapter V Trustee's Role at Specified Hearings

Trustee must appear and “be heard” at certain hearings:

1. The value of property subject to a lien
2. Confirmation of the plan
3. Modification of the plan after confirmation
4. The sale of property of the estate.
5. The status conference

New § 1183(b)(3)

## Subchapter V Trustee

- Operates business if debtor is removed from possession
- Trustee terminated:
  - A. Consensual plan confirmation → upon substantial consummation of the plan
  - B. Cramdown plan confirmation → SBRA is not clear, but trustee makes plan payments unless plan or confirmation order provide otherwise

# Compensation of Subchapter V Trustee

## 1. Standing Trustee:

- Percentage like standing chapter 12 and 13 trustees
- Special provision based on “services performed” and taking into account percentage limitations if dismissal, conversion, or consensual confirmation occurs

## 2. Nonstanding Trustee:

- Compensation is complicated but it appears the trustee receives compensation under § 330 without regard to limitations in § 326
- Technical amendment expected to provide for limit of 5% of plan payments

# Subchapter V Trustee's Employment of Professionals

- Query: whether court will routinely permit employment of professionals?
  - Primary role to work with parties and *report* to the court, not to engage in litigation
  - Thus, unless subchapter V trustee *needs* to litigate something, does not need, and court unlikely to authorize retention of counsel, to keep the administrative costs down



# Debtor as Debtor in Possession

- Debtor as DIP remains in possession of assets of the estate
- A Subchapter V DIP has the rights, powers, and duties of a trustee that a standard Chapter 11 DIP has - including the operation of the debtor's business. New § 1184.
- Court may remove and terminate the debtor's status as DIP. New § 1185(a).
- If court terminates the DIP, trustee's duties are expanded to include operation of the debtor's business.
- Trustee cannot file a plan because only the debtor may do so. New § 1189(a).

# Reporting Duties of Sub V DIP

- Subchapter V debtor must file small business case documents:
  - Debtor's most recent balance sheet
  - Statement of operations
  - Cash-flow statement
  - Federal income tax return
  - Or a statement under penalty of perjury that no such documents exist
- Subchapter V debtor must file small business Monthly Operating Reports (MOR)

# Removal of Debtor as DIP

- Court may remove debtor as DIP “for cause”
- “Cause” includes “fraud, dishonesty, incompetence, or gross mismanagement of the affairs of the debtor, either before or after commencement of the case.” § 1104.
- SBRA: DIP removal also “for failure to perform the obligations of the debtor” under a confirmed plan. New § 1185(a).

## Removal of Debtor as DIP (Continued)

- New § 1185(a) states that the court *shall* remove the DIP if a specified ground exists
- New § 1183(b)(5) specifically directs the Subchapter V trustee to operate the debtor's business when the debtor is not in possession
- Query: whether removal of the debtor for failure to perform under a confirmed plan is mandatory if the failure is not material or if the debtor has, can or actually cures defaults by time of hearing?

# Trustee's Additional Duties Upon Removal of Debtor as DIP

- Subchapter V trustee must perform the duties of a trustee under §§ 704(a)(8), (10), (11), and (12):
  1. To file unfiled schedules & SOFA
  2. To file any unfiled tax returns which are due
  3. To file reports regarding business operations (including MOR)
  4. To provide required notices re any DSO
  5. To perform any obligations as the administrator of an employee benefit plan
  6. To use reasonable and best efforts to transfer patients from a health care business that is being closed

# Reinstatement of the DIP

- Court has power to reinstate the DIP. New § 1185(b).
- Compare Chapter 12: court has power to both remove and reinstate the DIP. § 1204 (Same language as in SBRA).

# Procedures: The Status Conference

- New § 1188(a) requires a status conference
- A status conference is not required in any other type of case
- The Subchapter V trustee must appear and be heard at the status conference

# Required Status Conference and Debtor Report

- Section 105(d) permits, but does not require, the court to convene a status conference
- Status conference is mandatory in Subchapter V cases
- Must be held within 60 days after the entry of the order for relief
- Court may extend the time for holding the status conference if the need for an extension is “attributable to circumstances for which the debtor should not justly be held accountable”
- Debtor must file and serve a report that “details the efforts the debtor has undertaken and will undertake to attain a consensual plan of reorganization”
- Report is due 14 days prior to status conference



# Filing (& Timing) of Subchapter V Plan

- Only the debtor may file a plan. New § 1189(a).
- Deadline for the plan is 90 days after the order for relief
- Court may extend the deadline if the need for extension is attributable to circumstances for which the debtor should not justly be held accountable

# Compare: Standard Small Business Case Plan Deadlines

- Plan must be filed within 300 days of the filing date
- Confirmation must occur within 45 days of the filing of the plan
- These requirements do not apply in a subchapter V case
- Continue to apply in the case of a small business debtor who does not elect subchapter V
- Subchapter V debtor must file a plan much more promptly than a non-subchapter V debtor – 90 days instead of 300
- Subchapter V debtor faces no deadline for obtaining confirmation after the filing of the plan

# Elimination of Disclosure Statement

- Standard Chapter 11: requires approved disclosure statement to solicit votes on a plan
- In a small business case: court can conditionally approve a disclosure statement and combine the hearing with confirmation
- § 1125 is inapplicable in Subchapter V unless the court orders otherwise. New § 1181(b).
- Result: No disclosure statement required in connection with a subchapter V plan unless the court requires it
- If court orders a disclosure statement then the provisions of § 1125(f) apply

# Subchapter V Plan: Required Disclosures

- Subchapter V plan must contain certain information that a disclosure statement typically contains
- Plan must include:
  1. A brief history of the business operations of the debtor
  2. A liquidation analysis
  3. Projection with respect to the ability of the debtor to make payments under the proposed plan

# Elimination of the Committee

- No committee: committee of unsecured creditors will not be appointed in any small business case unless the court orders it for cause
- SBRA: no committee in Subchapter V case or standard small business 11
- Prior to the amendment: § 1102(a)(3) permitted UST to appoint committee unless the court ordered that a committee not be appointed

# No U.S. Trustee Fees

- Subchapter V debtor does not pay quarterly U.S. trustee fees.
- Act amends 28 U.S.C. § 1930(a)(6)(A) to except cases under subchapter V from this requirement. SBRA § 4(b)(3).

# Modification of Disinterestedness Requirement for Debtor Professionals

- § 327(a) permits DIP's employment of professionals who are "disinterested persons"
- Person who holds a claim against the debtor is not a disinterested person under the term's definition in § 101(14)(A)
- SBRA: person is not disqualified from employment in subchapter V solely because the professional holds a prepetition claim < \$10,000

# The Plan

1. Only debtor may file a plan.    § 1189(a).
2. Plan contents governed by most of § 1123 and New § 1190



# Plan Contents

§ 1123(a) applies except for:

1. (a)(8) – rule in individual case that debtor must submit all or portion of earnings and income as is necessary for execution of plan
  - a) New § 1190(2) requires submission of future earnings or income *to the trustee* as necessary for execution of the plan.
  - b) Applies in entity cases as well as individual cases
2. § 1123(c) – prohibition on use, sale, or lease of exempt property under a plan without debtor's consent. Not needed because only debtor can file plan.

# Contents of Subchapter V Plan: Requirements of New § 1190

- 3 new provisions governing the contents of the plan:
  1. Plan must include some of the information that would otherwise be included in a disclosure statement (operational history, liquidation analysis, & feasibility projections)
  2. Plan must provide for the submission of “all or such portion of the 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” (discussion will be later re: confirmation)
  3. Modifies the rule that a plan may not modify the rights of a claim secured only by a security interest in real property that is the debtor’s principal residence.

See Chapter 13 [§ 1322(b)(2)] & Chapter 11 [§ 1123(b)(5)].

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  1. A brief history of the business operations of the debtor
  2. A liquidation analysis
  3. Projection with respect to the ability of the debtor to make payments under the proposed plan

# Modification of Residential Mortgages

Plan may provide for modification of claim secured only by security interest in real property that is debtor's principal residence if new value in connection with granting of security interest was not used to acquire it and was primarily in connection with the small business of the debtor. § 1190(3).

*See In re Ventura*, 2020 WL 1867898 (Bankr. E.D.N.Y. April 10, 2020)

# Confirmation

Two types of confirmation:

1. Consensual - § 1191(a) (not a defined term)

- All impaired classes accept
- Plan otherwise complies with applicable sections of § 1129(a)

2. Cramdown - § 1191(b)

- Confirmation permissible even if all classes do not accept (the § 1129(a)(8) requirements)
- Confirmation even if no impaired class of claims accepts (the § 1129(a)(10) requirement)

## Subchapter V: Consensual Plan Confirmation

- § 1129(a) applies in a Subchapter V case - except subsection (a)(15)
- § 1129(a)(15) states the projected disposable income rule for individual Chapter 11 debtors
- Subchapter V imposes a projected disposable income rule: expanded to apply to all debtors in the cramdown context (discussed later)
- Court must confirm a plan under new § 1191(a) if it meets all the applicable requirements of § 1129(a)

# Payments Under the Plan

## Consensual confirmation:

- Debtor makes plan payments
- Trustee terminated upon substantial consummation

## Cramdown confirmation:

- Trustee makes plan payments unless plan or confirmation order provide otherwise
- Trustee not terminated automatically

# Results of Consensual Confirmation

- Trustee is terminated upon substantial consummation of the plan
- Debtor makes plan payments
- Discharge: upon confirmation



# Cramdown Confirmation (Pre-SBRA)

- Existing law: cramdown confirmation is possible under § 1129(b) notwithstanding the failure of all impaired classes to accept the plan
- At least 1 impaired class must have accepted the plan [§ 1129(a)(10) requirement]
- If the nonaccepting class is unsecured creditors: absolute priority rule prohibits holders of equity interests from retaining their interests unless unsecured creditors receive full payment (subject to the new value exception). See § 1129(b)(2)(B).

## Cramdown Confirmation Under New § 1191(b)

- SBRA changes Subchapter V cramdown rules
- Starting point: § 1129(b) does not apply
- New § 1191(b) states revised cramdown rules that:
  1. Permits cramdown confirmation even if all impaired classes reject plan
  2. Eliminates the absolute priority rule

## Cramdown Confirmation (continued)

- § 1191(b) eliminates the requirement of § 1129(a)(10) that at least one impaired class accept the plan
- Under new §1191(b) the court must confirm a plan if, with respect to each impaired class that has not accepted it, the plan (1) does not discriminate unfairly, and (2) is fair and equitable
- No apparent change in the unfair discrimination requirement

# Subchapter V Cramdown: The Fair & Equitable Requirement (Secured Claims)

- New § 1191(c) applies a new “rule of construction” for the condition that a plan be “fair and equitable”
- This replaces the definition in § 1129(b)
- Secured claims: plan is “fair and equitable” if it meets the existing rules for secured claims stated in § 1129(b)(2)(A)
- Result: No change in existing law about permissible cramdown treatment of secured claims

## Subchapter V Cramdown: Fair & Equitable Requirement (Continued)

New § 1191(c) Rule of Construction:

- a) a disposable income requirement
- b) a required feasibility finding
- c) the plan must provide appropriate remedies if payments are not made

Result: there is no absolute priority rule

# Cramdown: The Disposable Income Requirement

- New disposable income requirement in § 1191(c)(2)
- Plan must provide that all of the projected disposable income of the debtor to be received in the 3 year period after first payment under the plan is due, or in such longer period not to exceed 5 years as the court may fix, will be applied to make payments under the plan.

New § 1191(c)(2)(A).

- Statute contains no standard to govern how the court determines whether to extend the 3 year period

## Alternative to Disposable Income: Property Distributions

- Debtor must commit disposable income for 3 to 5 years
- Alternatively, the plan may provide that the value of the property to be distributed under the plan is equal to the Debtor's disposable income during the "commitment period."

# Subchapter V Disposable Income: Determination/Defined

Disposable income is income that is “not reasonably necessary to be expended” for specified purposes:

1. The maintenance or support of the debtor or a dependent of the debtor.
2. A domestic support obligation that first becomes payable after the date of the filing of the petition.
3. Payment of expenditures necessary for the continuation, preservation, or operation of debtor’s business.

New § 1191(d)



# Compare: Subchapter V Disposable Income & Chapter 13 Disposable Income

Disposable income definition in § 1191(d) is substantially the same as the definition of “disposable income” in Chapter 13 with two qualifications. Compare § 1325(b)(2).

1. New § 1191(d) does not permit a deduction for charitable contributions in determining disposable income
2. The so-called “means test” standards that govern expenses in a Chapter 13 case of an “above-median” debtor do not apply in a Subchapter V case

Compare § 1325(b)(3)

# Additional Fair & Equitable Requirements

- New § 1191(c)(3) states a feasibility test as part of the “fair and equitable” analysis
- Debtor must be able to make all payments under the plan [§ 1191(c)(3)(A)(i)] or there must be a reasonable likelihood that the debtor will be able to make all payments under the plan [§ 1191(c)(3)(A)(ii)]
- Plan must provide appropriate remedies to protect creditors if the debtor does not make the required plan payments

# Court's Required Feasibility Finding

- New § 1191(c)(3) provisions thus differ from the feasibility test that the confirmation standard in § 1129(a)(11) contains
- § 1129(a)(11) requires only that confirmation is not likely to be followed by liquidation or the need for further reorganization unless the plan proposes it

# Consequences of Cramdown Confirmation

- If the court confirms a plan under the cramdown provisions of § 1191(b):
  1. Trustee makes payments under the plan unless the plan or confirmation order provide otherwise
  2. Trustee's services do not terminate upon substantial consummation of a cramdown plan
- Statute provides no guidance as to the circumstances under which the court may provide for the trustee to not make payments

# Payment of Professionals Over the Plan Term

- A Subchapter V cramdown plan may provide for payment of administrative expense claims and involuntary gap claims through the plan
- Result: a plan may propose for payment of compensation of the trustee and the debtor's attorney through postconfirmation payments
- Consensual Plan: administrative expense compensation under § 503(b)(3) entitled to priority under § 507(a)(2) and payment on effective date under § 1129(a)(9)(A)

# Postconfirmation Plan Modification

Postconfirmation modification rules in new § 1193 differ depending on whether the court confirmed:

- A. A consensual plan under new § 1191(a) or
- B. A cramdown plan under new § 1191(b)

# Postconfirmation Modification of Consensual Plan

- New § 1193(b) does not permit modification of consensual plan after substantial consummation.
- Plan modification only if circumstances warrant the modification and the court confirms it under new § 1191(a).
- Holder of any claim who voted to accept or reject the confirmed plan is deemed to have voted the same way unless the holder changes the vote. New § 1193(d).

# Postconfirmation Modification of Cramdown Plan

If the plan confirmed under § 1191(b):

- § 1193(c) permits the debtor to modify the plan at any time within three years, or such longer time not to exceed five years as the court fixes.
- Plan modified if circumstances warrant the modification and the court confirms it under § 1191(b).



# Discharge Rules

Differ depending on whether court confirms:

- Consensual plan under § 1191(a), or
- Cramdown plan under § 1191(b)

# Discharge: Consensual Plan

If the plan is consensual, discharge occurs upon confirmation

1. The discharge is under § 1141(d)
2. Delayed discharge in standard individual case (§ 1141(d)(5)) does not apply. § 1181(a)
3. § 523(a) discharge exceptions apply to individual
4. No § 523(a) exceptions to discharge in entity case
5. § 1141(d)(6) exception to discharge applies – debts excepted (1) under 523(a)(2)(A) or (B) (fraud) due to a domestic governmental unit and (2) taxes where corporation made fraudulent return or willfully attempted to evade or defeat tax.

## Discharge: Timing of Cramdown Discharge

- Under cramdown confirmation, the discharge provisions of § 1141(d) do not apply except as provided in new §1192
- New § 1192 delays discharge until the debtor completes payments under the plan
- This plan term may be 3 to 5 years

# Exceptions to Cramdown Discharge

- Discharge under new § 1192 discharges the debtor from all debts provided in § 1141(d)(1)(A) and allowed administrative expenses provided for in the plan, with two exceptions:
  1. No discharge of debt on which the last payment is due after the first 3 years of the plan or such other time not to exceed 5 years as fixed by the court
  2. No discharge of any debt excepted under § 523(a)
- SBRA § 4(a)(8) amends § 523(a) to add a discharge under § 1192 to the list of discharges from which the listed debts are excepted

# Changes: Exceptions to Corporate/Entity Discharge

- SBRA does not change existing law regarding exceptions to the discharge of an individual
- Only existing provision for exceptions to a corporate Chapter 11 discharge are in § 1141(d)(6). It provides that a corporation does not receive a discharge from certain debts specified in § 523(a)(2)(A) or (B) that are owed to governmental units and from taxes with respect to which the debtor made a fraudulent return or willfully attempted to evade or avoid

# Property of the Estate (Under BAPCPA)

- BAPCPA added § 1115 to chapter 11.
- Property of an individual's chapter 11 estate includes property that the debtor acquires after the commencement of the case and earnings from postpetition services. § 1115(a)(1).
- Section 1115 does not apply in subchapter V cases. New § 1181(a).

# Property of the Estate and Automatic Stay Under Cramdown

- New § 1186(a) provides that property of the estate includes postpetition assets and earnings from services if a plan is crammed down.
- New § 1186(a) deals only with postpetition assets and earnings.
- Section 1141(b) (which remains applicable in a subchapter V case) provides that confirmation vests all property of the estate in the debtor unless the plan or confirmation order provides otherwise.

# Effect of Cramdown Confirmation on Postpetition Property

- Property of the estate includes postpetition assets and earnings if the court confirms a plan under the cramdown provisions of § 1191(b).
- Result: postpetition assets and earnings that were not property of the estate on the petition date become property of the estate upon cramdown confirmation.



# Query: Effect of Retroactive Effect on Estate Property

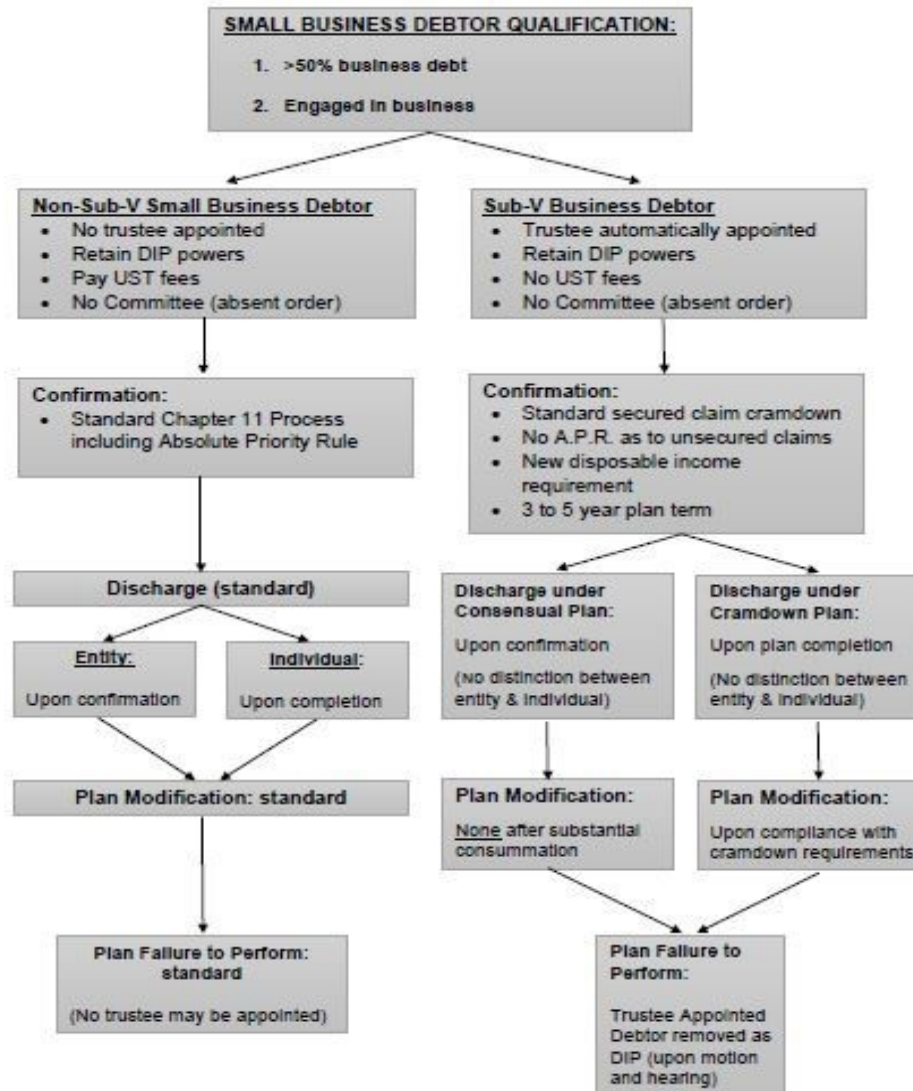
- Q. If an individual acquires assets postpetition or has earnings from postpetition services, is the debtor authorized to use or dispose of them without supervision by the trustee or approval by the court?
- Q. What happens if cramdown confirmation occurs and the debtor no longer has the postpetition assets or earnings?
- Q. Is the automatic stay applicable to a postpetition creditor's collection of a postpetition debt?

# Preference Amendments under SBRA

- Amendments apply to all bankruptcy cases, not just cases where debtors make an election to be treated under SBRA.
- Section 3 of the SBRA inserts the following additional language into Section 547(b): *“based on reasonable due diligence in the circumstances of the case and taking into account a party’s known or reasonably knowable affirmative defenses under subsection (c)”* to avoid transfers of property of the debtor.
- Thus, places a pre-filing due diligence requirement to review and examine affirmative defenses and to plead “due diligence.”
- What is *“circumstances of the case”* and *“reasonably knowable”* are undefined and open to interpretation by courts.
- Section 547(g) unchanged; burden of proof remains with defendant.
- Section 1409(b) of title 28 amended to increase \$10,000 threshold (currently \$13,650) to \$25,000 to those matters “arising in” or “related to” the underlying case to be commenced in district where defendant resides; may not have any impact, particularly for those courts that have ruled preference cases are “arising under” matters, not “arising in” matters.



# **EXTRA SLIDES**



# Small Business Debtor Qualification

1. > 50% business debt
2. Engaged in business

## Non-Subchapter V Small Business Debtor

- No trustee appointed
- Retain DIP powers
- Pay UST fees
- No Committee (absent order)

## Subchapter V Small Business Debtor

- Trustee automatically appointed
- Retain DIP powers
- No UST fees
- No Committee (absent order)

# Confirmation

## Non-Subchapter V Small Business Debtor

- Standard Chapter 11 Process including Absolute Priority Rule

## Subchapter V Small Business Debtor

- Standard secured claim cramdown
- No A.P.R. as to unsecured creditors
- New disposable income requirement
- 3 to 5 year plan term

# Discharge

## Non-Subchapter V Small Business Debtor

Discharge (standard)

- Entity: upon confirmation
- Individual: upon plan completion

## Subchapter V Small Business Debtor

Discharge under Consensual Plan:

- Upon confirmation
- Distinction between entity & individual [§ 523]

Discharge under Cramdown Plan:

- Upon plan completion
- No distinction between entity & individual



# Plan Modifications

## Non-Sub-V Small Business Debtor

Plan Modification: standard

## Sub-V Small Business Debtor

Consensual Plan Modification: none  
after substantial consummation

Cramdown Plan Modification:

1. If circumstances warrant modification
2. Upon compliance with cramdown requirements
3. Only upon debtor request

# Post-Confirmation Defaults

## Non-Subchapter V Small Business Debtor

Plan Failure to Perform:

- No trustee may be appointed

## Subchapter V Small Business Debtor

Plan Failure to Perform:

- Trustee Appointed
- Debtor removed as DIP (upon motion and hearing)

## Subchapter V Trustee: No Broad Duty to Investigate

- Subchapter V trustee (like a Chapter 12 trustee) does not have the duty to investigate the financial affairs of the debtor
- Chapter 7 trustee has duty to investigate under § 704(a)(4)
- Chapter 13 trustee has investigative duty under § 1302(b)(1)
- Trustee in a standard or non-subchapter V case has a broad duty to investigate under § 1106(a)(3) unless the court orders otherwise

# Court May Impose Investigative Duties

- For cause shown and on request of a party in interest, court may impose investigative duties on Subchapter V Trustee
- Same procedures as Chapter 12 trustee's duty to investigate under §1202(b)(2)

# Subchapter V Trustee Investigative Duties: Only “For Cause”

- Court (for cause) may order Subchapter V trustee to perform certain duties of a Chapter 11 trustee under § 1106(a):
  1. To investigate the acts, conduct, assets, liabilities, and financial condition of the debtor, operation of debtor’s business, desirability of its continuance, any other matter relevant to the case of formulation of a plan
  2. To file a statement of the investigation, including any fact ascertained pertaining to fraud, dishonesty, incompetence, misconduct, mismanagement, or irregularity

# Other Duties of the Subchapter V Trustee

Subchapter V trustee has duties of a trustee under § 704(a):

1. To be accountable for all property received [§ 704(a)(2)]
2. To examine proofs of claim and object to allowance of any claim that is improper [§ 704(a)(5)]
3. To oppose the discharge of the debtor (if advisable) [§ 704(a)(6)]
4. To furnish information concerning the estate and the estate's administration to parties in interest [§ 704(a)(7)]
5. To file a final report [§ 704(a)(9)]

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# **A GUIDE TO THE SMALL BUSINESS REORGANIZATION ACT OF 2019**

**Revised and Updated May 2020**

This paper was originally distributed in February 2020. For the reader who has the previous version, these are the material revisions:

Sections III(A) and (B) – discussion of changes in the debt limit for a subchapter V debtor under the CARES Act

Section VII(B) – expanded discussion of exception in §1190(3) to general prohibition of modification of residential mortgage

Part XIII – discussion of case law on retroactive application of subchapter V and its availability in pre-enactment case

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# A Guide to the Small Business Reorganization Act of 2019

Paul W. Bonapfel  
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## I. Introduction

The Small Business Reorganization Act of 2019 (the “SBRA”),<sup>1</sup> signed by the President on August 23, 2019, enacted a new subchapter V of chapter 11 of the Bankruptcy Code, codified as new 11 U.S.C. §§ 1181 – 1195, and made conforming amendments to several sections of the Bankruptcy Code and statutes dealing with appointment and compensation of trustees in title 28.<sup>2</sup> SBRA also revised the definitions of “small business case” and “small business debtor” in § 101(51C) and § 101(51D), respectively.<sup>3</sup> It took effect on February 19, 2020, 180 days after its enactment.

Under § 101(51D), as amended, a debtor could not qualify as a small business debtor if its debts (with some exceptions) exceeded \$ 2,725,625. The Coronavirus Aid, Relief, and

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<sup>1</sup> Small Business Reorganization Act (SBRA) of 2019, Pub. L. No. 116-54, 133 Stat. 1079 (codified in 11 U.S.C. §§ 1181-1195 and scattered sections of 11 U.S.C. and 28 U.S.C.).

<sup>2</sup> Unless otherwise noted, references to sections are to sections of the Bankruptcy Code, title 11 of the United States Code. Sections of the Bankruptcy Code added by the SBRA are referred to as “New § \_\_\_\_” in the text of this paper.

Section 3 of SBRA also enacts changes relating to prosecution of preference actions under 11 U.S.C. § 547 and to venue for certain proceedings brought by a trustee. These amendments apply in all bankruptcy cases.

SBRA § 3(a) amends § 547(b) to require that a trustee seeking to avoid a preferential transfer must exercise “reasonable due diligence in the circumstances of the case” and must take into account a party’s “known or reasonably knowable” affirmative defenses under § 547(c). SBRA § 3(a).

SBRA § 3(b) amends 28 U.S.C. § 1409(b) to provide that a trustee may sue to recover a debt of less than \$ 25,000 only in the district where the defendant resides. Prior to the amendment, the amount (as adjusted under 11 U.S.C. § 104 as of April 1, 2019) was \$ 13,650.

<sup>3</sup> SBRA § 4(1)(A)-(B).



Economic Security Act (the “CARES Act”),<sup>4</sup> enacted and effective March 27, 2020, amended the SBRA to increase the debt limit to \$ 7.5 million for purposes of subchapter V for one year and made certain technical corrections.

Appendix A is a chart that lists sections of the Bankruptcy Code that SBRA affected and summarizes the changes, as affected by the CARES Act.

The purpose of SBRA is “to streamline the process by which small business debtors reorganize and rehabilitate their financial affairs.”<sup>5</sup> A sponsor of the legislation stated that it allows small business debtors “to file bankruptcy in a timely, cost-effective manner, and hopefully allows them to remain in business,” which “not only benefits the owners, but employees, suppliers, customers, and others who rely on that business.”<sup>6</sup> Courts have taken the legislative purpose of SBRA into account in their application of the new law.<sup>7</sup>

It is likely that SBRA will have a significant impact. A preliminary estimate is that approximately 40 percent of chapter 11 debtors in chapter 11 cases filed after October 1, 2007, would qualify as a small business debtor and that about 25 percent of individuals in chapter 11 cases would qualify as a small business.<sup>8</sup> The economic circumstances arising from the

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<sup>4</sup> Coronavirus Aid, Relief, and Economic Security Act § 1113(a), Pub. L. No. 116-136, 134 Stat. 281 (Mar. 27, 2020).

<sup>5</sup> H.R. REP. NO. 116-171, at 1 (2019), *available at* <https://www.govinfo.gov/content/pkg/CRPT-116/hrpt171/pdf/CRPT-116hrpt171.pdf>.

For a summary of small business reorganizations under the Bankruptcy Code, see Ralph Brubaker, *The Small Business Reorganization Act of 2019*, 39 BANKRUPTCY LAW LETTER, no. 10, Oct. 2019, at 1-4.

<sup>6</sup> H.R. REP. NO. 116-171, at 4 (statement of Rep. Ben Cline). The court in *In re Progressive Solutions, Inc.*, 2020 WL 975464, at \*1-3 (Bankr. C.D. Cal. 2020), reviewed the legislative progress of SBRA and included public statements from several cosponsors of the law, including Senators Charles Grassley, Sheldon Whitehouse, Amy Klobuchar, Joni Ernst, and Richard Blumenthal.

<sup>7</sup> *In re Ventura*, 2020 WL 1867898, at \*1, \*6 (Bankr. E.D.N.Y. 2020); *In re Progressive Solutions, Inc.*, 2020 WL 975464, at \*1-3 (Bankr. C.D. Cal. 2020).

<sup>8</sup> Brubaker, *supra* note 5, at 5-6 (discussing Bob Lawless, *How Many New Small Business Chapter 11s?*, CREDIT SLIPS (Sept. 14, 2019), <http://www.creditslips.org/creditslips/2019/09/how-many-new-small-business-chapter-11s.html>). Professor Brubaker points out that the percentage may ultimately be higher because pre-SBRA law provided incentives for a debtor to avoid qualification as a small business debtor and because debtors who might not have filed under pre-SBRA law because of its obstacles might now do so.

Covid-19 pandemic and the temporary increase of the debt limit under the CARES Act can only increase the number of small business cases.

New subchapter V applies in cases in which a small business debtor elects its application. In the absence of an election, the existing provisions of chapter 11 that govern a small business debtor apply with one change. SBRA amends § 1102(a)(3) to provide that no committee of unsecured creditors is appointed in any case of a small business debtor unless the court orders otherwise.<sup>9</sup>

Subchapter V resembles chapter 12 in some aspects. It provides for a trustee in the case while leaving the debtor in possession of assets and control of the business. The trustee has oversight and monitoring duties and the right to be heard on certain matters. In some cases, the trustee may make disbursements to creditors.

But subchapter V differs from chapter 12 in significant ways. For example, whereas chapter 12 confirmation standards (§ 1225) are similar to those in chapter 13 (§ 1325), subchapter V confirmation requirements incorporate most of the existing confirmation requirements in § 1129(a). Unlike chapter 12, subchapter V does not provide for a codebtor stay.

Enactment of SBRA required revisions to the Federal Rules of Bankruptcy Procedure and the Official Forms. The Committee on Rules of Practice and Procedure of the Judicial Conference of the United States (the “Rules Committee”) has authority to make changes in the Official Forms prior to the effective date of the SBRA. Changes to the Bankruptcy Rules take three years or more under procedures that the Rules Enabling Act, 28 U.S.C. §§ 2071-77, require.

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<sup>9</sup> SBRA, § 4(a)(11), 133 Stat. at 1086.

To take account of the new law, the Rules Committee made changes to the Official Forms and promulgated interim rules (the “Interim Rules”) that amend the Federal Rules of Bankruptcy Procedure.<sup>10</sup> The changes to the Official Forms became effective as of the effective date of SBRA. The Rules Committee has recommended that each judicial district adopt the Interim Rules as local rules or by general order. Enactment of the CARES Act required technical revisions in Interim Rule 1020 in and the Official Forms for voluntary petitions.<sup>11</sup> Appendix B summarizes the changes that the Interim Rules make.

SBRA does not repeal existing provisions that govern small business debtors in chapter 11. Those provisions continue to apply to small business debtors who do not elect to proceed under subchapter V. The existence of two sets of provisions in chapter 11 for small business debtors requires terminology to distinguish them. The Rules Committee proposes to call cases under the existing provisions “small business cases” and to call cases of electing debtors “cases under subchapter V of chapter 11.”

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<sup>10</sup> On December 5, 2019, the Advisory Committee on Bankruptcy Rules proposed Interim Amendments to the Federal Rules of Bankruptcy Procedure (“Interim Rules”) to address provisions of SBRA for adoption in each judicial district by local rule or general order and new Official Forms. The proposed Interim Rules and Official Forms reflected changes in response to comments received. ADVISORY COMMITTEE ON BANKRUPTCY RULES, REPORT OF THE ADVISORY COMMITTEE ON BANKRUPTCY RULES (Dec. 5, 2019), [https://www.uscourts.gov/sites/default/files/december\\_5\\_2019\\_bankruptcy\\_rules\\_advisory\\_committee\\_report\\_0.pdf](https://www.uscourts.gov/sites/default/files/december_5_2019_bankruptcy_rules_advisory_committee_report_0.pdf)

On December 19, 2019, the Committee on Rules of Practice and Procedure approved the Interim Rules, recommended their local adoption, and approved the new Official Forms. The Executive Committee of the Judicial Conference, acting on an expedited basis on behalf of the Judicial Conference, approved the Interim Rules for distribution to the courts.

The Interim Rules are located on the *Current Rules of Practice & Procedure* page of the U.S. Courts public website (USCOURTS.GOV). The new Official Forms are posted on the *Forms* page of the website, under the *Bankruptcy Forms* table.

<sup>11</sup> On April 6, 2020, the Advisory Committee on Bankruptcy Rules proposed one-year technical amendments to Interim Rule 1020 to take account of the revised definition of “debtor” under the CARES Act, which Sections III(A) and (B) discuss. The Advisory Committee also proposed conforming technical changes to official forms, including Official Forms 101 and 202, which are the forms for the filing of a voluntary petition by an individual and a non-individual, respectively.

On April 20, 2020, the Committee on Rules of Practice and Procedure approved the amendments and recommended their local adoption. It also approved the one-year technical change to the Official Forms.

This terminology is technically accurate. Under the SBRA amendments, a “small business debtor” is not necessarily a debtor in a “small business case.” Rather, a “small business case” is only a case under chapter 11 in which a small business debtor has not elected application of subchapter V. In other words, a small business debtor that has elected application of subchapter V is *not* in a small business case.

The distinction is important for at least one reason. Section 362(n) makes the automatic stay inapplicable in certain circumstances when the debtor in the current case is or was a debtor in a pending or previous small business *case*. Because a subchapter V debtor is not in a small business *case*, § 362(n) will not apply in a later case of the subchapter V debtor.

Bankruptcy judges and lawyers will inevitably adopt shorthand expressions to distinguish the three types of cases that are now possible under chapter 11: a non-small business case; a subchapter V case for a small business debtor who elects it; and a non-subchapter V small business case – a “small business case” – for one who does not. This paper refers to a non-small business case as a “standard” chapter 11 case; to the case of an electing small business debtor as a “sub V case;” and to the case of a non-electing small business debtor as a “non-sub V case.” And, of course, debtors are either “standard,” “sub V” or “non-sub V.”

## **II. Overview of Subchapter V**

For electing small business debtors, subchapter V: (1) modifies confirmation requirements; (2) provides for the participation of a trustee (the “sub V trustee”) while the debtor remains in possession of assets and operates the business as a debtor in possession; (3) changes several administrative and procedural rules; and (4) alters the rules for the debtor’s discharge and the definition of property of the estate with regard to property an individual debtor acquires

postpetition and postpetition earnings (which has implications for operation of the automatic stay of § 362(a)). Only the sub V debtor may file a plan or a modification of it.

This Part provides an overview of these provisions. Later Parts discuss these and other provisions in more detail.

## **A. Changes in Confirmation Requirements**

The court may confirm a plan even if all classes reject it. Moreover, the “fair and equitable” requirement for “cramdown” confirmation does not include the absolute priority rule. Instead, the plan must comply with a new projected disposable income requirement (applicable in cases of entities as well as those of individuals). The cramdown requirements for a secured claim are unchanged. (Part VIII).

A plan may modify a claim secured only by a security interest in the debtor’s principal residence if the new value received in connection with the granting of the security interest was not used primarily to acquire the property and was used primarily in connection with the small business of the debtor. Such modification is not permitted in standard or non-sub V chapter 11 cases or in chapter 12 or 13 cases. (Section VII(B)).

## **B. Subchapter V Trustee and the Debtor in Possession**

Subchapter V provides for the debtor to remain in possession of assets and operate the business with the rights and powers of a trustee, unless the court removes the debtor as debtor in possession. (Part V).

The United States Trustee appoints the sub V trustee. The role of the sub V trustee is to oversee and monitor the case, to appear and be heard on specified matters, to facilitate a

consensual plan, and to make distributions under a nonconsensual plan confirmed under the cramdown provisions. (Part IV).

### **C. Case Administration and Procedures**

Subchapter V modifies the usual procedures in chapter 11 cases in several respects.

No committee of unsecured creditors. A committee of unsecured creditors is not appointed unless the court orders otherwise. (SBRA also makes this the rule in a non-sub V case.) (Section VI(A)).

Required status conference and report from debtor. The court must hold a status conference within 60 days of the filing “to further the expeditious and economical resolution” of the case. Not later than 14 days before the status conference, the debtor must file a report that details the efforts the debtor has undertaken and will undertake to achieve a consensual plan of reorganization. (Section VI(C)).

Time for filing of plan. The debtor must file a plan within 90 days of the date of entry of the order for relief, unless the court extends the time based on circumstances for which the debtor should not justly be held accountable. The existing requirements in a small business case that a plan be filed within 300 days of the filing date (§ 1121(e)) and that confirmation occur within 45 days of the filing of the plan (§ 1129(e)) do not apply in a sub V case. (Section VI(D)).

No disclosure statement. Section 1125, which states the requirements for a disclosure statement in connection with a plan and regulates the solicitation of acceptances of a plan, does not apply in a sub V case, unless the court orders otherwise. Although no disclosure statement is required, the plan must include: (1) a brief history of the business operations of the debtor; (2) a

liquidation analysis; and (3) projections with respect to the ability of the debtor to make payments under the proposed plan. (Sections VI(B), VII(B)).

No U.S. Trustee fees. A sub V debtor does not pay U.S. Trustee fees. (Section VI(E)).

## **D. Discharge and Property of the Estate**

### **1. Discharge – consensual plan**

If the court confirms a consensual plan, a sub V debtor (including an individual debtor) receives a discharge under § 1141(d)(1)(A) upon confirmation. The provision in § 1141(d)(5) for delay of discharge in individual cases until completion of payments does not apply in a sub V case. In the case of an individual, the § 1141(d)(1)(A) discharge does not discharge debts excepted under § 523(a).<sup>12</sup> One effect of the grant of the discharge is that the automatic stay terminates under § 362(c)(2)(C). (Section X(A)).

### **2. Discharge – cramdown plan**

If the court confirms a cramdown plan, § 1141(d) does not apply, and confirmation does not result in a discharge. Instead, new § 1192 provides for a discharge, which does not occur until the debtor completes plan payments for a period of at least three years or such longer time not to exceed five years as the court fixes. (Section X(B)).

Under new § 1192, the discharge in a cramdown case discharges the debtor from all debts specified in § 1141(d)(1)(A) and all other debts allowed under § 503 (administrative expenses), with the exception of: (1) debts on which the last payment is due after the first three years of the plan or such other time not exceeding five years as the court fixes; and (2) debts excepted under § 523(a). (Section X(B)). Under § 362(c)(2), the automatic stay remains in effect after

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<sup>12</sup> § 1141(d)(2).

confirmation of a cramdown plan until the case is closed or dismissed, or the debtor receives a discharge.

### **3. Property of the estate**

Section 1115 provides that, in an individual chapter 11 case, property of the estate includes assets that the debtor acquires postpetition and earnings from postpetition services. Section 1115 does not apply in a subchapter V case.<sup>13</sup> If the court confirms a plan under the cramdown provisions of new § 1191(b), however, property of the estate includes (in cases of both individuals and entities) postpetition assets and earnings.<sup>14</sup> (Part XI(B)).

## **III. Debtor’s Election of Subchapter V and Revised Definition of “Small Business Debtor”**

### **A. Debtor’s Election of Subchapter V**

The provisions of subchapter V apply in cases in which a small business debtor elects them. If a small business debtor does not make the election, the current provisions of Chapter 11 governing small business cases apply.

The operative statutory provision is new § 103(i). As amended by the CARES Act, it provides:

Subchapter V of chapter 11 of this title applies only in a case under chapter 11 in which a debtor (as defined in section 1182) elects that subchapter V of title 11 shall apply.<sup>15</sup>

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<sup>13</sup> New § 1181(a).

<sup>14</sup> New § 1186(a).

<sup>15</sup> SBRA inserted new subsection (i) in § 103 and renumbered existing subsections (i) through (k) as (j) through (l). SBRA § 4(a)(2). Before enactment of the CARES Act, new § 103(i) provided:

Subchapter V of chapter 11 of this title applies only in a case under chapter 11 in which a small business debtor elects that subchapter V of title 11 shall apply.



SBRA added new § 1182, which defined “debtor” in subsection (1) as meaning a “small business debtor,”<sup>16</sup> a term defined in § 101(51D). As the next Section discusses, SBRA also revised the § 101(51D) definition of “small business debtor.” The CARES Act amended § 1182(1) so that its definition of “debtor” is the same as the definition of “small business debtor” in revised §101(51D), with a technical correction that it also made,<sup>17</sup> except that the amount of the debt limit is increased to \$ 7.5 million.<sup>18</sup> The debt limit in revised § 101(51D) is unchanged.

The CARES Act amendment to new § 1182(1) is effective for only one year after enactment of the statute on March 27, 2020.<sup>19</sup> At that time, the CARES Act provides for the amendment of § 1182(1) to return to its original language, so that “debtor” will mean “a small business debtor.”

The effect of all these provisions is that, for one year after the enactment of the CARES Act, new (and amended) § 1182(1) states the definition of a debtor eligible to be a sub V debtor. After that, new § 101(51D) will state the definition. The only difference in the language of the two statutes is the higher debt limit in the temporary CARES Act version of § 1182(1). (Because the CARES Act does not change the definition of “small business debtor,” a debtor with debts in excess of its limit but below \$ 7.5 million that does not elect subchapter V cannot be a small business debtor.)

The statute does not state when or how the debtor makes the election. Bankruptcy Rule 1020(a) requires a debtor to state in the petition whether it is a small business debtor.<sup>20</sup> In an

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<sup>16</sup> SBRA § 2(a).

<sup>17</sup> The technical correction involves the exclusion of public companies. See text accompanying note 36 *infra*.

<sup>18</sup> CARES Act § 1113(a)(1).

<sup>19</sup> CARES Act § 113(a)(5).

<sup>20</sup> FED. R. BANK. P. 1020(a).

involuntary case, the Rule requires the debtor to file the statement within 14 days after the order for relief. The case proceeds in accordance with the debtor's statement unless and until the court enters an order finding that the statement is incorrect.

Interim Rule 1020(a) as originally promulgated added the requirement that the debtor state in the petition whether the debtor elects application of subchapter V and provided that the case proceed in accordance with the election unless the court determined that it is incorrect. In an involuntary case, the Interim Rule required the debtor to state whether it is a small business debtor and to make the election within 14 days after the order for relief.<sup>21</sup> In response to the CARES Act amendment of new § 1182(1), the revised Interim Rule provides in both instances for the debtor to state whether the debtor is a small business debtor or a debtor as defined in § 1182(1) and, if the latter, whether the debtor elects application of subchapter V.

Revisions to the Official Forms for voluntary chapter 11 cases require the debtor to state whether it is a small business debtor or a § 1182(1) debtor and whether it does or does not make the election.<sup>22</sup> Revised Official Forms also provide for creditors to receive notice of the debtor's statement of its status and the election that it makes.<sup>23</sup>

Parties in interest may object to a debtor's election to proceed as a small business debtor. Bankruptcy Rule 1020(b) requires an objection to a debtor's statement as to whether it is a small

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<sup>21</sup> INTERIM RULE 1020.

<sup>22</sup> OFFICIAL FORM B101 ¶ 13 (Voluntary Petition for Individuals Filing for Bankruptcy); OFFICIAL FORM B102 ¶ 8 (Voluntary Petition for Non-Individuals Filing for Bankruptcy).

<sup>23</sup> OFFICIAL FORM B309E2 is the form for individuals or joint debtors under subchapter V, and OFFICIAL FORM B309F2 is the form for corporations or partnerships under subchapter V. Existing OFFICIAL FORMS B309E (individuals or joint debtors) and B309F (corporations or partnerships) are renumbered as B309E1 and B309F1. Both new forms contain the same information as the existing notices but provide additional information applicable in subchapter V cases.

The new forms require inclusion of the trustee and the trustee's phone number and email address. The new notices state that the debtor will generally remain in possession of property and may continue to operate the business and advise that, in some cases, debts will not be discharged until all or a substantial portion of payments under the plan are made.

business debtor within 30 days after the later of the conclusion of the § 341(a) meeting or amendment of the statement. Interim Rule 1020(b) makes the same requirement applicable to the statement regarding the election.

Bankruptcy Rule 1009(a) gives a debtor the right to amend a voluntary petition, list, schedule, or statement “as a matter of course at any time before the case is closed.” A question is whether a debtor may amend the small business designation or the subchapter V election that the voluntary petition includes. Current Bankruptcy Rule 1020 does not address whether a debtor can amend the small business designation, and Interim Rule 1020 likewise does not address the issue of whether a delayed election should be allowed and, if so, under what circumstances.<sup>24</sup> Part XIII discusses the cases that have considered whether a debtor in a case pending before enactment of SBRA may amend the petition to elect application of Subchapter V.

One problem with permitting a debtor to change the election is that deadlines for conducting a status conference<sup>25</sup> and for filing a plan<sup>26</sup> run from the date of the order for relief. The Advisory Committee in its Report observed, “Should a court exercise authority to allow a delayed election, it is likely that one of the court’s prime considerations in ruling on a request to make a delayed election would be the time restriction imposed by subchapter V. . . .”<sup>27</sup>

## **B. Revised Definitions of “Small Business Debtor” and “Small Business Case”**

Under pre-SBRA law, paragraph (A) of § 101(51D) defined a “small business debtor” as a person (1) engaged in commercial or business activities, (2) excluding a debtor whose principal activity is the business of owning or operating real property, (3) that has aggregate noncontingent

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<sup>24</sup> The Advisory Committee Note to Interim Rule 1020 states, “The rule does not address whether the court, on a case-by-case basis, may allow a debtor to make an election to proceed under subchapter V after the times specified in subdivision (a) or, if it can, under what conditions.”

<sup>25</sup> See *infra* Section VI(C).

<sup>26</sup> See *infra* Section VI(D).

<sup>27</sup> REPORT OF THE ADVISORY COMMITTEE ON BANKRUPTCY RULES, *supra* note 10, at 3.

liquidated secured and unsecured debts<sup>28</sup> as of the date of the filing of the petition or the date of the order for relief in an amount not more than \$ 2,725,625,<sup>29</sup> (4) in a case in which the U.S. Trustee has not appointed a committee of unsecured creditors or the court has determined that the committee is not sufficiently active and representative to provide effective oversight of the debtor. Paragraph (B) of former § 101(51D) excluded any member of a group of affiliated debtors that has aggregate debts in excess of the debt limit (excluding debts to affiliates and insiders).

As the previous Section discusses, SBRA amended the § 101(51D) definition of “small business debtor,” and the CARES Act made amendments that temporarily increase the debt limit for a sub V debtor to \$ 7.5 million and make a technical correction to the exclusion of certain public companies from the definition.

The CARES Act effects the debt limit change through an amendment to new § 1182(1) that lasts only one year. The language of revised § 1182(1) is identical to the language of § 101(51D), with the technical correction that the CARES Act also makes. Specifically, subparagraphs (A) and (B) of new § 1182(1) are exactly the same as subparagraphs (A) and (B) of § 101(51D), as amended by both SBRA and the CARES Act. For convenience, this paper discusses these provisions by reference to § 101(51D) because it continues to apply to a small business debtor that does not elect subchapter V.

SBRA did not change the requirement in § 101(51D) that the debtor be engaged in “commercial or business activities”<sup>30</sup> or the aggregate debt limit, but it modified each of the

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<sup>28</sup> § 101(51D)(A). Debts owed to one or more affiliates or insiders are excluded from the debt limit. *Id.*

<sup>29</sup> The amount is revised every three years. § 104. The current amount became effective to cases filed on or after April 1, 2019.

<sup>30</sup> In *In re Wright*, Case No. 20-01035 (Bankr. D. S.C., April 27, 2020), the court held that nothing in the definition limits it to a debtor currently engaged in business and ruled that an individual who had guaranteed debts of two limited liability companies that were no longer in business could proceed in a subchapter V case.

other requirements.<sup>31</sup> First, revised subparagraph (A) of § 101(51D) requires that 50 percent or more of the debt must arise from the commercial or business activities of the debtor.<sup>32</sup>

Second, amended § 101(51D)(A) excludes a debtor engaged in owning or operating real property from being a small business debtor only if the debtor owns or operates single asset real estate.<sup>33</sup>

Third, the requirement that no committee exist (or that it not provide effective oversight) is eliminated. (Recall that SBRA provides that no committee will be appointed in the case of a small business debtor unless the court orders otherwise.)

Finally, SBRA added two additional types of debtors to those that subparagraph (B) excludes from being a small business debtor. One exclusion (in (B)(ii), as amended) was for a corporate debtor subject to the reporting requirements under § 13 or 15(d) of the Securities Exchange Act of 1934.<sup>34</sup> The second (in (B)(iii), as amended) was for a corporate debtor subject to the reporting requirements of those sections that is an affiliate of a debtor.<sup>35</sup> The CARES Act made a technical correction<sup>36</sup> to eliminate the second provision and to insert a new (B)(iii) to exclude “any debtor that is an affiliate of an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c)).”<sup>37</sup>

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<sup>31</sup> SBRA § 4(a)(1).

<sup>32</sup> For a family farmer, 50 percent of the debts must arise from a farming operation. § 101(18)(A). In addition, 50 percent of the debtor’s income must be received from the farming operation. *Id.* The same percentages apply in the definition of a family fisherman who is an individual. § 101(19A)(A). For a family fisherman that is a corporation or partnership, the debt relating to the fishing operation must be 80 percent, and more than 80 percent of the value of its assets must be related to the fishing operation. § 101(19A)(B).

<sup>33</sup> Section 101(51B) defines “single asset real estate” as “real property constituting a single property of project, other than residential real property with fewer than 4 residential units, which generates substantially all of the gross income of a debtor who is not a family farmer and on which no substantial business is being conducted by a debtor other than the business of operating the real property and activities incidental thereto.” § 101(51B).

<sup>34</sup> § 101(51D)(B)(ii).

<sup>35</sup> SBRA § 4(a)(1)(B)(i)(III), amending § 101(51D)(B)(iii).

<sup>36</sup> For a discussion of the issues relating to this provision, *see* Brubaker, *supra* note 5, at 7. Because the issues are of limited or no interest to most practitioners and judges, they are beyond the scope of this paper. The author will address the issues if they arise and readers must do likewise.

<sup>37</sup> CARES Act § 1113(a)(4)(A).

SBRA amended the definition of “small business case” in § 101(51C) to exclude a subchapter V debtor. Thus, a “small business case” is a case in which a small business debtor has *not* elected application of subchapter V. In other words, the case of a sub V debtor is *not* a “small business case,” even though a sub V debtor necessarily is a “small business debtor.” And as a result of the CARES Act amendments increasing the debt limits, a debtor may be a subchapter V debtor under § 1182(1) (until its expiration) but not a “small business debtor.”

## **IV. The Subchapter V Trustee**

### **A. Appointment of Subchapter V Trustee**

Subchapter V provides for a trustee in all cases.<sup>38</sup> The trustee is a standing trustee, if the U.S. Trustee has appointed one, or a disinterested person that the U.S. Trustee appoints. SBRA § 4(b) amends 28 U.S.C. § 586 to make its provisions for the appointment of standing chapter 12 and 13 trustees applicable to the appointment of standing sub V trustees. The court has no role in the appointment of the trustee.<sup>39</sup>

The United States Trustee Program has selected a pool of persons who may be appointed on a case-by-case basis in sub V cases rather than appointing standing trustees.<sup>40</sup> The appointment of a sub V trustee in each case instead of a standing trustee appears to be contrary to the expectations of proponents of the SBRA. In his testimony in support of the legislation on behalf of the National Bankruptcy Conference, retired bankruptcy judge A. Thomas Small stated,

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<sup>38</sup> § 1183(a). SBRA § 4(a)(3) amends § 322(a) to provide for a sub V trustee to qualify by filing a bond in the same manner as other trustees.

<sup>39</sup> New § 1181(a). Section 1104, which governs the appointment of a trustee in a non-sub V case, does not apply in sub V cases. In a sub V case, the U.S. Trustee’s appointment of the trustee is not subject to the court’s approval as it is under § 1104(d).

<sup>40</sup> See Adam D. Herring and Walter Theus, *New Laws, New Duties; USTP’s Implementation of the HAVEN Act and the SBRA*, 38 AMER. BANKR. INST. J. 12 (Oct. 2019).

“There will be a standing trustee in every subchapter V case who will perform duties similar to those performed by a chapter 12 or chapter 13 trustee.”<sup>41</sup>

## **B. Role and Duties of the Subchapter V Trustee**

The role of the sub V trustee is similar to that of the trustee in a chapter 12 or 13 case. New § 1183 enumerates the trustee’s duties. Section 1106, which specifies the duties of the trustee in a standard chapter 11 case, does not apply in sub V cases.<sup>42</sup> New § 1183, however, makes many of its provisions applicable in some circumstances. As in chapter 12 and 13 cases, the debtor remains in possession of assets and operates the business. If the court removes the debtor as debtor in possession under new § 1185(a), the trustee operates the business of the debtor.<sup>43</sup>

### **1. Trustee’s duties to supervise and monitor the case and to facilitate confirmation of a consensual plan**

In general, the role of the trustee is to supervise and monitor the case and to participate in the development and confirmation of a plan. This role arises from several provisions that are the same as those in chapter 12 cases, with some significant additions.

First, the sub V trustee has the duty to “facilitate the development of a consensual plan of reorganization.”<sup>44</sup> No other trustee has this duty, although a chapter 13 trustee has the duty to “advise, other than on legal matters, and assist the debtor in performance under the plan.”<sup>45</sup> One practitioner has suggested that the sub V trustee should be a “financial wizard” who can work

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<sup>41</sup> *Hearing on Oversight of Bankruptcy Law & Legislative Proposals Before the Subcomm. On Antitrust, Commercial and Admin. Law of the H. Comm. On the Judiciary*, 116th Cong. 2 (Revised Testimony of A. Thomas Small on Behalf of the National Bankruptcy Conference), available at [https://www.fjc.gov/sites/default/files/REVISED\\_TESTIMONY\\_OF\\_A\\_THOMAS\\_SMALL.pdf](https://www.fjc.gov/sites/default/files/REVISED_TESTIMONY_OF_A_THOMAS_SMALL.pdf).

<sup>42</sup> New § 1181(a).

<sup>43</sup> New § 1183(b)(5).

<sup>44</sup> New § 1183(b)(7).

<sup>45</sup> § 1302(b)(4).

with all parties on cash flows, interest rates, payment requirements, and “all the numbers puzzles that comprise a plan,” and that the statutory goal of a consensual plan suggests that the trustee also fill a mediation role.<sup>46</sup>

Second, the trustee must appear and be heard at the status conference that new § 1188(a) requires.<sup>47</sup> Although § 105(d) (which does not apply in a sub V case under new § 1181(a) provides for a status conference in any case on the court’s own motion or on the request of a party in interest, it does not require one. Thus, a status conference is not required in any other type of case. Section VI(C) discusses the status conference.

Finally, the trustee must appear and be heard at any hearing concerning: (1) the value of property subject to a lien; (2) confirmation of the plan; (3) modification of the plan after confirmation; and (4) the sale of property of the estate.<sup>48</sup>

Although the responsibility of the sub V trustee to participate in the plan process and to be heard on plan and other matters implies a right to obtain information about the debtor’s property, business, and financial condition, a sub V trustee, like a chapter 12 trustee, does not have the duty to investigate the financial affairs of the debtor. Section 704(a)(4) imposes such a duty on a chapter 7 trustee, and it is a duty of a chapter 13 trustee under § 1302(b)(1). A trustee in a standard chapter 11 or a non-sub V case has a broad duty of investigation under § 1106(a)(3), unless the court orders otherwise.

The court may impose the investigative duties that § 1106(a)(3) specifies on the sub V trustee. Under new § 1183(b)(2), the court (for cause and on request of a party in interest, the

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<sup>46</sup> Donald L. Swanson, *SBRA: Frequently Asked Questions and Some Answers*, 38 AMER. BANKR. INST. J. 8 (Nov. 2019).

<sup>47</sup> New § 1183(b)(3).

<sup>48</sup> New § 1183(b)(3). A chapter 12 trustee must also appear at hearings on all of these matters. § 1202(b)(3). A chapter 13 trustee must appear and be heard on all of them except the sale of property of the estate. § 1302(B)(2).



sub V trustee, or the U.S. Trustee) may order that the sub V trustee perform certain duties of a chapter 11 trustee under § 1106(a). The specified duties are: (1) to investigate the acts, conduct, assets, liabilities, and financial condition of the debtor, the operation of the debtor's business, the desirability of its continuance, and any other matter relevant to the case of formulation of a plan (§ 1106(a)(3)); (2) to file a statement of the investigation, including any fact ascertained pertaining to fraud, dishonesty, incompetence, misconduct, mismanagement, or irregularity in the management of the affairs of the debtor or to a cause of action available to the estate, and to transmit a copy or summary of it to entities that the court directs (§ 1106(a)(4)<sup>49</sup>); and (3) to file postconfirmation reports as the court directs (§ 1106(a)(7)).<sup>50</sup> The same procedures apply to a chapter 12 trustee's duty to investigate under § 1202(b)(2).

## **2. Other duties of the trustee**

Like chapter 12 and 13 trustees under §§ 1201(b)(1) and 1302(b)(1),<sup>51</sup> a sub V trustee under new § 1183(b)(1) has the duties of a trustee under § 704(a): (1) to be accountable for all property received (§ 704(a)(2)); (2) to examine proofs of claim and object to allowance of any claim that is improper, if a purpose would be served (§ 704(a)(5)); (3) to oppose the discharge of the debtor, if advisable (§ 704(a)(6)); (4) to furnish information concerning the estate and the estate's administration that a party in interest requests, unless the court orders otherwise (§ 704(a)(7)); and (5) to make a final report and to file it (§ 704(a)(9)).<sup>52</sup> Under new

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<sup>49</sup> Section 1106(a)(4)(B) directs a chapter 11 trustee to transmit the copy or summary to any creditors' committee, equity security holders' committee, and indenture trustee. Committees do not exist in a small business case unless the court orders otherwise under § 1102(a)(3) as amended, and a small business debtor is unlikely to have an indenture trustee as a creditor.

<sup>50</sup> New § 1183(b)(2).

<sup>51</sup> Chapter 12 (§ 1202(b)(1)) and chapter 13 (§ 1302(b)(1)) trustees also have the duty of a chapter 7 trustee under § 704(a)(3) to ensure that the debtor performs the debtor's intentions under § 521(a)(2)(B) to surrender, redeem, or reaffirm debts secured by property of the estate. The imposition of this duty in chapter 12 and 13 cases is curious in that § 521(b)(2)(B) applies only in chapter 7 cases. SBRA does not impose this anomalous duty on the sub V trustee.

<sup>52</sup> New § 1183(b)(1).

§ 1183(b)(4), the sub V trustee also has the same duty as chapter 12 and 13 trustees to ensure that the debtor commences timely payments under a confirmed plan (§§ 1202(b)(4), 1302(b)(5)).<sup>53</sup>

The U.S. Trustee has the duty to monitor and supervise subchapter V cases and trustees.<sup>54</sup> The U.S. Trustee Program expects to develop uniform procedures for reporting by sub V trustees to enable U.S. Trustees to evaluate and monitor them.<sup>55</sup>

### **3. Trustee's duties upon removal of debtor as debtor in possession**

Under new § 1185(a), the court may remove the debtor as debtor in possession. If the court does so, the sub V trustee has the duties of a trustee specified in paragraphs (1), (2), and (6) of § 1106.<sup>56</sup> New § 1183(b)(5) specifically directs the sub V trustee to operate the debtor's business when the debtor is not in possession. Similar provisions apply in chapter 12 cases.<sup>57</sup>

Under paragraph (1) of § 1106(a), the trustee must perform the duties of a trustee under paragraphs (2), (5), (7), (8), (9), (10), (11) and (12) of § 704(a). These duties are: (1) to be accountable for all property received (§ 704(a)(2)); (2) to examine and object to proofs of claim if a purpose would be served (§ 704(a)(5)); (3) to furnish information concerning the estate and its administration as requested by a party in interest, unless the court orders otherwise (§ 704(a)(7)); (4) to file reports (§ 704(a)(8)); (5) to make a report and file a final account of the administration of the estate with the court and the U.S. Trustee (§ 704(a)(9)); (6) to provide required notices with regard to domestic support obligations (§ 704(a)(10)); (7) to perform any obligations as the administrator of an employee benefit plan (§ 704(a)(11)); and (8) to use

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<sup>53</sup> New § 1183(b)(4).

<sup>54</sup> 28 U.S.C. § 586(a)(3). SBRA § 4(b)(1)(A) amended 28 U.S.C. § 586(a)(3) to include sub V cases within the types of cases that the U.S. Trustee supervises.

<sup>55</sup> See Adam D. Herring and Walter Theus, *supra* note 40, at 12.

<sup>56</sup> New § 1183(b)(5). New § 1183(b)(5) also requires the sub V trustee to perform duties specified in § 704(a)(8). The specification of the duty is duplicative because the § 704(a)(8) duty is one of the duties listed in § 1106(a)(1) that the sub V trustee must perform.

<sup>57</sup> The court may remove a chapter 12 debtor from possession under § 1204. Under § 1202(b)(5), the chapter 12 trustee then has the duties of a trustee under § 1106(a)(1), (2), and (6). §§ 1106(a), 1202(b).

reasonable and best efforts to transfer patients from a health care business that is being closed (§ 704(a)(12)).<sup>58</sup>

Paragraph (2) of § 1106(a) requires the trustee to file any list, schedule, or statement that § 521(a)(1) requires if the debtor has not done so. Paragraph (6) requires the trustee to file tax returns for any year for which the debtor has not filed a tax return.

### **C. Trustee's Disbursement of Payments to Creditors**

#### **1. Disbursement of preconfirmation payments and funds received by the trustee**

Paragraphs (a) and (c) of new § 1194 contain provisions dealing with the trustee's disbursement of money prior to confirmation. It is not clear, however, how they can have any operative effect. Nothing in subchapter V requires preconfirmation payments to the trustee or authorizes the court to require them.

New § 1194(a) states that the trustee shall retain any "payments and funds" received by the trustee until confirmation or denial of a plan.<sup>59</sup> Although the statute by its terms is not limited to preconfirmation payments and funds, the paragraph's direction for their disbursement based on whether the court confirms a plan or denies confirmation indicates that it deals only with money the trustee receives prior to confirmation.

If a plan is confirmed, new § 1194(a) directs the trustee to disburse the funds in accordance with the plan. If a plan is not confirmed, the trustee must return the payments to the debtor after deducting administrative expenses allowed under § 503(b), any adequate protection

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<sup>58</sup> § 1106(a)(1).

<sup>59</sup> New § 1194(a).

payments, and any fee owing to the trustee. The provision is effectively the same as the provisions that govern disbursement of preconfirmation payments in chapter 12 and 13 cases.<sup>60</sup>

Provisions for a trustee's disbursement of preconfirmation funds make sense in a chapter 13 case because a chapter 13 debtor must begin making preconfirmation payments to the trustee, adequate protection payments to creditors with a purchase-money security interest in personal property, and postpetition rent to lessors of personal property within 30 days of the filing of the chapter 13 case.<sup>61</sup> If the court denies confirmation in a chapter 13 case, therefore, it is possible that the chapter 13 trustee will be holding money that the debtor paid.

No such provisions for preconfirmation payments exist in a sub V case. Subchapter V contains no requirement for the debtor to make preconfirmation payments to the trustee, secured creditors, or lessors, and nothing in subchapter V authorizes the court to require the debtor to make preconfirmation payments to the trustee.

Nevertheless, paragraph (c) of new § 1194 authorizes the court, prior to confirmation and after notice and a hearing, to authorize the trustee to make payments to provide adequate protection payments to a holder of a secured claim.<sup>62</sup> But a court can hardly require a sub V trustee to make adequate protection payments as new § 1194(c) contemplates if the trustee has no money to make them.

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<sup>60</sup> New §§ 1194(a), 1226(a), 1326(a)(2). The chapter 12 provision, § 1226(a), does not specifically provide for fees of a trustee who is not a standing trustee and does not permit a deduction for adequate protection payments. The fees of a non-standing chapter 12 trustee are allowable as an administrative expense and as such are within the scope of the deduction.

The chapter 13 provision, § 1326(b)(2), does not specifically provide for fees of the chapter 13 trustee. It does provide for the trustee to deduct adequate protection payments.

A standing chapter 13 trustee collects a percentage fee as the debtor makes payments. 28 U.S.C. § 586(e)(2) (2018); *see* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, CHAPTER 13 PRACTICE AND PROCEDURE § 17:5 (2019). Thus, the funds a standing chapter 13 trustee has upon denial of confirmation are net of the trustee's fee that has already been paid. A non-standing chapter 13 trustee's fee is included in the deduction because it is an administrative expense.

<sup>61</sup> § 1326(a).

<sup>62</sup> New § 1194(c).

It is perhaps arguable that the new § 1194(a) and (c) provisions impliedly authorize the court to require a debtor to make preconfirmation payments to the trustee, particularly if the court orders the trustee to make adequate protection payments. But the concept of the sub V debtor remaining in possession of its assets and operating its business includes the debtor retaining control of its funds. It is more appropriate (and simpler) for a court to require the debtor, not the trustee, to make whatever adequate protection or other payments the court orders.

## **2. Disbursement of plan payments by the trustee**

Whether the sub V trustee makes disbursements to creditors under a confirmed plan depends on the type of confirmation that occurs. Under new § 1194(b), the trustee makes payments under a plan confirmed under the cramdown provisions of new § 1191(b), unless the plan or confirmation order provides otherwise.<sup>63</sup> If a consensual plan is confirmed under new § 1191(a), however, the trustee's service terminates under new § 1183(c) upon "substantial consummation," and the debtor makes plan payments.<sup>64</sup> Part IX discusses payments under the plan.

## **D. Termination of Service of the Trustee and Reappointment**

### **1. Termination of service of the trustee**

When termination of the trustee's service occurs depends on whether the court confirms a consensual plan under new § 1191(a) or confirms a plan that one or more impaired classes of creditors have not accepted under the cramdown provisions of new § 1191(b).

When the court confirms a consensual plan under new § 1191(a), the trustee's service terminates upon substantial consummation,<sup>65</sup> which ordinarily occurs when distribution

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<sup>63</sup> New § 1194(b).

<sup>64</sup> New § 1191(a).

<sup>65</sup> Section IX(A) discusses substantial consummation in the context of payments under a consensual plan.

commences.<sup>66</sup> Confirmation of a plan under the cramdown provisions of new § 1191(b) does not terminate the trustee's service. As just discussed, the trustee continues to serve and makes payments under the plan as new § 1194 requires.

Part IX further discusses these provisions.

Termination of the service of the sub V trustee also occurs, of course, upon dismissal of the case or its conversion to another chapter.<sup>67</sup>

## **2. Reappointment of trustee**

New § 1183(c)(1) provides for the reappointment of a trustee after termination of the trustee's service in two circumstances.

First, new § 1183(c)(1) permits reappointment of the trustee if necessary to permit the trustee to perform the trustee's duty under new § 1183(b)(3)(C) to appear and be heard at a hearing on modification of a plan after confirmation.<sup>68</sup> The reason for this provision is unclear. If a debtor seeks modification after cramdown confirmation, the trustee continues to serve, so reappointment is unnecessary. When confirmation of a consensual plan has occurred, the trustee's service terminates upon substantial consummation, after which new § 1193(b) prohibits modification. Perhaps the purpose of the reappointment provision is to make sure that someone appears at the hearing to point this out to the court if a debtor attempts to modify a confirmed consensual plan after its substantial consummation.

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<sup>66</sup> New § 1183(c).

<sup>67</sup> Section 701(a) directs the U.S. Trustee to appoint an interim trustee promptly after entry of an order for relief under chapter 7. In a converted case, the U.S. Trustee may appoint the trustee serving in the case immediately before entry of the order for relief.

Sections 1202 and 1302 provide for a standing trustee to serve in cases under those chapters, if one has been appointed, or for the U.S. Trustee to appoint a disinterested person to serve as trustee.

<sup>68</sup> New § 1183(c)(1).

Second, new § 1183(c) permits reappointment of the trustee if necessary to perform the trustee's duties under new § 1185(a). New § 1185(a) provides for the removal of the debtor in possession, among other things, for "failure to perform the obligations of the debtor under a plan confirmed under this chapter."<sup>69</sup> Because new § 1185(a) contemplates the postconfirmation removal of the debtor in possession, a trustee must be available to take charge of the assets and the business. Section XII(C) further discusses the postconfirmation removal of the debtor in possession.

## **E. Compensation of Subchapter V Trustee**

If the trustee in a sub V case is a standing trustee, the trustee's fees are a percentage of payments the trustee makes to creditors under the same provisions that govern compensation of standing chapter 12 and chapter 13 trustees.

If the sub V trustee is not a standing trustee, the trustee is entitled to fees and reimbursement of expenses under the provisions of § 330(a), without regard to the limitation in § 326(a) on compensation of a chapter 11 trustee based on money the trustee disburses in the case. As Section IV(E)(2) discusses, some observers expect that technical amendments will impose a limit on compensation of five percent of payments under the plan, which is the rule for a non-standing chapter 12 or 13 trustee.<sup>70</sup>

### **1. Compensation of standing subchapter V trustee**

For a standing trustee, amendments to § 326 require compensation under 28 U.S.C. § 586.<sup>71</sup> As amended, § 326(a) excludes a subchapter V trustee from its provisions governing

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<sup>69</sup> New § 1185(a).

<sup>70</sup> The observers are bankruptcy judges, lawyers, and professors who have followed and supported enactment of SBRA with whom the author has discussed the issue.

<sup>71</sup> SBRA § 4(a)(4).

compensation of a chapter 11 trustee, and § 326(b) provides that the court may not allow compensation of a standing trustee in a subchapter V case under § 330.

Under SBRA's amendments to 28 U.S.C. § 586(e),<sup>72</sup> the U.S. Trustee Program establishes the compensation for a standing sub V trustee in the same manner it does for standing chapter 12 and 13 trustees.<sup>73</sup> Existing provisions of 28 U.S.C. § 586(e) that apply in chapter 12 and 13 cases are extended to cover subchapter V standing trustees. Thus, the standing subchapter V trustee receives a percentage fee (as fixed by the U.S. Trustee Program) from all payments the trustee disburses under the plan.

If the service of a standing trustee is terminated by dismissal or conversion of the case or upon substantial consummation of a consensual plan under new § 1181(a) (as Section IX(A) discusses, the trustee does not make payments under a consensual plan), new 28 U.S.C. § 586(e)(5) provides that the court "shall award compensation to the trustee consistent with the services performed by the trustee and the limits on the compensation of the trustee established pursuant to [28 U.S.C. § 586(e)(1)]."<sup>74</sup> The limits require reference to the standing trustee's maximum annual compensation, 28 U.S.C. § 586(e)(1)(A), and to the maximum percentage fee, 28 U.S.C. § 586(e)(1)(B).

## **2. Compensation of non-standing subchapter V trustee**

Questions have arisen concerning the provisions of the new statute for compensation of a subchapter V trustee who is not a standing trustee.

Section 330(a) permits the court to award compensation to trustees. Sections 326(a) and (b) impose limits on compensation of trustees. SBRA does not amend § 330(a), but it does

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<sup>72</sup> SBRA § 4(b)(1)(D).

<sup>73</sup> 28 U.S.C. § 586(e).

<sup>74</sup> 28 U.S.C. § 586(e)(5).



amend §§ 326(a) and (b). Under a “plain meaning” interpretation of these provisions as amended, a non-standing sub V trustee is entitled to “reasonable compensation for actual, necessary services rendered” and “reimbursement for actual, necessary expenses” under § 330(a), and §§ 326(a) and (b) do not impose any limits on compensation.

Some observers who participated in the drafting of SBRA and the legislative process leading to its enactment attribute this result to a drafting error.<sup>75</sup> The drafters of subchapter V intended that provisions for compensation of non-standing sub V trustees be the same as those for non-standing chapter 12 and 13 trustees.

Specifically, § 326(b) limits compensation of a non-standing chapter 12 or chapter 13 trustee to “five percent upon all payments under the plan.” Although it appears the drafters intended this limitation to apply to compensation of sub V trustees, the language of the SBRA amendments to § 326(b) do not make this limitation applicable to a non-standing sub V trustee.<sup>76</sup>

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<sup>75</sup> See *supra* note 70.

<sup>76</sup> A full understanding of the issue requires further elaboration.

Section 330(a) provides for the allowance of compensation to “trustees,” subject to § 326 (and other sections). SBRA does not amend § 330(a).

SBRA did not change the provisions of subsections (a) and (b) of § 326(a) with regard to compensation of trustees other than sub V trustees. Thus, § 326(a) limits the compensation of a chapter 11 (and chapter 7) trustee to a percentage of moneys disbursed or turned over in the case by the trustee to parties in interest, excluding the debtor.

Section 326(b) deals with compensation of trustees in chapter 12 and 13 cases in two ways. First, it provides that a standing chapter 12 or 13 trustee is not entitled to compensation under § 330(a); instead, a standing chapter 12 or 13 trustee receives compensation, and collects percentage fees, under 28 U.S.C. § 586(e). Second, § 326(b) limits the compensation of a non-standing chapter 12 or 13 trustee to “five percent upon all payments under the plan.” § 326(b). The exact language of § 326(b) is that the limitation applies to a “trustee appointed under section 1202(a) or 1302(a) of this title.” *Id.*

Generally, then, pre-SBRA § 326(a) dealt with chapter 7 and 11 cases and § 326(b) dealt with chapter 12 and 13 trustees. Without an amendment, a sub V trustee would be a chapter 11 trustee, and § 326(a) would apply. Similarly, unamended § 326(b) would not apply because it is for chapter 12 and 13 cases.

SBRA § 4(a)(4)(A) amended § 326(a) by excluding sub V trustees from its application. SBRA § 4(a)(4)(B) amended § 326(b) to prohibit a standing sub V trustee from receiving compensation under § 330. SBRA’s amendments to 28 U.S.C. § 586(e) provide for compensation of a standing sub V trustee under its provisions, so the same provisions that govern compensation of standing chapter 12 and 13 trustees apply. SBRA § 4(b)(1).

What the SBRA amendments did not do was add “§ 1183” (the new subchapter V section that calls for the appointment of a sub V trustee) before “§ 1202(a) and 1302(a)” (the sections under which chapter 12 and 13 trustees are appointed) in the language quoted above. Without this insertion, amended § 326(b) does not limit the compensation of a non-standing sub V trustee. As the next footnote discusses, one reading of amended § 326(b) is that nothing authorizes compensation of a non-standing sub-V trustee.

Observers close to the legislative process expect a technical amendment to resolve this issue by making the five percent limitation also applicable to sub V trustees.<sup>77</sup> Technical corrections in the CARES Act, however, did not address this issue.<sup>78</sup>

### **3. Deferral of non-standing subchapter V trustee's compensation**

A standing sub V trustee receives compensation as a percentage of payments the trustee makes from funds paid by the debtor under a plan. The percentage fees of a standing trustee are necessarily deferred until payments are made.

A non-standing trustee's compensation is allowable as an administrative expense, which has priority under § 507(a)(2) subject only to claims for domestic support obligations. Under § 1129(a)(9)(A), a plan must provide for payment of administrative expenses in full on or before the effective date of the plan.<sup>79</sup> This requirement applies in subchapter cases to confirmation of a consensual plan under new § 1191(a).<sup>80</sup>

New § 1191(e) permits payment of administrative expense claims through the plan if the court confirms it under the cramdown provisions of new § 1191(b).<sup>81</sup> Accordingly, a non-standing sub V trustee faces deferral of payment of compensation for services in the case.

As Section IV(E)(2) discusses, it is possible that a technical amendment to § 326(b) will impose a limitation on a non-standing trustee's compensation to five percent of payments under

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<sup>77</sup> Such an amendment would also clarify that a non-standing trustee is entitled to compensation. As amended, § 326(b) applies to cases under subchapter V, chapter 12, and chapter 13. Before and after the amendment, § 326(b) states that the court "may allow reasonable compensation under section 330 of this title to a trustee appointed under section 1202(a) or 1302(a) of this title," but it does not state that the court may allow compensation under § 330 of a trustee appointed under new § 1183. § 326(b). Because § 330(a) is subject to § 326, and § 326(b) does not provide for compensation of a non-standing sub V trustee, it may be arguable that a sub V trustee is not entitled to compensation.

<sup>78</sup> The technical corrections in the CARES Act involved the exclusion of public companies from the definition of a small business debtor and unclaimed funds in subchapter V cases. CARES Act § 1113(a)(4).

<sup>79</sup> § 1129(a)(9)(A).

<sup>80</sup> New § 1191(a).

<sup>81</sup> New § 1191(e).

the plan. If this occurs, a non-standing trustee's compensation may arguably be limited to five percent of payments as they are made.

## **F. Trustee's Employment of Attorneys and Other Professionals**

Section 327(a) permits a bankruptcy trustee to employ attorneys and other professionals "to represent or assist the trustee in carrying out the trustee's duties."<sup>82</sup> SBRA does not modify this provision for subchapter V cases. If a standing sub V trustee is appointed, the standing trustee presumably would follow the practice of standing trustees in chapter 12 and 13 cases and not retain counsel or other professionals except in exceptional circumstances.

A non-standing sub V trustee's employment of attorneys or other professionals has the potential to substantially increase the administrative expenses of the case. In view of the intent of SBRA to streamline and simplify chapter 11 cases for small business debtors and reduce administrative expenses, courts may be reluctant to permit a sub V trustee to retain attorneys or other professionals except in unusual circumstances. In this regard, a person serving as a sub V trustee should have a sufficient understanding of applicable legal principles to perform the trustee's monitoring and supervisory duties, and appear and be heard on specified issues, without the necessity of separate legal advice.

A question exists whether a trustee who is not an attorney may appear and be heard in a bankruptcy case. Section 1654 of title 28 provides as follows:

In all courts of the United States the parties may plead and conduct their own cases personally or by counsel as, by the rules of such courts, respectively, are permitted to manage and conduct causes therein.<sup>83</sup>

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<sup>82</sup> § 327(a).

<sup>83</sup> 28 U.S.C. § 1654.

The statute applies only to natural persons; it does not permit a corporation or other entity to appear in federal court except through licensed counsel.<sup>84</sup>

Courts have applied the rule to prohibit an individual who serves as the trustee for a trust or as the personal representative of an estate from representing the trust or estate unless the trust or estate has no creditors and the individual is the sole beneficiary.<sup>85</sup> Because a bankruptcy trustee acts as the representative of the estate<sup>86</sup> and creditors have an interest in the estate, the same rule would appear to require a non-attorney trustee to retain a lawyer in order to appear and be heard in a bankruptcy court.

The nature of reorganization proceedings in bankruptcy courts and, specifically, the facilitative, advisory, and monitoring role that subchapter V contemplates for the trustee suggest that the rule applicable in a federal lawsuit between discrete parties should not be extended to apply to a nonlawyer subchapter V trustee unless the trustee is a party to a discrete controversy in an adversary proceeding or contested matter.

In this regard, 28 U.S.C. § 1654 and the case law establishing the rule have their roots in 18<sup>th</sup> and 19<sup>th</sup> century practice in federal courts<sup>87</sup> when the availability of bankruptcy relief was either nonexistent or short-lived.<sup>88</sup> The statute could not have contemplated a reorganization

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<sup>84</sup> *E.g.*, *Rowland v. California Men's Colony*, 506 U.S. 194, 202 (1993) (“[T]he lower courts have uniformly held that 28 U.S.C. § 1654, providing that ‘parties may plead and conduct their own cases personally or by counsel,’ does not allow corporations, partnerships, or associations to appear in federal court otherwise than through a licensed attorney.”).

<sup>85</sup> *E.g.*, *Guest v. Hansen*, 603 F.3d 15 (2d Cir. 2010) (estate); *Knoefler v. United Bank of Bismarck*, 20 F.3d 347 (8th Cir. 1994) (trust); *C.E. Pope Equity Trust v. United States*, 818 F.2d 696 (9th Cir. 1987) (trust).

<sup>86</sup> § 323(a).

<sup>87</sup> Section 35 of the Judiciary Act of 1789 is the statutory predecessor to 28 U.S.C. § 1654 (2018) and contained substantially the same language. *See United States v. Dougherty*, 473 F.2d 1113, 1123 n. 10 (D.C. Cir. 1972).

Section 35 of the Judiciary Act of 1789, 1 Stat. 73, 92 (1789), provided “that in all the courts of the United States, the parties may plead and manage their own causes personally or by the assistance of such counsel or attorneys at law as by the rules of the said courts respectively shall be permitted to manage and conduct causes therein.”

<sup>88</sup> *See Charles Jordan Tabb, The History of the Bankruptcy Laws in the United States*, 3 Am. Bankr. Inst. L. Rev. 5, 12-23 (1995). *See also* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 1:2.

case involving many parties and many inter-related moving parts that involve business issues and often require negotiations and compromise to achieve a successful outcome for all the parties. In other words, a bankruptcy reorganization is quite different from a lawsuit that involves discrete parties asserting claims and defenses to establish their rights and obligations.

This distinction is particularly important in a subchapter V case. Specific duties of the sub V trustee are to facilitate the development of a consensual plan of reorganization,<sup>89</sup> and to appear and be heard on confirmation and other significant issues that relate to confirmation.<sup>90</sup> The statute makes it clear that the trustee's primary role is to work with the parties and then to *report* to the court, not to engage in litigation with them.

A nonlawyer trustee does not need an attorney to work with the parties on business issues, to investigate and obtain information about the debtor and its business, to facilitate confirmation, and to report to the court. When the time comes to report to the court, the trustee should be permitted to perform the reporting function without a lawyer.

Assuming that the nonlawyer trustee is knowledgeable about reorganization law and practice (and a sub V trustee who is not knowledgeable should not be a sub V trustee), neither the debtor, creditors, nor the court need a lawyer to present the trustee's reports and views to the court. In short, unless a sub V trustee needs to *litigate* something, the trustee does not need counsel. The statute and case law governing federal *litigation* should not be extended to the trustee's appearance in court to *report*.

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<sup>89</sup> New § 1183(b)(7).

<sup>90</sup> New § 1183(b)(3).

The subchapter V trustee's primary role is analogous to the role of an examiner in a standard chapter 11 case,<sup>91</sup> or an expert witness that a court appoints.<sup>92</sup> Such parties provide information to the court and the parties and may do so without counsel. A sub V trustee with similar advisory duties should similarly be permitted to provide information to the court without the necessity of having to do so through a lawyer.<sup>93</sup>

Finally, the trustee is an officer of the court. The court need not insist that its officer hire a lawyer to hear what the officer has to say.

If a nonlawyer is the sub V trustee, the trustee's ability to appear in court without a lawyer is critical to accomplishment of the objective of subchapter V of providing debtors – and creditors – with the opportunity to accomplish an expeditious and economic reorganization, hopefully on a consensual basis. A requirement for employment of counsel adds an additional layer of expense that should not ordinarily be necessary and that threatens accomplishment of subchapter V's primary objective.<sup>94</sup> Moreover, if a nonlawyer trustee must have a lawyer, the additional expense may as a practical matter preclude the appointment of a nonlawyer trustee.

If a court determines that the rule prohibiting a nonlawyer trustee from appearing in federal court requires the trustee to retain counsel in order to be heard, economic considerations may lead the court to limit the services that will be compensated to those for which a lawyer is

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<sup>91</sup> § 1106(b). Although bankruptcy courts often authorize an examiner to employ counsel or other professionals, § 327(a) does not provide authority for an examiner to employ a professional person. *See generally* 5 HON. WILLIAM L. NORTON JR. & WILLIAM L. NORTON, III, NORTON BANKRUPTCY LAW AND PRACTICE § 99:29 (3d ed. 2019). *See also In re W.R. Grace & Co.*, 285 B.R. 148, 156 (Bankr. D. Del. 2002) (“[T]he basic job of an examiner is to examine, not to act as a protagonist in the proceedings. The Bankruptcy Code does not authorize the retention by an examiner of attorneys or other professionals.” (citation omitted)).

<sup>92</sup> FED. R. EVID. 706.

<sup>93</sup> In some jurisdictions, some chapter 7 panel trustees are not lawyers. The author's informal discussions with bankruptcy judges indicate that in some courts nonlawyer trustees appear without counsel when the matter does not require actual litigation.

<sup>94</sup> This consideration suggests that a court may invoke § 105(a) to permit a nonlawyer to appear without counsel as being “necessary or appropriate” to carry out the provisions of the Bankruptcy Code.

legally required. Non-compensable services might include, for example, work in connection with the investigation of the debtor and its business or negotiations or development of business information to facilitate a consensual plan. And because it is the trustee, not the lawyer, who is to be heard, any written report concerning confirmation and other matters would seem to be the responsibility of the trustee, not the lawyer.

## **V. Debtor as Debtor in Possession and Duties of Debtor**

### **A. Debtor as Debtor in Possession**

The debtor, as debtor in possession, remains in possession of assets of the estate.<sup>95</sup> A sub V debtor in possession has the rights, powers, and duties of a trustee that a standard chapter 11 debtor in possession has, including the operation of the debtor's business.<sup>96</sup> The court may remove the debtor as debtor in possession under new § 1185(a). The court may reinstate the debtor in possession.<sup>97</sup>

### **B. Duties of Debtor in Possession**

Upon the filing of a voluntary case, a small business debtor must file documents required of a small business debtor under §§ 1116(1)(A) and (B).<sup>98</sup> If a small business debtor elects to proceed as a sub V debtor, §1116 is inapplicable, but new § 1187(a) requires the sub V debtor to comply with §§ 1116(1)(A) and (B) upon making the election.<sup>99</sup>

The timing of the election does not change the time for the debtor to file the required documents from the date of the filing of the petition. If the debtor makes the election in the

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<sup>95</sup> New § 1186(b).

<sup>96</sup> New § 1184. Section 1107(a), which provides for the debtor to remain in possession with the rights, powers, and duties of a trustee, is inapplicable in a sub V case. New § 1181(a). New § 1184 replaces § 1107(a) in sub V cases.

<sup>97</sup> New § 1185(b).

<sup>98</sup> New. § 1187(a).

<sup>99</sup> Section 1116 does not apply in a sub V case, § 1181(a), but new § 1187 incorporates all its requirements. In view of this, it is unclear why § 1116 does not apply in subchapter V cases. Perhaps it is because § 1116 also applies to a trustee.

petition (as Interim Rule 1020(a) requires), § 1187(a) requires the debtor to file the documents at that time. If the debtor does not make the election in the petition, § 1116(1) is applicable and requires the debtor to append the documents to the petition. In an involuntary case, the debtor must file the documents within seven days after the order for relief.<sup>100</sup>

The documents that § 1116(1) requires are: the debtor's most recent balance sheet, statement of operations, cash-flow statement, and federal income tax return, or a statement under penalty of perjury that no balance sheet, statement of operations or cash-flow statement has been prepared and no federal tax return has been filed.<sup>101</sup>

SBRA does not change a small business debtor's duty under § 308 to file periodic reports.<sup>102</sup> Under § 308(b), the periodic reports must contain information including: (1) the debtor's profitability; (2) reasonable approximations of the debtor's projected case receipts and cash disbursements; (3) comparisons of actual case receipts and disbursements with projections in earlier reports; (4) whether the debtor is in compliance with postpetition requirements of the Bankruptcy Code and the Bankruptcy Rules and whether the debtor is timely filing tax returns and paying taxes and administrative expenses when due; and (5) if the debtor has not complied with the foregoing duties, how, when, and at what cost the debtor intends to remedy any failures.<sup>103</sup>

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<sup>100</sup> Section 1116(1) requires a small business debtor in an involuntary case to file the required documents within seven days after the order for relief. Interim Rule 1020(a) permits a debtor to make the subchapter V election within 14 days after entry of the order for relief in an involuntary case. New § 1187(a) requires compliance with the requirements of § 1116(1) upon the debtor's election to be a subchapter V debtor.

Unless and until the debtor makes the election, § 1116 applies. Accordingly, the debtor must comply with § 1116(1) and file the required documents within seven days after the order for relief, regardless of when the debtor makes the election.

<sup>101</sup> § 1116(1).

<sup>102</sup> New § 1187(b).

<sup>103</sup> § 308.



The debtor must also comply with the duties of a debtor in possession in small business cases specified in § 1116(2) – (7).<sup>104</sup> Thus, the debtor’s senior management personnel and counsel must: (1) attend meetings scheduled by the court or the U.S. Trustee (including initial debtor interviews, scheduling conferences, and § 341 meetings, unless waived for extraordinary and compelling circumstances); (2) timely file all schedules and statements of financial affairs (unless the court after notice and a hearing grants an extension not to exceed 30 days after the order for relief, absent extraordinary and compelling circumstances); (3) file all postpetition financial and other reports required by the Bankruptcy Rules or local rule of the district court;<sup>105</sup> (4) maintain customary and appropriate insurance; (5) timely file required tax returns and other government filings and pay all taxes entitled to administrative expense priority; and (6) allow the U.S. trustee to inspect the debtor’s business premises, books, and records.<sup>106</sup>

A sub V debtor in possession has the duties of a trustee under § 1106(a), except those specified in paragraphs (a)(2) (file required lists, schedules, and statements), (a)(3) (conduct investigations), and (a)(4) (report on investigations).<sup>107</sup>

The duties under § 1106(a)(1) include the duties of a trustee under paragraphs (2), (5), (7), (8), (9), (10), (11) and (12) of § 704(a).<sup>108</sup> These provisions include duties: to be accountable for all property received; to examine and object to proofs of claim if a purpose would be served; to furnish information concerning the estate and its administration as requested by a party in interest, unless the court orders otherwise; to file reports; to make a report and file a final account of the administration of the estate with the court and the U.S. Trustee; to provide

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<sup>104</sup> New § 1187(b).

<sup>105</sup> That is not a typo. The statute specifies local rule of the district court.

<sup>106</sup> § 1118.

<sup>107</sup> New § 1184.

<sup>108</sup> § 1106(a)(1).

required notices with regard to domestic support obligations; to perform any obligations as the administrator of an employee benefit plan; and to use reasonable and best efforts to transfer patients from a health care business that is being closed.

Other § 1106(a) duties applicable to the sub V debtor under new § 1184 are the duties under § 1106(a)(5) through (a)(8): to file a plan;<sup>109</sup> to file tax returns for any year for which the debtor has not filed a tax return; to file postconfirmation reports as are necessary or as the court orders; and to provide required notices with regard to any domestic support obligations.<sup>110</sup>

### **C. Removal of Debtor in Possession**

New § 1185(a) provides for removal of a debtor in possession, for cause, on request of a party in interest and after notice and hearing.<sup>111</sup> “Cause” includes “fraud, dishonesty, incompetence, or gross mismanagement of the affairs of the debtor, either before or after the date of commencement of the case.” This language is identical to § 1104(a),<sup>112</sup> which provides for

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<sup>109</sup> The duty under § 1106(a)(5), applicable to the sub V debtor under new § 1184, is to “as soon as practicable, file a plan under section 1121 of this title, file a report of why the trustee will not file a plan, or recommend conversion of the case to a case under chapter 7, 12, or 13 of this title or dismissal of the case.” New § 1184.

The § 1106(a)(5) language is somewhat problematical in a sub V case. First, § 1121 (dealing with who may file a plan) does not apply in a sub V case because only the debtor may file a plan. Second, the statutory deadline of 90 days for the debtor to file a plan, new § 1189(b), is inconsistent with the “as soon as practicable” direction in § 1106(a)(5). § 1106(a)(5).

Nevertheless, the clear import of the statutory scheme is that the sub V debtor has a duty to file a plan.

<sup>110</sup> § 1106(a)(5-8).

<sup>111</sup> New § 1181(a). Sections 1104 and 1105, which deal with appointment of a trustee and termination of the trustee’s appointment, are inapplicable in a sub V case.

Section 1104 also permits appointment of a trustee if it is “in the interests of creditors, any equity security holders, and other interests of the estate.” New § 1185(a) does not include this reason as “cause” for removing a debtor in possession.

Section 1104 also permits the appointment of an examiner. Subchapter V has no provision for appointment of an examiner. As Section IV(B)(1) notes, the court may authorize a trustee to investigate for cause shown under new § 1183(b)(2).

<sup>112</sup> Section 1104 does not apply in a sub V case. New § 1181(a).

appointment of a trustee in a standard or non-sub V chapter 11 case, and to § 1204(a), which provides for removal of the debtor in possession in a chapter 12 case.

New § 1185(a) also provides for removal of the debtor in possession “for failure to perform the obligations of the debtor” under a confirmed plan, as Sections V(C) and XII(C) discuss. Sections 1104(a) and 1204(a) do not contain this ground for removal of a debtor in possession.<sup>113</sup>

If the court removes the debtor in possession, the trustee has the duty to operate the business of the debtor,<sup>114</sup> and other duties that Section IV(B)(3) discusses. The trustee cannot, however, file a plan.<sup>115</sup>

New § 1185(b) permits the court to reinstate the debtor in possession on request of a party in interest and after notice and a hearing.<sup>116</sup> Section 1202(b) contains identical language in chapter 12 cases, and § 1105 similarly permits the court to terminate the appointment of a chapter 11 trustee and restore the debtor to possession and management of the estate and operation of the debtor’s business.<sup>117</sup>

Like §§ 1104(a) and 1204(a), new § 1185(a) states that the court *shall* remove the debtor in possession if a specified ground exists.<sup>118</sup> A potential issue is whether removal of the debtor

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<sup>113</sup> New § 1185(a).

<sup>114</sup> *Id.* § 1183(b)(5).

<sup>115</sup> *Id.* § 1189(a) (stating that only the debtor may file a plan).

<sup>116</sup> *Id.* § 1185(b).

<sup>117</sup> §§ 1105, 1202(b). If the debtor is removed from possession, a question arises whether the attorney (and other professionals employed by the debtor) is entitled to compensation for services rendered to the debtor after the removal.

The Supreme Court in *Lamie v. United States Trustee*, 540 U.S. 526, 124 S. Ct. 1023 (2004), ruled that an attorney for a former chapter 11 debtor in possession who provides services after conversion to chapter 7 is not entitled to compensation under § 330(a) for postconversion services because § 330(a) does not authorize compensation for a debtor’s attorney. The same principle applies when a trustee is appointed in a chapter 11 case, thus removing the debtor as debtor in possession.

Subchapter V does not address this issue. If the *Lamie* ruling precludes compensation of a sub V debtor’s attorney after removal and the debtor cannot find an attorney to provide counsel without compensation, the debtor will not have a realistic chance of obtaining reinstatement or filing a plan.

<sup>118</sup> New § 1185(a).

for failure to perform under a confirmed plan is mandatory if the failure is not material or if the debtor has cured or can cure defaults. If a debtor establishes that reinstatement is appropriate at the same time that removal is sought, a court might find sufficient reason not to remove the debtor.

## **VI. Administrative and Procedural Features of Subchapter V**

Subchapter V includes several features designed to facilitate the efficient and economical administration of the case and the prompt confirmation of a plan. These features include elimination of the committee of unsecured creditors and the requirement of a separate disclosure statement unless the court orders otherwise; the requirement of a status conference; an expedited timetable for the filing of a plan; elimination of U.S. Trustee fees; and a modification of the disinterestedness requirement applicable to the retention of professionals by the debtor under § 327(a).

### **A. Elimination of Committee of Unsecured Creditors**

SBRA amends § 1102(a)(3) to provide that a committee of unsecured creditors will not be appointed in the case of a small business debtor unless the court for cause orders otherwise.<sup>119</sup> Prior to the amendment, § 1102(a)(3) permitted the U.S. Trustee to appoint a committee unless the court, for cause, ordered that a committee not be appointed. The other provisions of

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<sup>119</sup> SBRA § 4(a)(11).

§ 1102<sup>120</sup> (dealing with appointment of committees) and § 1103 (dealing with powers and duties of committees) do not apply in a sub V case unless the court orders otherwise.<sup>121</sup>

## **B. Elimination of Requirement of Disclosure Statement**

Section 1125 regulates postpetition solicitation of acceptances or rejections of a plan. It requires that creditors receive “adequate information”<sup>122</sup> about the debtor and the plan before solicitation occurs in the form of a written disclosure statement that the court approves.<sup>123</sup> The court must hold a hearing on approval of the disclosure statement after at least 28 days’ notice before solicitation of votes on the plan may occur.<sup>124</sup>

In a small business case, § 1125(f)(3) permits the court to conditionally approve a disclosure statement, subject to objection after notice and hearing,<sup>125</sup> so that solicitation may occur without prior notice and hearing on the disclosure statement.<sup>126</sup> The hearing on approval of the disclosure statement may be combined with the hearing on confirmation.<sup>127</sup> In addition, the court in a small business case may determine that the plan itself provides adequate information and that a separate disclosure statement is not necessary,<sup>128</sup> and may approve a disclosure statement submitted on a standard form approved by the court or on Official Form B425B.<sup>129</sup>

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<sup>120</sup> The other provisions are paragraphs (1), (2), and (4) of § 1102(a) and § 1102(b).

<sup>121</sup> New § 1181(b).

<sup>122</sup> Section 1125(a)(1) defines “adequate information” as information that would enable “a hypothetical investor of the relevant class to make an informed judgment about the plan.” § 1125(a)(1).

<sup>123</sup> § 1125(b).

<sup>124</sup> FED. R. BANKR. P. 3017(a).

<sup>125</sup> § 1125(f)(3)(A).

<sup>126</sup> § 1125(f)(3)(B).

<sup>127</sup> § 1125(f)(3)(C).

<sup>128</sup> § 1125(f)(1).

<sup>129</sup> § 1125(f)(2).

In a sub V case, § 1125 is inapplicable unless the court orders otherwise.<sup>130</sup> Thus, the debtor need not file a disclosure statement in connection with its plan unless the court requires it. If the court orders that § 1125 apply, the provisions of § 1125(f) apply.

A sub V debtor's plan must contain certain information that a disclosure statement typically contains, including: (1) a brief history of the business operations of the debtor; (2) a liquidation analysis; and (3) projections with respect to the ability of the debtor to make payments under the proposed plan of reorganization.<sup>131</sup> Subchapter V does not require that the plan contain "adequate information," and it does not provide for judicial review of the required information. Material or intentional errors or omissions might provide a basis for denial of confirmation for the debtor's lack of good faith in proposing the plan.<sup>132</sup>

### **C. Required Status Conference and Debtor Report**

Section 105(d) permits, but does not require, the court to convene a status conference in a case under any chapter, on its own motion or on request of a party in interest.<sup>133</sup> Section 105(d) does not apply in a sub V case.<sup>134</sup> Instead, new § 1188(a) makes a status conference mandatory and requires the court to hold it not later than 60 days after the entry of the order for relief in the case. The court may extend the time for holding the status conference if the need for an extension is "attributable to circumstances for which the debtor should not justly be held accountable."<sup>135</sup> The statutory purpose of the status conference is "to further the expeditious and economical resolution" of the case.

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<sup>130</sup> New § 1181(b).

<sup>131</sup> New § 1181(a)(1).

<sup>132</sup> § 1129(a)(3). *See also* Brubaker, *supra* note 5, at 10.

<sup>133</sup> § 105(d).

<sup>134</sup> New § 1181(a).

<sup>135</sup> New § 1188(b).

Not later than 14 days prior to the status conference, the debtor must file, and serve on the trustee and all parties in interest, a report that “details the efforts the debtor has undertaken and will undertake to attain a consensual plan of reorganization.”<sup>136</sup> The trustee has the duty to appear and be heard at the status conference.<sup>137</sup>

#### **D. Time for Filing of Plan**

Only the debtor may file a plan.<sup>138</sup> The debtor has a duty to do so.<sup>139</sup>

The deadline for the sub V debtor to file the plan is 90 days after the order for relief.<sup>140</sup> The court may extend the deadline if the need for extension is attributable to circumstances for which the debtor should not justly be held accountable.<sup>141</sup> New § 1193(a) permits preconfirmation modification of a plan.<sup>142</sup>

The timing requirements in a small business case under existing law are that a plan must be filed within 300 days of the filing date,<sup>143</sup> and that confirmation occur within 45 days of the filing of the plan.<sup>144</sup> These requirements do not apply in a subchapter V case.<sup>145</sup> They continue to apply in the case of a small business debtor who does not elect subchapter V. The schedule for the filing of the plan in a sub V case thus differs from the schedule in a non-sub V case in two ways. First, a sub V debtor must file a plan much more promptly than a non-sub V debtor – 90

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<sup>136</sup> New § 1188(c).

<sup>137</sup> New§ 1183(b)(3).

<sup>138</sup> New§ 1189(a).

<sup>139</sup> New§ 1184. Note 108 discusses the debtor’s duty to file a plan.

<sup>140</sup> New§ 1189(b).

<sup>141</sup> *Id.*

<sup>142</sup> New§ 1193(a).

<sup>143</sup> § 1121(e).

<sup>144</sup> § 1129(e).

<sup>145</sup> New § 1181(a).

days instead of 300.<sup>146</sup> Second, the sub V debtor faces no deadline for obtaining confirmation after the filing of the plan.

As in all chapter 11 cases, a debtor's failure to file a plan within the time the Bankruptcy Code requires (or the court orders) is cause for conversion or dismissal.<sup>147</sup> Section 1112(b)(1) states that the court *shall* dismiss or convert a chapter 11 case for cause, whichever is in the best interest of creditors and the estate, unless the court determines that the appointment of a trustee or an examiner *under § 1104* is in the best interests of the estate.<sup>148</sup> Because § 1104 does not apply in a sub V case,<sup>149</sup> the court apparently has no alternative to conversion or dismissal.

### **E. No U.S. Trustee Fees**

28 U.S.C. § 1930(a)(6)(A) requires the quarterly payment of U.S. Trustee fees in chapter 11 cases based on disbursements in the case. SBRA amends this subparagraph to except cases under subchapter V from this requirement.<sup>150</sup>

### **F. Modification of Disinterestedness Requirement for Debtor's Professionals**

Section 327(a) permits employment of professionals by a debtor in possession in a chapter 11 case only if, among other things, the professional is a "disinterested person." A person who holds a claim against the debtor is not a disinterested person under the term's definition in § 101(14)(A).<sup>151</sup> A disinterested person cannot not have an interest "materially adverse to the interest of the estate."<sup>152</sup>

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<sup>146</sup> Because of the short time to file a plan, counsel for a sub V debtor should promptly request the court to issue a bar order establishing a deadline for the filing of proofs of claim if the court by local rule or general order has not fixed a deadline for filing proofs of claim in sub V cases.

<sup>147</sup> § 1112(c)(4)(J).

<sup>148</sup> 1112(b)(1).

<sup>149</sup> New § 1181(a).

<sup>150</sup> SBRA § 4(b)(3).

<sup>151</sup> § 327(a).

<sup>152</sup> § 101(14)(C).



These provisions disqualify an attorney or other professional to whom the debtor owes money at the time of filing because the professional is a creditor. Moreover, because payment of amounts owed to the professional prior to filing would in most instances be a voidable preference under § 547 and result in the professional having a material adverse interest to the estate in a preference action, the debtor's professionals must either waive any unpaid fees or forego representation of the debtor.

New Section 1195 addresses this issue in part. It provides that a person is not disqualified from employment under § 327(a) solely because the professional holds a prepetition claim of less than \$ 10,000.<sup>153</sup>

#### **G. Time For Secured Creditor to Make § 1111(b) Election**

Section 1111(b) permits a secured creditor to make an election under certain circumstances for allowance or disallowance of its claim the same as if it had recourse against the debtor on account of such claim, whether or not it has recourse.<sup>154</sup> If the election is made, the claim is allowed as secured to the extent it is allowed. The election may be made at any time prior to the conclusion of the hearing on the disclosure statement.<sup>155</sup> Alternatively, if the disclosure statement is conditionally approved under Bankruptcy Rule 3017.1 and a final hearing on the disclosure statement is not held, the election must be made within the date fixed for objections to the disclosure statement under Bankruptcy Rule 3017.1(a)(2) or another date fixed by the court.<sup>156</sup>

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<sup>153</sup> New § 1195.

<sup>154</sup> § 1111(b).

<sup>155</sup> FED. R. BANKR. P. 3014.

<sup>156</sup> FED. R. BANKR. P. 3017.1.

Interim Rule 3017 takes account of the fact that subchapter V does not contain a requirement for a disclosure statement unless the court orders otherwise. It provides that, in a subchapter V case, the § 1111(b) election may be made not later than a date the court may fix.<sup>157</sup>

#### **H. Times For Voting on Plan, Determination of Record Date for Holders of Equity Securities, Hearing on Confirmation, Transmission of Plan, and Related Notices**

Bankruptcy Rule 3017: (1) requires the court to fix the time for holders of claims or interests to vote to accept or reject a plan on or before approval of the disclosure statement; (2) provides that the record date for creditors and holders of equity securities is the date that the order approving the disclosure statement is entered or another date fixed by the court; (3) permits the court to set the date for the hearing on confirmation in connection with approval of the disclosure statement; and (4) requires that, upon approval of the disclosure statement, the court must fix the date for transmission of the plan, notice of the time for filing acceptances or rejections, and notice of the hearing on confirmation.<sup>158</sup>

New Interim Rule 3017.2 provides for the court to establish all these times in a subchapter V case in which the disclosure statement requirements of § 1125 do not apply.<sup>159</sup>

### **VII. Contents of Subchapter V Plan**

The requirements for the contents of a sub V plan are contained in existing §§ 1122 and 1123 (with two exceptions) and in new § 1190. An important provision is that new § 1190(3) permits modification of a claim secured only by a security interest in real property that is the

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<sup>157</sup> INTERIM RULE 3017.

<sup>158</sup> FED. R. BANKR. P. 3017.1.

<sup>159</sup> INTERIM RULE 3017.2.

principal residence of the debtor if the loan arises from new value provided to the debtor's business.<sup>160</sup>

Section 1122 states rules for classification of claims in a chapter 11 plan, and § 1123 states what provisions a plan must and may have. Two provisions in § 1123 – (a)(8) and (c) – are not applicable in sub V cases.<sup>161</sup>

Official Form 425A, which is a permissible, but not required, form for a chapter 11 plan, has been modified and may be used in a subchapter V case. Courts may adopt local forms for subchapter V plans<sup>162</sup> or provide guidance on their preparation.<sup>163</sup>

### **A. Inapplicability of §§ 1123(a)(8) and 1123(c)**

Section 1123(a)(8) requires the plan for an individual debtor to provide for payment to creditors of all or such portion of earnings from postpetition services or other future income as is necessary for the execution of the plan.<sup>164</sup> Section 1123(c) prohibits a plan filed by an entity other than the debtor from providing for the use, sale, or lease of exempt property, unless the debtor consents.<sup>165</sup>

SBRA replaces § 1123(a)(8) with a provision in new § 1190, which contains additional provisions for the content of a plan. Section 1123(c) is superfluous in a subchapter V case because only the debtor can propose a plan.<sup>166</sup>

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<sup>160</sup> New § 1190(3).

<sup>161</sup> New § 1181(a).

<sup>162</sup> E.g., *Chapter 11 Subchapter V Small Business Debtor's Plan of Reorganization [or Liquidation]*, available at <http://www.njb.uscourts.gov/forms/chapter-11-subchapter-v-small-business-debtors-plan-reorganization-or-liquidation>.

<sup>163</sup> E.g., *SBRA Plan Instructions*, available at <http://www.canb.uscourts.gov/forms/district>.

<sup>164</sup> § 1123(a)(8).

<sup>165</sup> § 1123(c).

<sup>166</sup> New § 1189(a).

## **B. Requirements of New § 1190 for Contents of Subchapter V Plan; Modification of Residential Mortgage**

New § 1190 contains three provisions governing the content of the plan.

First, new § 1190(1)<sup>167</sup> requires information that would otherwise be included in a disclosure statement. The plan must include: (1) a brief history of the operations of the debtor; (2) a liquidation analysis; and (3) projections regarding the ability of the debtor to make payments under the proposed plan.

Second, new § 1190(2) requires the plan to provide for the submission of “all or such portion of the 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.” In an individual case, this provision replaces the similar rule in the inapplicable § 1123(a)(8). In non-individual cases, it imposes a new requirement.

Because a plan ordinarily must provide for payment of creditors from the debtor’s income, the requirement for the submission to the trustee of income as necessary for the execution of the plan states nothing more than a feasibility requirement.

New § 1190(2) raises interpretive issues regarding the requirement that future income be submitted to the “supervision and control” of the trustee.

If a consensual plan is confirmed under new § 1191(a), new § 1194 does not contemplate that the trustee make the payments. Moreover, new § 1183(c)(1) provides for termination of the trustee’s service upon substantial consummation of a consensual plan under new § 1191(a).

Under § 1101(2), “substantial consummation” occurs upon (among other things<sup>168</sup>)

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<sup>167</sup> No apparent reason exists for using numbers for the subsections of this section instead of the customary lower-case letters.

<sup>168</sup> Substantial consummation also requires transfer of all or substantially all of the property proposed by the plan to be transferred, § 1101(2)(A) (2018), and assumption by the debtor or by the successor to the debtor of the business or of the management of all or substantially all of the property dealt with by the plan, § 1101(2)(B).

“commencement of distribution under the plan.”<sup>169</sup> An issue is whether a consensual plan must provide for submission of future income to the trustee’s supervision and control when the trustee’s service will terminate once the first plan payment is made.<sup>170</sup>

The third content provision in new § 1190(3) changes the rule of § 1123(b)(5) that a plan may not modify the rights of a claim secured only by a security interest in real property that is the debtor’s principal residence. The same antimodification rule applies in chapter 13 cases under § 1322(b)(2).

New § 1190(3) permits modification of such a claim if the two circumstances specified in subparagraphs (A) and (B) exist. The requirement of subparagraph (A) is that the new value received in connection with the granting of the security interest was “not used primarily to acquire the real property.” Subparagraph (B) requires that the new value was “used primarily in connection with the small business of the debtor.”<sup>171</sup>

Courts have considered whether the prohibition on modification of a residential mortgage applies when the property in which the debtor resides has nonresidential characteristics or uses, usually in chapter 13 cases.<sup>172</sup> For example, the property may be a multi-family dwelling that does or can generate rental income or a farm. The debtor may use it for business purposes, or it may include additional tracts or acreage beyond a residential lot.

The issue in such cases is whether the claim is secured by property other than the debtor’s residence. Some courts have ruled that antimodification protection extends to a mortgage secured by any real property that the debtor uses, at least in part, as a residence. Other courts, however, have concluded that the debtor’s use of real property as a residence does not alone

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<sup>169</sup> § 1101(2)(C).

<sup>170</sup> See *infra* Section IX(A).

<sup>171</sup> New § 1190(3).

<sup>172</sup> See W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 5:42.

mean that the debt is secured only by the debtor's principal residence, and that a mortgage on property the debtor uses as a residence is subject to modification if the property has sufficient nonresidential characteristics or uses.<sup>173</sup>

The court in *In re Ventura*<sup>174</sup> concluded that application of new § 1190(3) requires a different analysis. There, an individual operated a bread and breakfast business in her residence through a limited liability company she owned. In her chapter 11 case filed prior to SBRA's enactment, the court had ruled that she could not modify the mortgage on the property, applying the cases holding that a debtor may not modify a mortgage on property in which she resides even if she uses it for other purposes.

After SBRA's effective date, the debtor amended her petition to elect application of subchapter V. In addition to permitting her to proceed under subchapter V,<sup>175</sup> the court addressed the lender's contention that she could not invoke § 1190(3) because the proceeds from the mortgage had been used to acquire the property.<sup>176</sup>

The court concluded that § 1190(3) specifically permits the modification of a residential mortgage if the conditions of subparagraphs A and B exist. The questions, therefore, were whether the mortgage proceeds were "not used primarily to acquire the real property" (new § 1190(3)(A)) and were "used primarily in connection with the small business of the debtor" (new § 1190(3)(B)).<sup>177</sup>

The court focused on two terms in subparagraph (A). "Primarily," the court said, means "for the most part," "of first importance," or "principally," rather than "substantial." The phrase

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<sup>173</sup> *Id.*

<sup>174</sup> *In re Ventura*, 2020 WL 1867898 (Bankr. E.D.N.Y. 2020).

<sup>175</sup> *Id.* at 7-14. Part XIII discusses the court's ruling on the availability of subchapter V in the case.

<sup>176</sup> The lender also argued that § 1190(3) could not be applied to a transaction arising prior to its effective date. Part XIII discusses the court's ruling rejecting this contention.

<sup>177</sup> *In re Ventura*, 2020 WL 1867898, at \*15.

“real property,” the court continued, refers back to the real property that is the debtor’s residence.<sup>178</sup>

Based on these definitions, the court phrased the question of subparagraph (A)’s application in the case before it as “whether the Mortgage proceeds were used primarily to purchase the Debtor’s Residence.”<sup>179</sup> The inquiry thus differs from the issue under § 1123(b)(5) (and § 1322(b)(2) in chapter 13 cases) that, under the court’s prior ruling, prohibited modification of the mortgage because the debtor resided in the property, regardless of its other uses. New § 1190(3), the court explained, “asks the court to determine whether the primary purpose of the mortgage was to acquire the debtor’s residence.”<sup>180</sup>

Subparagraph (B), the court stated, required it to determine “whether the mortgage proceeds were used primarily in connection with the debtor’s business.”

The court held that subparagraphs (A) and (B) directed it “to conduct a qualitative analysis to determine whether the principal purpose of the debt was not to provide the debtor with a place to live, and whether the mortgage proceeds were primarily for the benefit of the debtor’s business activities.”<sup>181</sup>

The court proposed five factors to consider in this analysis: “(1) Were the mortgage proceeds used primarily to further the debtor’s business interests; (2) Is the property an integral part of the debtor’s business; (3) The degree to which the specific property is necessary to run the business; (4) Do customers need to enter the property to utilize the business; and (5) Does the business utilize employees and other businesses in the area to run its operations.”<sup>182</sup>

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<sup>178</sup> *Id.* at \*16.

<sup>179</sup> *Id.* at \*16.

<sup>180</sup> *Id.*

<sup>181</sup> *Id.*

<sup>182</sup> *Id.* at \*16-17.

The court found that the debtor bought the property to operate it as a bed and breakfast, that its primary purpose was the offering of rooms for nightly fees, that the debtor's LLC provided additional services to guests for additional fees, and that the mortgage proceeds were used to purchase the building that houses the business. The court ruled that the evidence was sufficient to hold a full evidentiary hearing to determine whether the debtor could use § 1190(3) to modify the mortgage.<sup>183</sup>

A business debtor may grant a security interest in a principal residence as additional collateral without receiving new value, perhaps in connection with a workout involving forbearance or restructuring of the debt. A potential issue is whether the new § 1190(3) exception to the antimodification rule applies in this situation when the debtor receives no additional loan proceeds.

### **C. Payment of Administrative Expenses Under the Plan**

If the court confirms a plan under the cramdown provisions of new § 1191(b), new § 1191(e) permits the plan to provide for the payment through the plan of claims specified in §§ 507(a)(2) and (3), notwithstanding the confirmation requirement in § 1129(a)(9) that such claims be paid in full on the plan's effective date.<sup>184</sup> Section 507(a)(2) includes administrative expense claims allowable under § 503(b), and § 507(a)(3) gives priority to involuntary gap claims allowable under § 502(f).

Administrative expenses include claims under § 503(b)(2) for fees and expenses of professionals employed by the debtor and the trustee under § 330(a) and claims under

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<sup>183</sup> *Id.* at \*17.

<sup>184</sup> New § 1191(e).



§ 503(b)(9) for goods received by the debtor in the ordinary course of business within 20 days before the filing of the petition.<sup>185</sup>

## **VIII. Confirmation of the Plan**

### **A. Consensual and Cramdown Confirmation in General**

Under pre-SBRA law, the court must confirm a chapter 11 plan if all the requirements of § 1129(a) are met.

When all of the requirements of § 1129(a) are met except the requirement in paragraph (a)(8) that all impaired classes accept the plan, § 1129(b)(1) permits so-called “cramdown” confirmation “if the plan does not discriminate unfairly, and is fair and equitable” with regard to each impaired class that has not accepted it.<sup>186</sup> Section 1129(b)(2) states the rules for the “fair and equitable” requirement for classes of secured claims (§ 1129(b)(2)(A)), unsecured claims (§ 1129(b)(2)(B)), and interests (§ 1129(b)(2)(C)).<sup>187</sup> The effects of confirmation are the same regardless of whether cramdown confirmation occurs under § 1129(b).

New § 1191 states the rules for confirmation in a sub V case. Section 1129(a) remains applicable in a sub V case, except for paragraph (a)(15), which imposes a projected disposable income requirement in the case of an individual if an unsecured creditor invokes it.<sup>188</sup> Because § 1129(a)(15) no longer applies, Interim Rule 1007(b) makes the requirement that an individual

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<sup>185</sup> The permission to pay these priority claims “through the plan” without requiring payment in full raises questions of whether a plan may provide for less than full payment and whether interest is required. Presumably, Congressional intent is to change the timing requirement for payment of the claims and not to permit partial payment. *See* Brubaker, *supra* note 5, at 15-16.

<sup>186</sup> § 1129(b)(1).

<sup>187</sup> § 1129(b)(2).

<sup>188</sup> New § 1181(a).

debtor in a chapter 11 case file a statement of current monthly income inapplicable to an individual in a subchapter V case.<sup>189</sup>

If all the applicable requirements in § 1129(a) are met except for the projected disposable income rule of paragraph (a)(15), new § 1191(a) requires the court to confirm the plan. Because § 1129(a)(8) requires acceptance of the plan by all impaired classes, confirmation under § 1191(a) can occur only if all impaired classes have accepted it.<sup>190</sup> This paper refers to it as a “consensual plan.”

New § 1191(b) states the rules for cramdown confirmation. It replaces the cramdown provisions of § 1129(b), which do not apply in a sub V case.<sup>191</sup> In general, new § 1191(b) permits confirmation even if the requirements of paragraphs (8), (10), and (15) of § 1129(a) are not met. Thus, cramdown confirmation does not require (1) that all impaired classes accept the plan (§ 1129(a)(8)) or (2) that at least one impaired class of creditors accept it (§ 1129(a)(10)). The requirements in § 1129(b)(2)(A) for cramdown confirmation with regard to a class of secured claims remain applicable in a sub V case.<sup>192</sup>

Cramdown confirmation under new § 1191(b) does not require that the plan meet the projected disposable income requirement of § 1129(a)(15), applicable only in the case of an individual if any unsecured creditor invokes it. Cramdown confirmation does, however, impose a modified projected disposable income rule, expanded to include all debtors, not just individuals, as the next Section discusses. For an individual, it is significant that the projected disposable income rule comes into play only if one or more *classes* do not accept the plan. Unless a class consists of only one creditor, a single creditor cannot invoke the projected

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<sup>189</sup> INTERIM RULE 1007(b).

<sup>190</sup> New § 1191.

<sup>191</sup> § 1181(a).

<sup>192</sup> New § 1191(c)(1).

disposable income requirement, which a single creditor can do in a standard or non-sub V case even if all impaired classes accept the plan.<sup>193</sup>

Importantly, the effects of confirmation differ depending on whether confirmation occurs under new § 1191(a) (where all classes have accepted it) or under new § 1191(b) (where one or more – or even all – classes have not accepted it).<sup>194</sup>

## **B. Cramdown Confirmation Under New § 1191(b)**

### **1. Changes in the cramdown rules and the “fair and equitable” test**

Discussion of the revised cramdown rules in a sub V case begins with a summary of the key provisions that govern cramdown confirmation under pre-SBRA law.

Section 1129(a) contains two important requirements for confirmation with regard to acceptances of a plan. First, paragraph (a)(8) requires that all impaired classes accept the plan.<sup>195</sup> Second, paragraph (a)(10) requires that at least one class of impaired creditors accept the plan.<sup>196</sup>

Section 1129(b) permits cramdown confirmation if all the requirements for confirmation in § 1129(a) are met except the requirement of paragraph (a)(8) that all impaired classes accept it. Section 1129(b), however, does not affect the confirmation requirement of § 1129(a)(10) that

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<sup>193</sup> § 1129(a)(15). One may view the projected disposable income requirement for cramdown confirmation as protection for a dissenting class of unsecured creditors that substitutes for the inapplicable absolute priority rule. *See In re Moore Properties of Person County, LLC*, 2020 WL 995544, at \*\*5 (Bankr. M.D.N.C. 2020). In absolute priority rule theoretical terms, it recognizes “sweat equity” (i.e., future income) as “new value” that permits equity owners to retain their interests. The inability of a single creditor to invoke the projected disposable income rule is consistent with the inability of a single creditor to invoke the absolute priority rule under § 1129(b); both apply only if a class does not accept.

<sup>194</sup> Other text explains the consequences of the type of confirmation relating to: payments under the plan by the trustee and termination of the service of the trustee (Part IX); compensation of the trustee (Section IV(E)); postconfirmation modification of the plan (Section VIII(C)); discharge (Part X); contents of property of the estate (Part XI); and postconfirmation default and remedies (Part XII).

<sup>195</sup> § 1129(a)(8).

<sup>196</sup> § 1129(a)(10).

at least one impaired class of creditors accept the plan. Cramdown confirmation under § 1129(b) is not available if no impaired class of creditors has accepted the plan.

In addition, if the nonaccepting class is the class of unsecured creditors, the absolute priority rule of § 1129(b)(2)(B) prohibits holders of equity interests from retaining their interests unless unsecured creditors receive full payment (subject to the new value exception).<sup>197</sup> In an individual case, many courts conclude that the absolute priority rule prohibits the debtor from retaining property without payment in full to unsecured creditors.<sup>198</sup>

Subchapter V changes these rules. The starting point is that § 1129(b) does not apply.<sup>199</sup> Instead, new § 1191(b) states revised cramdown rules that (1) permit cramdown confirmation even if all impaired classes do not accept the plan and (2) eliminate the absolute priority rule.<sup>200</sup> New § 1191(c) states a new “rule of construction” for the requirement that a plan be “fair and equitable.”<sup>201</sup> It replaces the “fair and equitable” requirements of § 1129(b), which do not apply in a subchapter V case.

The debtor may invoke new § 1191(b) when all confirmation requirements of § 1129(a) are met except those in paragraphs (8), (10), and (15). Thus, in addition to eliminating the (a)(8) requirement that all impaired classes accept the plan, new § 1191(b) eliminates the requirement of § 1129(a)(10) that at least one impaired class accept the plan. The projected disposable income test of § 1129(a)(15), applicable only in the case of an individual, is replaced by a revised projected disposable income text applicable to all debtors.<sup>202</sup>

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<sup>197</sup> § 1129(b)(2)(B).

<sup>198</sup> See 7 COLLIER ON BANKRUPTCY ¶ 1129.04[3][d] (Richard Levin & Henry J. Sommer eds., 16th ed. 2019).

<sup>199</sup> New § 1181(a).

<sup>200</sup> New § 1191(b).

<sup>201</sup> New § 1191(c).

<sup>202</sup> New § 1191(d).

Under the cramdown rules in new § 1191(b), if all other confirmation standards are met, the court must confirm a plan, on request of the debtor, if, with respect to each impaired class that has not accepted it, the plan (1) does not discriminate unfairly and (2) is fair and equitable. These two general standards are the same as the ones that govern in a cramdown under § 1129(b).

It does not appear that the new statute effects any change in the unfair discrimination requirement. New § 1191(c) does, however, provide a new “rule of construction” in subchapter V cases for the condition that a plan be “fair and equitable,” to replace the detailed definition of that term that § 1129(b) contains.

The following text explains the requirements of the “fair and equitable” test in sub V cases.

## **2. Cramdown requirements for secured claims**

Subchapter V does not change existing law about permissible cramdown treatment of secured claims. With regard to a class of secured claims, a subchapter V plan is “fair and equitable” if it meets the existing rules for secured claims stated in § 1129(b)(2)(A).

Subchapter V does limit the ability of a partially secured creditor with an unsecured deficiency claim to block cramdown confirmation. An undersecured creditor with a large deficiency claim often controls the vote of the unsecured class. If no other impaired class of creditors accepts the plan, cramdown confirmation is not possible in a standard or non-sub V case because of the absence of an accepting impaired class of claims, which § 1129(a)(10) requires.<sup>203</sup> This requirement is inapplicable for cramdown confirmation in a sub V case under new § 1191(b).

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<sup>203</sup> § 1129(a)(10).

In addition, the creditor cannot invoke the absolute priority rule with regard to the unsecured portion of its claim.

### **3. Components of the “fair and equitable” requirement in subchapter V cases; no absolute priority rule**

New § 1191(c) does not state a “fair and equitable” rule specifically for unsecured claims. Instead, it imposes a projected disposable income requirement (sometimes called the “best efforts” test), requires a feasibility finding, and requires that the plan provide appropriate remedies if payments are not made. Notably absent is the absolute priority rule.<sup>204</sup>

### **4. The projected disposable income (or “best efforts”) test**

The projected disposable income (or “best efforts”) requirement is in new § 1191(c)(2).<sup>205</sup>

The plan must provide that all of the projected disposable income of the debtor to be received in the three-year period after the first payment under the plan is due, or in such longer period not to exceed five years as the court may fix, will be applied to make payments under the plan.<sup>206</sup> Alternatively, the plan may provide that the value of property to be distributed under the

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<sup>204</sup> The court in *In re Moore Properties of Person County, LLC*, 2020 WL 995544, at \*\*5 (Bankr. M.D.N.C. 2020), reasoned that the projected disposable income is a substitute for the absolute priority rule. See also *supra* note 193.

<sup>205</sup> New § 1191(c)(2). Compliance with the projected disposable income requirement is a mandatory condition for cramdown confirmation under new § 1191(b). In chapter 11, 12, and 13 cases, it applies only if a holder of an allowed unsecured claim or, in a chapter 12 or 13 case, the trustee, invokes it. §§ 1129(a)(15), 1225(b), 1325(b).

<sup>206</sup> New § 1191(c)(2)(A). The projected disposable income test in chapter 11 and 12 cases likewise requires the use of projected disposable income to make payments under the plan. §§ 1129(a)(15), 1225(b)(1).

This was the chapter 13 rule until the enactment of Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005. BAPCPA in 2005, which amended 1325(b)(1) to require the use of projected disposable income to make payments to unsecured creditors.

Presumably, the amended chapter 13 provision takes account of the fact that the “means test” standards that govern the reasonably necessary expenses that an above-median debtor may deduct from current monthly income in calculating disposable income permit deductions for payments on secured and priority claims. See W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, §§ 8:29, 8:44, 8:60. Although the definition of disposable income does not specifically permit a below-median debtor to deduct payments on secured and priority claims in calculating disposable income, the statute of necessity must be interpreted to include them. See *id.* § 8:29.

plan within the three-year or longer period that the court fixes is not less than the projected disposable income of the debtor.<sup>207</sup>

The language is substantially the same as the projected disposable income test applicable in chapter 12 cases.<sup>208</sup> Like the chapter 12 requirement (and unlike chapter 11 cases), it applies to entities as well as individuals.

Key confirmation issues are: (1) How is projected disposable income determined? (2) How does the court determine whether the required period should be longer than three years; and (3) If so, how does the court determine how much longer the period must be?

### **i. Determination of projected disposable income**

The Bankruptcy Code does not define “projected disposable income,” but it defines “disposable income” in chapters 12<sup>209</sup> and 13.<sup>210</sup> In chapter 11 cases, § 1129(a)(15) incorporates the chapter 13 definition.<sup>211</sup>

New § 1191(d) defines disposable income as income that is received by the debtor and that is not “reasonably necessary to be expended” for these specified purposes:

- the maintenance or support of the debtor or a dependent of the debtor;<sup>212</sup> or
- a domestic support obligation that first becomes payable after the date of the filing of the petition;<sup>213</sup> or

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The difference in how the debtor must use projected disposable income may affect the timing of payments to unsecured creditors but appears to have no material effect on the amount of money that must be paid under the plan or how much of it goes to unsecured creditors. *See id.* § 8:68.

<sup>207</sup> The projected disposable income tests in chapters 11 and 12 also contain this alternative, but the chapter 13 one does not.

<sup>208</sup> See § 1225(b). Section 1225(b)(1)(A) provides that the debtor need not commit projected disposable income if the plan provides for full payment. New § 1191(c)(2) does not contain this provision, raising the possibility that a creditor could insist on commitment of disposable income to pay more than the allowed amount of the claim. *See Brubaker, supra* note 5, at 13. It seems unlikely that Congress could have intended such a result that is inconsistent with the common-sense principle, even if unstated, that payment of the full amount of the claim (perhaps with interest) resolves it.

<sup>209</sup> § 1225(b)(2).

<sup>210</sup> § 1325(b)(2).

<sup>211</sup> § 1129(a)(15).

<sup>212</sup> New § 1191(d)(1)(A).

<sup>213</sup> New § 1191(d)(1)(B).

– payment of expenditures necessary for the continuation, preservation, or operation of the business of the debtor.<sup>214</sup>

The definition of disposable income in new § 1191(d) is substantially the same as the definition of disposable income in § 1225(b)(2). It is also substantially the same definition as in § 1325(b)(2), except that § 1325(b)(2) permits a deduction for charitable contributions. The chapter 11 provision incorporates the chapter 13 definition.<sup>215</sup>

The definition of disposable income in all cases is substantially the same. But the manner of determining permissible deductions in calculating disposable income differs materially with regard to expenditures for the “maintenance or support” of the debtor and the debtor’s dependents.

In chapter 13 cases, the so-called “means test” standards govern the deductions that an “above-median”<sup>216</sup> debtor may take in calculating disposable income.<sup>217</sup> The means test rules do not apply in a chapter 12 case or in the case of a below-median chapter 13 debtor. It is not clear whether the means test applies in chapter 11 cases.<sup>218</sup>

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<sup>214</sup> § 1191(d)(2).

<sup>215</sup> § 1129(a)(15).

<sup>216</sup> Generally, an “above-median” debtor is a debtor whose income is above the median income of the state in which the debtor resides, and a “below-median” debtor is one whose income is below the median. *See* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 8:12. The rules for determining the debtor’s status are set forth in § 1322(d), which governs the permissible term of a plan; § 1325(b)(3), which requires an above-median debtor to use the “means test” rules for determination of disposable income; and § 1325(b)(4), which defines “applicable commitment period” for purposes of determining the period for which the debtor must commit disposable income to pay unsecured creditors. Generally, an “above-median” debtor must use the means test rules and pay projected disposable income for five years. A “below-median” debtor does not use the means test rules and must pay projected disposable income for only three years. A below-median debtor’s plan cannot provide for payments longer than three years unless the court, for cause, approves a longer period not to exceed three years. *See* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, §§ 4:9, 8:12.

<sup>217</sup> § 1325(b)(3).

<sup>218</sup> In chapter 11 cases, § 1129(a)(15) states that projected disposable income is “as defined in [§ 1325(b)(2)].” § 1129(a)(15) (2018). Section 1325(b)(2) does not refer to the means test standards. Instead, they become applicable to an above-median debtor because § 1325(b)(3) states that they govern determination of “amounts reasonably necessary to be expended” under § 1325(b)(2) for an above-median debtor. § 1325(b)(3). The argument against application of the means test standards in a chapter 11 case is that § 1129(a)(15) incorporates only the definition in § 1325(b)(2) and does not incorporate § 1325(b)(3). The contrary argument is that determination of projected



New § 1191(d) does not incorporate the means test in the calculation of disposable income. The test for determining what maintenance and support expenditures are “reasonably necessary to be expended” for “maintenance or support” in new § 1191(d)(1) in sub V cases is the same as it is in chapter 12 and below-median chapter 13 cases, and as it was in chapter 13 cases prior to the introduction of the means test standards in BAPCPA.<sup>219</sup> The case law on disposable income in such cases should provide guidance in making such determinations.

With regard to expenditures for the business, income is not “disposable income” under new § 1191(d)(2) if it is “reasonably necessary to be expended” for expenditures “necessary for the continuation, preservation, or operation” of the business.<sup>220</sup> The rule contemplates the payment of items such as payroll, utilities, rent, insurance, taxes, acquisition of inventory or raw materials, and other expenses ordinarily incurred in the course of running the business.

Questions may arise when the debtor wants to establish a reserve for various purposes, such as capital expenditures that are anticipated (*e.g.*, the need to repair or replace existing equipment), or when the debtor needs to use income to grow the business (*e.g.*, increasing inventory levels, marketing expenses, or payroll) to improve its profitability. Creditors may reasonably argue that the disposable income they must receive should not be depleted when the debtor will gain the benefit of the investment of income in the business.

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disposable income under § 1325(b)(2) necessarily includes reference to § 1325(b)(3) to calculate reasonably necessary expenses and that congressional intent in enacting § 1129(a)(15) was to make the chapter 13 rules applicable in chapter 11 cases.

<sup>219</sup> Prior to the amendment of the projected disposable income test by BAPCPA in 2005, the standard in all chapter 13 cases was whether expenditures were reasonably necessary for the support of the debtor and the debtor’s dependents. No distinction between above-median and below-median debtors existed under pre-BAPCPA law. Accordingly, the pre-BAPCPA case law deals with the same standard that new § 1191(d)(1) states. For a discussion of application of the “reasonably necessary” standard for expenditures for maintenance and support in chapter 13 cases, see W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 8:28.

<sup>220</sup> New § 1191(d)(2).

Chapter 12 cases have indicated that a reserve is permissible in appropriate circumstances.<sup>221</sup> As later text discusses, an extension of the period that the debtor must make payments of projected disposable income may be appropriate if the court permits its reduction for a reserve or to grow the business.

Another question arises if a debtor is a “pass-through” entity for income tax purposes (*e.g.*, a subchapter S corporation or an entity taxed as a partnership, including a limited liability company). Such a business does not pay tax on its income. Rather, its income is “passed through” to its owners, who must pay tax on it regardless of whether the income is distributed to them. Payment of profits to owners of a business does not easily fit within the concept of an expenditure reasonably necessary for its continuation, preservation, or operation.

If the debtor’s disposable income cannot take account of distributions to owners for at least the amount of tax that they owe based on its income, the owners will owe a tax on the business income<sup>222</sup> but will receive no money to pay it. When the generation of income by a business gives rise to taxation, it seems appropriate to determine disposable income on an after-tax basis, regardless of the tax status of the business. Moreover, in most cases the owners of the business are also its managers, and their financial difficulties arising from inability to meet tax obligations could adversely affect the business.

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<sup>221</sup> See, *e.g.*, *Hammrich v. Lovald* (*In re Hammrich*), 98 F.3d 388 (8th Cir. 1996) (affirming confirmation of a plan including a reserve); *In re Schmidt*, 145 B.R. 983 (Bankr. D.S.D. 1991) (capital reserve permissible only if debtor demonstrates that obtaining financing is not feasible); *In re Kuhlman*, 118 B.R. 731 (Bankr. D.S.D. 1990) (debtor has burden of proving expenditures reasonably necessary for farming operation and living expenses); *In re Janssen Charolais Ranch, Inc.*, 73 B.R. 125 (Bankr. D. Mont. 1987) (*dicta*) (reserve is allowable). *But see* *Broken Bow Ranch, Inc. v. Farmers Home Admin.* (*In re Broken Bow Ranch, Inc.*), 33 F.3d 1005 (8th Cir. 1994).

<sup>222</sup> Payments to creditors under the plan are not necessarily allowable as a deduction in determining taxable income. No deduction is permissible to the extent that the debtor is repaying principal on a loan. With regard to trade debt, no deduction will be allowed if the debtor calculates taxable income on an accrual basis (as the IRS requires for many businesses) and has already deducted the amount due as an expense.

Courts will have to decide whether distributions to owners to pay taxes the owners incur are an appropriate expenditure that is “reasonably necessary for the continuation, preservation, or operation of the business” when the debtor is not obligated to pay the tax.

**ii. Determination of period for commitment of projected disposable income for more than three years**

A projected disposable income test applies in cases under chapter 12<sup>223</sup> and 13<sup>224</sup> and in standard chapter 11 and non-sub V cases of individuals.<sup>225</sup> Each section prescribes the period of time for which the debtor must commit projected disposable income to make payments under the plan. The required time is colloquially referred to as the “commitment period,” but only chapter 13 specifically uses the term by defining the “applicable commitment period” – the period for which the debtor must use projected disposable income to pay unsecured creditors – as three years for “below-median” debtors and five years for “above-median” debtors.<sup>226</sup>

For sub V cases, new § 1191(c)(2) provides for a commitment period of three years or such longer time, not to exceed five years, that the court fixes.<sup>227</sup> The five-year *maximum* commitment period in a sub V case is the same as the longest *minimum* commitment period under the chapter 11 and above-median chapter 13 tests.<sup>228</sup>

New § 1191(c)(2) contains no standards for fixing the commitment period. And because the involvement of the court in *choosing* the commitment period is unique to subchapter V, practice and precedent under the tests in other chapters may not provide guidance.

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<sup>223</sup> § 1225(b).

<sup>224</sup> § 1325(b).

<sup>225</sup> § 1129(a)(15).

<sup>226</sup> § 1125(b)(4).

<sup>227</sup> New § 1191(c)(2).

<sup>228</sup> The maximum commitment period in a chapter 12 case is five years. § 1225(b)(1)(B). Chapter 13 sets specific commitment periods of three years for below-median debtors, § 1325(b)(4)(A), and five years for above-median debtors, § 1325(b)(4)(B). The commitment period in a chapter 11 case is the longer of five years or the period for which the plan provides for payments. § 1129(a)(15).

In chapters 12 and 13 and in non-sub V chapter 11 cases of individuals, the court has no role in determining the commitment period for projected disposable income. The court in a chapter 12 case and in the case of a below-median chapter 13 debtor must *approve* the term of a plan in excess of three years if the debtor proposes it, but whether to approve a longer plan term that the debtor wants is different than whether to require the debtor to pay more than the debtor wants.<sup>229</sup> Case law dealing with the length of a plan under the other tests does not deal with the issue that new § 1191(c)(2) presents.<sup>230</sup>

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<sup>229</sup> In a chapter 12 case, a plan may not provide for payments in excess of three years unless the court, for cause, *approves* a longer period, not to exceed five years. § 1222(c). Approval of a longer period in a chapter 12 case extends the commitment period for the period that the court approves, § 1225(b)(1)(B), but only the debtor may file a plan, § 1221, so it is the debtor who chooses the commitment period.

In chapter 13 cases, the court has no choice to make. The statute fixes the “applicable commitment period” as three years for a below-median debtor and five years for an above-median debtor. The only dispute for the court is whether the debtor is below-median or above-median.

In chapter 11 cases, § 1129(a)(5) specifies the commitment period as the longer of five years or the period for payments under the plan. The court neither approves nor fixes the commitment period.

<sup>230</sup> The court in chapter 12 cases and in chapter 13 cases of below-median debtors must *approve* a plan that has a term exceeding three years. §§ 1222(c), 1322(d).

In chapter 13 cases, the fact that the plan of a below-median debtor extends beyond three years does not affect the applicable commitment period or how much projected disposable income the debtor must pay.

In a non-sub V chapter 11 case, § 1129(a)(15) sets the commitment period as the longer of five years or the period for which the plan provides payments. Thus, the terms of the plan, not a separate determination by the court, govern the length of time that the debtor must use projected disposable income to make payments.

Until enactment of BAPCPA in 2005, which increased the minimum commitment period in chapter 13 cases for above-median debtors to five years, a chapter 13 plan of any debtor could not provide for payments for more than three years unless the court, for cause, approved a longer period, up to five years. § 1322(c) (2000) (current version at § 1322(d) (2018)) (BAPCPA renumbered subsection (c) as subsection (d)); *see* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 4:9. And the pre-BAPCPA projected disposable income test required use of projected disposable income for only three years, regardless of the length of the plan. 11 U.S.C. § 1325(b)(1)(B) (2000) (current version at 11 U.S.C. § 1325(b)(4) (2018)).

The pre-BAPCPA rules for chapter 12 cases were different, and BAPCPA did not change them. As in pre-BAPCPA chapter 13 cases (and as in cases of below-median chapter 13 debtors under current law), the maximum duration of a plan under § 1222(c) is three years unless the court approves a longer period for cause. But unlike pre-BAPCPA chapter 13, the chapter 12 projected disposable income test in § 1225(b)(1) requires use of projected disposable income during any longer period that the court approves.

Some pre-BAPCPA case law concerning the maximum period for a chapter 13 plan suggests that the pre-BAPCPA limitation to three years absent a showing of cause was to protect the debtor from being bound for a lengthy period. Under this reasoning, a three-year limitation on the plan period for a below-median chapter 13 debtor is mandatory unless a longer period is in the interest of the *debtor*. *See* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 4:9 (citing cases). This conclusion is consistent with the facts that (1) only the debtor may file a chapter 13 plan under § 1321 (although an unsecured creditor or trustee may request modification of a confirmed plan under § 1329(a)); and (2) the court must *approve* a period longer than three years for cause under § 1322(d)). The issue is moot for an above-median chapter 13 debtor because the BAPCPA

Courts will have to determine what facts and circumstances justify a longer commitment period and, if so, how much longer the period should be.

One reason to extend the period could be a debtor's deduction from projected disposable income of amounts required for anticipated capital needs or expenses to grow the business, as earlier text discusses. If the court permits such deductions, existing creditors are effectively funding the business for the future benefit of the debtor. An extension of the commitment period could be an appropriate way for creditors to share in the debtor's success that depends in part on their involuntary contributions in the form of reduced projected disposable income.<sup>231</sup>

Courts will also have to decide how to proceed when a creditor or trustee asks to fix the commitment period for a longer time than proposed in the debtor's plan.<sup>232</sup> The authority of the court to fix the commitment period implies authority to order more payments than the debtor's plan proposes. The contrary position is that the court may only deny confirmation unless the debtor modifies the plan to conform with the court's determination. As a practical matter, it may make no difference to a debtor who wants a confirmed plan.

The court's authority to fix the commitment period implies that the court may raise the issue *sua sponte*.

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amendment to the projected disposable income rule makes a five-year period mandatory if the trustee or an unsecured creditor invokes the projected disposable income rule (and someone always does).

Although the case law deals with the question of how long a plan should be, it does so in the context of a debtor's proposal of a longer period. The case law does not consider the different question of whether the court should require the debtor to make payments for a longer period than the plan proposes.

<sup>231</sup> See 8 COLLIER ON BANKRUPTCY ¶ 1225.04 (Richard Levin & Henry J. Sommer eds., 16th ed. 2019) (stating that in a chapter 12 case, if reserves for capital or other discretionary expenditures are necessary, commitment period is properly extended).

<sup>232</sup> Subchapter V does not expressly give the trustee standing to object to confirmation. The trustee's duty to appear and be heard at the confirmation hearing, new § 1183(b)(3)(B), at a minimum contemplates that the trustee may express the trustee's views on any confirmation issue to the court.

If the trustee is not a lawyer, a trustee's "objection" may initiate a dispute that requires legal representation, whereas a trustee's report bringing potential issues to the attention of the court may not. See *supra* Section IV(F). Unless the court concludes as a legal matter that it has no independent duty to determine compliance with confirmation requirements, it makes no practical difference, unless the trustee plans to appeal an adverse determination. Failure to object might be a waiver of it for appellate purposes.

## **5. Requirements for feasibility and remedies for default**

New § 1191(c)(3) adds two additional factors to the “fair and equitable” analysis.

First, new § 1191(c)(3)(A) requires that the debtor will be able to make all payments under the plan,<sup>233</sup> or that there is a reasonable likelihood that the debtor will be able to make all payments under the plan.<sup>234</sup> The requirement strengthens the more relaxed feasibility test that § 1129(a)(11) contains. Section 1129(a)(11) requires only that confirmation is not likely to be followed by liquidation or the need for further reorganization unless the plan proposes it.<sup>235</sup>

Second, new § 1191(c)(3)(B) requires that the plan provide appropriate remedies to protect the holders of claims or interests if the debtor does not make the required plan payments.<sup>236</sup> Section XII(B) discusses remedies for default in the plan.

## **6. Payment of administrative expenses under the plan**

New § 1191(e) permits confirmation of a plan under new § 1191(b) that provides for payment through the plan of administrative expense claims and involuntary gap claims. Section VI(C) discusses this provision.

## **C. Postconfirmation Modification of Plan**

The rules for postconfirmation modification in new § 1193 differ depending on whether the court has confirmed a consensual plan under new § 1191(a) or a cramdown plan under new § 1191(b). The provisions in § 1127 for modification of a plan do not apply in a sub V case.<sup>237</sup>

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<sup>233</sup> New § 1191(c)(3)(A)(i).

<sup>234</sup> § 1191(c)(3)(A)(ii).

<sup>235</sup> § 1129(a)(11).

<sup>236</sup> New § 1191(c)(3)(B).

<sup>237</sup> New § 1181(a).

## **1. Postconfirmation modification of consensual plan confirmed under new § 1191(a)**

If the court has confirmed a consensual plan under new § 1191(a), new § 1193(b) does not permit modification after substantial consummation. The modification must comply with applicable plan content requirements.

The modified plan becomes the plan only if circumstances warrant the modification and the court confirms it under new § 1191(a).<sup>238</sup> The holder of any claim or interest who voted to accept or reject the confirmed plan is deemed to have voted the same way unless, within the time fixed by the court, the holder changes the vote.<sup>239</sup> These are the same rules that govern postconfirmation modification in standard and non-sub V cases under § 1127(b).

## **2. Postconfirmation modification of cramdown plan confirmed under new § 1191(b)**

If the plan has been confirmed under new § 1191(b), new § 1193(c) permits the debtor to modify the plan at any time within three years, or such longer time not to exceed five years as the court fixes.<sup>240</sup> The modified plan becomes the plan only if circumstances warrant the modification and the court confirms it under the requirements of new § 1191(b).<sup>241</sup>

The postconfirmation modification rules for a cramdown plan are similar to the postconfirmation modification provisions in chapters 12 and 13. In these chapters, postconfirmation modification is permitted at any time prior to the completion of payments under the plan, on condition that the modified plan meet confirmation requirements.<sup>242</sup> Unlike

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<sup>238</sup> § 1193(b).

<sup>239</sup> § 1193(d).

<sup>240</sup> § 1193(c).

<sup>241</sup> The provisions of new § 1192(d) with regard to acceptances or rejections of the original plan do not apply to postconfirmation modification of a cramdown plan, presumably because such a plan is confirmed without regard to acceptances.

<sup>242</sup> §§ 1229, 1329.

the provisions in the other chapters, new § 1193(c) does not permit modification at the request of creditors or the trustee.<sup>243</sup>

## **IX. Payments Under Confirmed Plan; Role of Trustee After Confirmation**

Subchapter V has different provisions for the disbursement of payments to creditors and the role of the trustee depending on whether the court confirms a consensual plan or a cramdown plan.

### **A. Debtor Makes Plan Payments and Trustee’s Service Is Terminated Upon Substantial Consummation When Confirmation of Consensual Plan Occurs Under New § 1191(a)**

If all impaired classes accept the plan and it meets the confirmation requirements of § 1129(a) other than § 1129(a)(15),<sup>244</sup> the court must confirm the plan.<sup>245</sup> Confirmation of a consensual plan under new § 1191(a) leads to the termination of the trustee’s service when the plan has been “substantially consummated.”<sup>246</sup> The debtor must file a notice of substantial consummation within 14 days after it occurs and serve it on the sub V trustee, the U.S. trustee, and all parties in interest.<sup>247</sup>

Under § 1101(2), “substantial consummation” generally occurs upon “commencement of distribution under the plan.”<sup>248</sup> Unless the plan implicates other requirements for substantial consummation, the sub V trustee’s service terminates when the first payment under the plan occurs.

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<sup>243</sup> New § 1193(c).

<sup>244</sup> Section 1129(a)(15) states chapter 11’s projected disposable income requirement, which applies only in the case of an individual. *See supra* Section VIII(B)(4).

<sup>245</sup> New § 1191(a).

<sup>246</sup> § 1183(c)(1).

<sup>247</sup> § 1183(c)(2).

<sup>248</sup> § 1101(2)(C). “Substantial consummation” under § 1101(2) also requires: (1) transfer of all or substantially all of the property proposed to be transferred, § 1101(2)(A) and (2) assumption by the debtor or the successor to the debtor under the plan of the business or of the management of all or substantially all of the property dealt with by the plan. § 1101(2)(B).



Arguably, a sub V trustee could make the first payment under the plan, although the statute does not appear to require this. But it is clear that, at least after the first payment, the sub V trustee no longer exists and cannot make payments thereafter.

## **B. Trustee Makes Plan Payments and Continues to Serve After Confirmation of Plan Confirmed Under Cramdown Provisions of New § 1191(b)**

When the court confirms a cramdown plan, new § 1194(b) provides for the sub V trustee to make payments to creditors under the plan unless the plan or the order confirming it provides otherwise.<sup>249</sup> Chapters 12 and 13 contain identical provisions for the trustee to make plan payments.<sup>250</sup>

Because the sub V trustee must make payments under a cramdown plan, the trustee's service does not terminate upon its substantial consummation. The trustee's service continues, at a minimum, until the trustee has made the required disbursements. Subchapter V does not specify when the trustee's service is terminated under a cramdown plan. If the trustee makes all payments that the trustee is to make under the plan, the debtor is entitled to receive a discharge, as Section X(B) discusses. That seems to be the appropriate time for the trustee or the debtor to request that the court terminate the trustee's service and discharge the trustee from any further obligations in the case.

New § 1194 provides for the trustee to make payments under the plan unless the plan or the order confirming the plan provides otherwise.<sup>251</sup> The statute contains no standards for the court to determine under what circumstances a plan or confirmation order may provide that the trustee will not make payments. For example, may a nonconsensual plan provide for the debtor

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<sup>249</sup> New § 1194(b). Curiously, paragraph (b) of new § 1194 is titled "Other Plans," even though it applies exclusively to plans confirmed under the cramdown provisions of new § 1191(b) and no other provisions of new § 1194 deal specifically with payments under a consensual plan confirmed under new § 1191(a).

<sup>250</sup> § 1226(c), 1326(c).

<sup>251</sup> New § 1194.

to make postpetition installment payments on a mortgage or other long-term debt that is being cured and reinstated, or regular payments on an unexpired lease of real or personal property that is being assumed?

Because new § 1194(b) is identical to the chapter 12 and 13 provisions for disbursements to creditors, courts may look to the case law and practice in chapter 12 and 13 cases for guidance in determining the extent to which a plan may provide for the debtor to make payments instead of the trustee. In chapter 13 cases, courts universally require a plan to provide for the trustee to make disbursements to priority and unsecured creditors and to holders of secured claims that the plan modifies.<sup>252</sup> Courts vary as to whether the debtor may make direct payments to other types of creditors.

Typical exceptions to payments by the trustee in chapter 13 cases are for postpetition installment payments on real estate or other long-term debts that are being cured and reinstated and postpetition payments due on leases or executory contracts that are being assumed. In such instances, the trustee usually disburses the amounts required to cure prepetition defaults. Courts have also permitted a debtor to make direct payments on a secured claim that the plan does not modify.<sup>253</sup>

Some courts require that all postpetition payments, including postpetition payments on a mortgage or other long-term debt or an assumed lease or other executory contract, be made by the trustee during the term of the plan.<sup>254</sup> In a sub V case, the trustee under this approach would make those payments during the three- to five-year period during which the debtor must commit projected disposable income to the plan, as Section VIII(B)(4) discusses.

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<sup>252</sup> W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 4:10.

<sup>253</sup> *Id.*

<sup>254</sup> *Id.*

## **X. Discharge**

The discharge that a debtor receives in a sub V case and its timing depend on whether consensual or cramdown confirmation occurs.

### **A. Discharge Upon Confirmation of Consensual Plan Under New § 1191(a)**

Section 1141(d) governs discharge in a chapter 11 case. Except for paragraph (d)(5), all of it remains applicable in a sub V case when the court confirms a consensual plan. It does not apply when the court confirms a cramdown plan.<sup>255</sup>

Section 1141(d)(5) does not apply in a sub V case.<sup>256</sup> The omission is material only in an individual case because (d)(5) applies only when the chapter 11 debtor is an individual. Section 1141(d)(5) has two primary effects in an individual case.<sup>257</sup>

First, § 1141(d)(5) prohibits entry of a discharge order until the individual has completed payments under the plan unless the court orders otherwise for cause.<sup>258</sup>

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<sup>255</sup> New § 1181(c).

<sup>256</sup> New § 1181(a).

<sup>257</sup> Subparagraph (A) of § 1141(d)(5) defers entry of the discharge in an individual case until the debtor has completed all payments under the plan unless the court orders otherwise for cause. Alternatively, subparagraph (B) of § 1141(d)(5) permits a discharge if the debtor has not completed payments if (1) creditors have received payments under the plan with a value of the amount they would have received if the debtor's estate had been liquidated on the effective date; and (2) modification of the plan under § 1127 is not practicable. The subparagraph (B) provision is similar to the so-called "hardship" discharge that exists in chapter 12 and 13 cases, §§ 1228(b), 1328(b), except that a chapter 12 or 13 debtor must also establish that the failure to complete payments is due to circumstances for which the debtor should not justly be held accountable.

Subparagraph C of § 1141(d)(5) provides the court may not grant a discharge under either subparagraph (A) or (B) if the court finds that § 522(q)(1) is applicable, certain criminal proceedings are pending, or the debtor is liable for a debt described in § 522(q)(1). The same grounds for discharge are in § 727(a)(12). Section 522(q)(1) denies a debtor an exemption of assets in excess of an aggregate amount of \$ 170,350 (as of April 1, 2019; it is subject to adjustment every three years) under circumstances described in subparagraphs (A) or (B) of § 522(q)(1) unless the court finds under § 522(q)(2) that certain exempt property is reasonably necessary for the support of the debtor or any dependent.

Subparagraph (A) denies the exemption if the debtor has been convicted of a felony that under the circumstances demonstrates that the filing of the case was an abuse of the Bankruptcy Code. Subparagraph (B) denies the exemption if the debtor owes a debt arising from (1) violation of state or federal securities laws; (2) fraud, deceit, or manipulation in a fiduciary capacity or in connection with the purchase or sale of any security registered under the federal securities laws; (3) any civil remedy under 18 U.S.C. § 1964; or (4) any criminal act, intentional tort, or willful or reckless misconduct that caused serious physical injury or death to another individual in the preceding five years.

<sup>258</sup> § 1141(d)(5)(A).

Second, it permits discharge without completion of payments if creditors have received what they would have gotten in a chapter 7 case and modification of the plan is not practicable.<sup>259</sup>

Because § 1141(d)(5) does not apply in a sub V case, an individual debtor receives a discharge immediately upon confirmation of a consensual plan under new § 1191(a).<sup>260</sup> Because the debtor receives an immediate discharge, there is no need for a provision permitting discharge if the debtor does not complete payments.

Under § 1141(d)(1)(A), confirmation of a plan results in the discharge, with some exceptions, of any debt that arose before the date of confirmation and any debt specified in § 502(g) (claims from the rejection of an executory contract or unexpired lease lease), § 502(h) (claims arising from the exercise of avoidance powers), and § 502(i) (claims for taxes arising after the commencement of the case entitled to priority under § 507(a)(8)). The discharge applies whether or not a proof of claim was filed or deemed filed, the claim is allowed, or its holder has accepted the plan.<sup>261</sup>

A debtor does not receive a § 1141(d)(1)(A) discharge, however, if the plan provides for the liquidation of all or substantially all of the property of the estate, the debtor does not engage in business after consummation of the plan, and the debtor would be denied a discharge under § 727(a) if the case were a chapter 7 case.<sup>262</sup> Only an individual is entitled to a discharge in a

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<sup>259</sup> § 1141(d)(5)(B).

<sup>260</sup> The individual debtor also does not have to deal with the § 522(q) issues discussed in footnote 260, although they rarely arise.

<sup>261</sup> § 1141(d)(1)(A).

<sup>262</sup> § 1141(d)(3).

chapter 7 case.<sup>263</sup> An individual debtor is entitled to a chapter 7 discharge unless one of the reasons for its denial in § 727(a)(2) – (12) exists.<sup>264</sup>

The § 1141(d)(1)(A) discharge is effective except as otherwise provided in § 1141(d), the plan, or the confirmation order. Section 1141(d) has two exceptions applicable in a sub V case.

First, in the case of an individual debtor, a § 1141(d)(1)(A) discharge does not discharge the individual from any debt that is excepted under § 523(a).<sup>265</sup> No such exceptions to the § 1141(d)(1)(A) discharge exist for a debtor that is not an individual.

Second, the § 1141(d)(1)(A) discharge does not discharge any debtor from any debt (1) specified in § 523(a)(2)(A) or (B) that is owed to a governmental unit or to a person as the result of an action filed under subchapter III of chapter 37 of title 31 of the United States Code; or (2) that is for a tax or customs duty with respect to which the debtor made a fraudulent return or willfully attempted to evade or avoid.<sup>266</sup>

## **B. Discharge Upon Confirmation of a Cramdown Plan Under § 1191(b)**

When the court confirms a cramdown plan, § 1141(d) does not apply, except as provided in new § 1192.<sup>267</sup> Instead, the debtor receives a discharge under new § 1192.

New § 1192 provides for discharge to occur “as soon as practicable” after the debtor completes all payments due within the first three years of the plan, “or such longer period not to exceed five years as the court may fix.”<sup>268</sup> Presumably, any longer period will be the same length as the court fixes for the commitment of projected disposable income in connection with

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<sup>263</sup> § 727(a)(1).

<sup>264</sup> § 727(a).

<sup>265</sup> § 1141(d)(1)(A).

<sup>266</sup> § 1141(d)(6).

<sup>267</sup> New § 1181(c).

<sup>268</sup> New § 1192. Section 1141(d)(5)(A), which defers the discharge of an individual in a chapter 11 plan until the debtor completes payments, permits the court to order otherwise, for cause, after notice and a hearing. New § 1192 contains no provision for an earlier discharge.

cramdown confirmation under new § 1191(b), but the statute does not expressly so state. Section VIII(B)(4)(ii) discusses determination of the commitment period.

The cramdown discharge under new § 1192 discharges the debtor from all debts discharged under § 1141(d)(1)(A), with certain exceptions discussed below, unless § 1141(d), the plan, or the confirmation order provides otherwise.

The new § 1192 discharge also applies to “all other debts allowed under [§ 503] and provided for in the plan.”<sup>269</sup> Section 503 provides for the allowance of administrative expenses, including postpetition operating expenses;<sup>270</sup> compensation of the trustee and professionals employed by the trustee and the debtor;<sup>271</sup> and claims for goods the debtor received within 20 days of the filing.<sup>272</sup> The discharge provision recognizes that a plan confirmed under new § 1191(b) may provide for the payment of administrative expenses through the plan.<sup>273</sup>

New § 1192 excepts certain debts from discharge. First, new § 1192 does not discharge any debt on which the last payment is due after the first three years of the plan, or such other time not to exceed five years fixed by the court.<sup>274</sup> Again, any longer period fixed by the court will presumably be the same period that the court fixes for the commitment of projected disposable income in connection with cramdown confirmation. Second, new § 1192(2) excepts any debt “of the kind specified in [§ 523(a)].”<sup>275</sup> The same exceptions apply to the § 1141(d)(1)(A) discharge of an individual under § 1141(d)(2).

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<sup>269</sup> New § 1192.

<sup>270</sup> § 503(b)(1).

<sup>271</sup> § 503(b)(2).

<sup>272</sup> § 503(b)(9).

<sup>273</sup> New § 1191(c). Administrative expenses allowed under § 503(b) are entitled to priority under § 507(a)(2). New § 1191(e) permits the payment of a claim specified under § 507(a)(2) through a plan confirmed under new § 1191(b). *See supra* Section VI(C).

New § 1191(e) also permits payment of claims specified in § 507(a)(3) through the plan. Section 507(a)(3) provides a priority for “involuntary gap claims” allowed under § 502(f).

<sup>274</sup> New § 1192(1).

<sup>275</sup> New § 1192(2).

It is unclear whether the § 523(a) exceptions apply when a debtor that is not an individual receives a discharge under § 1192. In the case of a non-individual, the § 1141(d) discharge is not subject to the exceptions in § 523(a). Section 1141(d)(2) makes the § 523(a) exceptions applicable, but expressly limits application of § 523(a) to a debtor who is an individual.

New § 1192(2), in contrast, states, without qualification, that debts “of the kind specified” in § 523(a) are excepted from discharge. Because § 523(a) specifies various debts, the conclusion is that a debt listed in § 523(a) is excepted from the § 1192 discharge.<sup>276</sup>

The language of § 523(a) permits a different conclusion. As amended, § 523(a) begins as follows:

A discharge under section 727, 1141, *1192*, 1228(a), 1228(b), or 1328(b) of this title does not discharge an individual debtor from any debt – [defined in paragraphs (1) through (19) of § 523(a)].<sup>277</sup>

(The other listed sections are sections under which a discharge is granted in chapter 7, 11, 12, and 13 cases.)

As amended, therefore, § 523(a) states that a discharge under new § 1192 does not discharge an *individual* debtor from the listed types of debts. This amendment would be superfluous if Congress did not intend to limit the § 523(a) exceptions to individuals. Without the amendment to § 523(a), new § 1192 alone would except the types of debts listed from any § 1192 discharge, regardless of whether the debtor is an individual.

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<sup>276</sup> Without discussing this issue, some commentators have stated this conclusion. 5 HON. WILLIAM L. NORTON JR. & WILLIAM L. NORTON, III, NORTON BANKRUPTCY LAW AND PRACTICE § 107:17 (3d ed. 2019); James B. Bailey and Andrew J. Shaver, *The Small Business Reorganization Act of 2019*, *Norton Bankr. L. Adviser*, Oct. 2019, Part IX.

<sup>277</sup> § 523(a) (language inserted by amendment in italics).

In other words, although new § 1192 states discharge rules for all debtors without regard to whether they are individuals or not, its reference to § 523(a) in the case of a non-individual has no operative effect. Section 523(a), as amended, applies only to individuals.

Legislative history supports the conclusion that Congress did not intend to make the § 523(a) exceptions applicable to a new § 1192 discharge of a non-individual. The Report of the Judiciary Committee of the House of Representatives states that the new § 1192 discharge excepts debts on which the last payment is due after the commitment period under the plan and “any debt that is otherwise nondischargeable.”<sup>278</sup> The use of the words “otherwise nondischargeable” logically refers to § 523(a), which applies only to individuals.

Moreover, if the drafters had intended to expand § 523(a) to permit exceptions to the discharge of non-individuals – a significant change in existing chapter 11 law – one would expect the House Judiciary Committee Report to point that out. It does not.<sup>279</sup> To the contrary, the Report’s explanation that the exceptions are for “any debt that is otherwise nondischargeable” demonstrates an intent to apply existing exceptions to discharge in chapter 11 cases in subchapter V, not to expand them.

Limited case law under chapter 12 supports the conclusion that the § 523(a) exceptions may apply to a new § 1192 discharge of a non-individual debtor. The chapter 12 discharge provision, § 1228(a)(2),<sup>280</sup> has the same language as new § 1192, and the prefatory language of § 523(a) as amended refers to § 1228 and new § 1192 in the same way.

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<sup>278</sup> H.R. REP. NO. 116-171, at 8.

<sup>279</sup> Retired Bankruptcy Judge A. Thomas Small, Jr., submitted testimony in support of the legislation. Judge Small’s explanation of the new § 1192 discharge similarly made no reference to the § 523(a) exceptions to the discharges of non-individuals. Testimony of A. Thomas Small, *supra* note 41.

<sup>280</sup> The chapter 12 discharge provision, § 1228(a)(2), excepts from discharge any debt “of a kind specified” in § 523(a). The language also appears in § 1228(c)(2), which governs the so-called “hardship” discharge that a debtor who cannot complete plan payments may receive under § 1228(b).



In two corporate chapter 12 cases, the corporate debtors contended that the § 523(a) exceptions to the chapter 12 discharge did not apply to them because § 523(a) states that it only excepts debts of an individual.<sup>281</sup> Both courts ruled that the § 523(a) exceptions applied to the chapter 12 discharge of a corporation.

In *In re JRB Consolidated, Inc.*,<sup>282</sup> the court reasoned that the operative language in § 1228(a)(2) (“debts of the kind” specified in § 523(a)) “does not naturally lend itself to also incorporate the meaning ‘for debtors of the kind’ referenced in § 523(a).”<sup>283</sup> Instead, the court concluded, “debts of the kind” is limited to the types of debts that the subparagraphs of § 523(a) identify.<sup>284</sup> Moreover, the court explained, § 1228(a), unlike § 1141(d), does not expressly provide a broader discharge for corporations than for individuals.<sup>285</sup>

The court in *In re Breezy Ridge Farms, Inc.*,<sup>286</sup> adopted the same reasoning. In addition, the court noted that the exceptions to discharge for a corporation in § 1141(d)(6)<sup>287</sup> apply to debts “of a kind specified in paragraph (2)(A) or (2)(B) of section 523(a)” that meet certain other requirements even though corporate debtors are excluded from § 523(a) by its terms.<sup>288</sup> The *Breezy Ridge Farms* court explained that its interpretation harmonized the provisions of § 1228 and § 523(a):

Although § 523(a) applies only to individuals, Congress has used it as shorthand to define the scope of a Chapter 12 discharge for corporations as well as individuals. Thus, it is appropriate to rely on § 523(a) to determine whether a debt is included in the discharge, even when the debtor is a corporation. Even if the two provisions could not be harmonized, § 1228 would control because it is

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<sup>281</sup> *In re Breezy Ridge Farms, Inc.*, No. 08–12038, Adv. No. 09–1011, 2009 WL 1514671 (Bankr. M.D. Ga. May 29, 2009); *In re JRB Consol., Inc.*, 188 B.R. 373 (Bankr. W.D. Tex. 1995).

<sup>282</sup> *In re JRB Consol.*, 188 B.R. at 373.

<sup>283</sup> *Id.* at 374.

<sup>284</sup> *Id.*

<sup>285</sup> *Id.*

<sup>286</sup> *In re Breezy Ridge Farms*, 2009 WL 1514671, at \*1.

<sup>287</sup> Section 1141(d)(6) states an exception to the § 1141(d)(1)(A) discharge. *See supra* Section X(A).

<sup>288</sup> *In re Breezy Ridge Farms*, 2009 WL 1514671, at \*2.

more specific, applicable only in Chapter 12, than § 523(a), which applies regardless of chapter.<sup>289</sup>

Under § 523(c)(1), a debtor is discharged from a debt excepted from discharge under subparagraphs (2), (4), or (6) of § 523(a) unless, upon request of the creditor, the court determines that the debt is nondischargeable.<sup>290</sup> Bankruptcy Rule 4007(c) requires the filing of a complaint to determine the dischargeability of such a debt no later than 60 days after the date first set for the § 341(a) meeting.<sup>291</sup> If the debtor does not list the creditor, § 523(a)(3) provides for such a debt to be excepted if the creditor did not have enough notice to permit the timely filing of a proof of claim and a timely request for the determination, unless the creditor had actual notice of the deadlines in time to do so.<sup>292</sup> The clerk's office must give at least 30 days' notice of the deadline.<sup>293</sup>

## **XI. Changes to Property of the Estate in Subchapter V Cases**

SBRA makes two changes with regard to property that a debtor acquires postpetition and earnings from postpetition services. First, SBRA makes § 1115(a) inapplicable in a sub V case.<sup>294</sup> Section 1115(a), applicable only in the case of an individual, includes postpetition property and earnings as property of the estate. Second, new § 1186 provides that, if the court confirms a plan under the cramdown provisions of new § 1191(b), property of the estate consists of property of the estate under § 541(a) and postpetition property and earnings until the case is closed, dismissed, or converted to another chapter.<sup>295</sup> New § 1186 applies to debtors that are entities as well as individuals.

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<sup>289</sup> *Id.*

<sup>290</sup> § 523(c)(1).

<sup>291</sup> FED. R. BANKR. P. 4007(c).

<sup>292</sup> § 523(a)(3).

<sup>293</sup> The new Official Forms for the notice of the filing of a sub V case (Form B309E2 for cases of individuals and Form B309F2 for cases of corporations or partnerships) provide a space for the clerk to state the deadline.

<sup>294</sup> New § 1181(a).

<sup>295</sup> § 1186.

Discussion of the effects of these changes begins with a summary of postpetition property and earnings under pre-SBRA law.

### **A. Property Acquired Postpetition and Earnings from Services Performed Postpetition as Property of the Estate in Chapter 11 Cases Under Current Law**

Property of the estate in a chapter 11 case (including the case of any small business debtor) consists of the same property that is property of the estate under § 541. Under § 541, property of the estate includes, among other things, all legal or equitable interests in property that the debtor has in property as of the commencement of the case, § 541(a)(1), subject to certain exceptions stated in § 541(b).<sup>296</sup>

Section 541(a)(7) provides that any interest in property that the *estate* acquires after the commencement of the case is property of the estate.

In the case of an entity, the debtor in possession (or trustee) controls the entity and all its property and acts on behalf of the estate. Bankruptcy does not recognize any distinction between the property interests of an entity debtor and those of the estate. Any interest in property that an entity acquires after the commencement of the case (including any postpetition earnings) must be property that the estate acquires and is property of the estate under § 541(a)(7).

In the case of an individual, a distinction exists under § 541 between property of the debtor and property of the estate. In general, any property that a debtor acquires postpetition belongs to the debtor, with limited exceptions,<sup>297</sup> unless the postpetition property represents proceeds, product, offspring, rents, or property of or from property of the estate (for example,

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<sup>296</sup> § 541.

<sup>297</sup> Under § 541(a)(5), property that a debtor acquires, or becomes entitled to acquire, within 180 days after the petition date is property of the estate if the debtor acquires or becomes entitled to acquire it either: (A) by bequest, devise, or inheritance; (B) as the result of a property settlement agreement or divorce decree; or (C) as a beneficiary of a life insurance policy or death benefit plan.

rental income or interest or dividends on an investment).<sup>298</sup> Moreover, an individual's chapter 7 estate does not include earnings from postpetition services.<sup>299</sup> In cases under chapters 12 and 13, property of the estate includes postpetition property and earnings.<sup>300</sup>

The rules in chapter 11 cases of individuals were the same as in chapter 7 cases before enactment of BAPCPA. Thus, property that an individual chapter 11 debtor acquired after the filing of the case and earnings from postpetition services were not property of the estate (with limited exceptions as noted above).

BAPCPA added § 1115 to make property of the estate of an individual in a chapter 11 case the same as property of the estate in a chapter 12 or 13 case. In language that tracks the chapter 12 and 13 provisions, § 1115 provides that, in a chapter 11 case in which the debtor is an individual, property of the estate includes property that the debtor acquires after the commencement of the case,<sup>301</sup> and earnings from postpetition services,<sup>302</sup> both before the case is closed, dismissed, or converted to a case under chapter 7, 12, or 13.

## **B. Postpetition Property and Earnings in Subchapter V Cases**

Section 1115 does not apply in subchapter V cases.<sup>303</sup> New § 1186(a), however, includes postpetition assets and earnings as property of the estate if the court confirms a plan under the cramdown provisions of § 1191(b).<sup>304</sup> New § 1186(a) uses substantially the same language as § 1115 and the chapter 12 and 13 provisions on which § 1115 is based, §§ 1206 and 1307.

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<sup>298</sup> § 541(a)(6).

<sup>299</sup> *Id.*

<sup>300</sup> §§ 1207(a), 1306(a).

<sup>301</sup> § 1115(a)(1).

<sup>302</sup> § 1115(a)(2).

<sup>303</sup> New § 1181(a).

<sup>304</sup> New § 1186(a).

The effects of these changes differ depending on (1) whether the debtor is an individual or an entity and (2) whether the court confirms a consensual plan (which all impaired classes of creditors must accept) under § 1191(a) or confirms a plan under the cramdown provisions of § 1191(b).

### **1. Property of the estate in subchapter V cases of an entity**

Section 1115(a) does not apply to an entity, so its inapplicability in a sub V case has no effect on the property of the estate in a sub V case of an entity.

New § 1186 deals with property of the estate when cramdown confirmation occurs under new § 1191(b). It provides that property of the estate consists of property of the estate under § 541 and postpetition property and earnings before the case is closed, dismissed, or converted to another chapter.

Discussion of the effects of new § 1186 when it applies begins with an explanation of what happens when it does not, *i.e.*, when the court confirms a consensual plan under § 1191(a). Section 1141(b) provides that the confirmation of a plan vests all property of the estate in the debtor unless the plan or confirmation order provides otherwise. The same rule governs cases under chapters 12 and 13.<sup>305</sup>

The vesting of property of the estate in the debtor means that the automatic stay with regard to acts against property terminates. Section 362(c)(1) provides, “[t]he stay of an act against property of the estate under [§ 362(a)] continues until such property is no longer property of the estate.”<sup>306</sup> Confirmation of a consensual plan does not necessarily result in termination of

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<sup>305</sup> §§ 1227(b), 1327(b).

<sup>306</sup> § 362(c)(1).

the stay under § 362(c)(1), because the plan or the confirmation order may provide for vesting to occur at some later time.<sup>307</sup>

In the cramdown situation, new § 1186 provides that property of the estate consists of property of the estate under § 541 (which covers all the debtor's property at the time of confirmation, as earlier text explains) and any postpetition assets and earnings. This means that the automatic stay does not terminate at confirmation under § 362(c)(1) because all property of the debtor and all its earnings remain property of the estate.

New § 1186 conflicts with the vesting provisions of § 1141(b), which SBRA does not amend. Recall that § 1114(b) provides for vesting of property of the estate in the debtor upon confirmation. New § 1186, however, keeps the property in the estate when cramdown confirmation occurs.

The purpose seems to be to maintain judicial supervision of a debtor's assets and earnings after cramdown confirmation. This objective is consistent with other provisions of subchapter V that apply in the cramdown situation. For example, the trustee continues to serve after confirmation<sup>308</sup> and makes payments under the plan,<sup>309</sup> and discharge does not occur until the debtor has completed payments for the specified period.<sup>310</sup>

When statutes conflict, principles of statutory construction favor application of the newer statute or the more specific one.<sup>311</sup> New § 1186 is newer and more specific. Moreover, its

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<sup>307</sup> § 362(c)(1).

<sup>308</sup> See *supra* Sections IV(D)(1).

<sup>309</sup> See *supra* Section IX(B).

<sup>310</sup> See *supra* Section X(B).

<sup>311</sup> “[S]tatutes relating to the same subject matter should be construed harmoniously if possible, and if not, the more recent or specific statutes should prevail over older or more general ones.” *United States v. Lara*, 181 F.3d 183, 198 (1st Cir. 1999) (*citing* *HCSC-Laundry v. United States*, 450 U.S. 1, 6 (1981) and *Morton v. Mancari*, 417 U.S. 535, 550-51 (1974)); *accord, e.g., In re Southern Scrap Material Co., LLC*, 541 F.3d 584, 593 n. 14 (5th Cir. 2008); *Tug Allie-B, Inc., v. United States*, 273 F.3d 936, 941, 948 (11th Cir. 2001); *Southern Natural Gas Co. v. Land, Cullman County*, 197 F.3d 1368, 1373 (11th Cir. 1999); *In re Southern Scrap Material Co., LLC*, 541 F.3d 584, 593 n. 14 (5th Cir. 2008); see 2B Sutherland Statutory Construction § 51:2 (7th ed. 2019-20 Supp.).

application carries out the purpose of the statutory scheme of which it is a part. Under these concepts, the provisions of new § 1186 defining property of the estate appear to control over the conflicting vesting provisions in § 1141(b).

## **2. Property of the estate in subchapter V cases of an individual**

SBRA's new rules governing property of the estate just discussed apply in the case of an individual sub V debtor.

Because § 1115(a) does not apply, postpetition assets and earnings of an individual are not property of the estate. The pre-BAPCPA rule recognizing the distinction between property of the estate and property of the debtor comes back into play.

The change is important if the sub V case is converted prior to confirmation. Most courts conclude that, upon conversion of the chapter 11 case of an individual to chapter 7, property of the chapter 7 estate includes assets acquired and income earned after the filing of the case and until it is converted.<sup>312</sup> The result upon preconfirmation conversion will be different for an individual who is a sub V debtor.

The exclusion of postpetition assets and income from property of the estate of an individual in a sub V case raises questions. In a chapter 7 case, an individual is free to use postpetition assets and earnings without restriction or judicial approval. That is the same rule that governed pre-BAPCPA chapter 11 cases of individuals, and it now applies in a sub V case. Does this mean, for example, that an individual who acquires assets postpetition, or has earnings

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<sup>312</sup> *E.g.*, *In re Copeland*, 609 B.R. 834 (D. Ariz. 2019); *In re Meier*, 550 B.R. 384 (N.D. Ill. 2016); *In re Freeman*, 527 B.R. 780 (Bankr. N.D. Ga. 2015); *In re Hoyle*, No. 10-01484, 2013 WL 3294273 (Bankr. D. Idaho June 28, 2013); *In re Tolkin*, No. 808-72583-REG, 2011 WL 1302191 (Bankr. E.D.N.Y. Apr. 5, 2011), *aff'd sub nom.* Pagano v. Pergament, No. 11-CV-2630 SJF, 2012 WL 1828854 (E.D.N.Y. May 16, 2012); *accord, e.g.*, *In re Lincoln*, No. 16-12650, 2017 WL 535259 (Bankr. E.D. La. Feb. 8, 2017); *In re Gorniak*, 549 B.R. 721 (Bankr. W.D. Wisc. 2016); *In re Vilaro Colón*, No. 13-05545 EAG, 2016 WL 5819783 (Bankr. D.P.R. Oct. 5, 2016). *Contra, e.g.*, *In re Markosian*, 506 B.R. 273, 275-77 (9th Cir. BAP 2014); *In re Evans*, 464 B.R. 429, 438-41 (Bankr. D. Colo. 2011).

from postpetition services, may use or dispose of them without supervision by the trustee or approval by the court?

The fact that postpetition assets and earnings of an individual in a sub V case are not property of the estate also affects operation of the automatic stay. Because the individual's postpetition assets and earnings are not property of the estate, is the automatic stay applicable to a postpetition creditor's collection of a postpetition debt through garnishment of wages?<sup>313</sup> Section 362(b)(2)(B) excepts collection of a domestic support obligation from property that is not property of the estate. May the holder of a domestic support obligation seek to enforce the claim against postpetition property and earnings?

The nature of postpetition assets and earnings changes if cramdown confirmation occurs. In the cramdown situation, new § 1186 provides that property of the estate at the time of confirmation includes both property of the estate that the debtor had at the time of the filing of the petition under § 541 and postpetition assets and earnings.<sup>314</sup>

One consequence of the addition of postpetition assets and earnings to the estate is that, if conversion to chapter 7 occurs after cramdown confirmation, postconfirmation property and earnings will be property of the chapter 7 estate. If the court confirms a consensual plan, such property may not be property of the estate because neither § 1115(a) nor new § 1186 applies. Sections XII(C) and (D) further discuss this issue.

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<sup>313</sup> Paragraph (1) of § 362(a) does not stay acts with regard to postpetition claims; paragraph (a)(2) precludes enforcement of a prepetition judgment; paragraphs (a)(3) and (a)(4) prevent acts against property of the estate; paragraph (a)(5) precludes enforcement of a prepetition lien; paragraphs (a)(6) and (a)(7) do not apply to postpetition claims; and paragraph (a)(8) deals with tax claims for taxable periods ending before the date of the petition. *See generally* W. HOMER DRAKE, JR., PAUL W. BONAPFEL, & ADAM M. GOODMAN, *supra* note 60, § 19:6 (discussing the automatic stay with regard to postpetition claims in a chapter 13 case when property of the estate vests in the debtor upon confirmation).

<sup>314</sup> New § 1186.



Issues may arise because of the retroactive nature of the operation of new § 1186: property that was not property of the estate becomes property of the estate upon cramdown confirmation. For example, what happens if, at the time of the confirmation hearing, an individual debtor has disposed of postpetition assets or earnings, which the debtor had the right to do when the property was not property of the estate? A creditor opposing confirmation could argue that the court cannot confirm the plan because the estate will not have all the property that new § 1186 requires it to have.

## **XII. Default and Remedies After Confirmation**

If a debtor defaults after confirmation of a plan, creditors must decide what remedies are available and how to invoke them. If the court confirmed the plan under the cramdown provisions of new § 1191(b), the sub V trustee must also decide what to do if a default occurs.

### **A. Remedies for Default in the Confirmed Plan**

Because the provisions of a confirmed plan are binding on the debtor and creditors under § 1141(a), the plan's provisions for default and remedies control. In a consensual plan, the provisions governing default and remedies ordinarily have their source in negotiations with the various creditors that lead to terms that result in acceptance of the plan. Secured creditors and lessors are unlikely to accept a plan unless it includes acceptable remedies in the plan that allow them to exercise their remedies if the debtor defaults. Unsecured creditors and tax claimants often do not participate actively in the case of a small business debtor, but if they do, they likewise have the opportunity to negotiate acceptable terms to deal with defaults.

When one or more classes of impaired creditors do not accept the plan, the requirements for cramdown confirmation in new § 1191(c) provide the source of remedies for default. Cramdown confirmation requires that the plan provide “appropriate remedies, which may

include the liquidation of nonexempt assets, to protect the holders of claims or interests in the event that the payments are not made.”<sup>315</sup> The only specific remedy in new § 1191(c)(3)(B) is “the liquidation of nonexempt assets.”<sup>316</sup>

When creditors are actively participating in the case, they will presumably advise the court as to what remedies are appropriate to protect them. Active creditors usually include secured creditors and landlords, but often do not include tax claimants or unsecured creditors. The sub V trustee is the logical party to propose remedies to protect creditors who do not appear.

Whether the source of the terms governing default and remedies is negotiation between the debtor and creditors or the requirements of new § 1191(c)(3)(B), creditors will want remedies that will protect their rights to recover.

For secured creditors and lessors who have property rights in specific assets, the primary objective is to recover possession of the encumbered or leased property and to exercise their rights promptly upon the debtor’s default. Secured creditors and lessors will want provisions in the plan that recognize their rights to proceed against the debtor’s property and that confirm that neither the automatic stay nor the discharge injunction will apply to their efforts to do so.

An unsecured creditor can subject the debtor’s assets to its debt only through judicial process, a somewhat cumbersome and potentially lengthy process with uncertain results and expense that may not justify the effort. An effective remedy for unsecured creditors might include conversion to chapter 7 to permit a trustee to liquidate the assets. Later text discusses issues that arise upon postconfirmation conversion to chapter 7 that the plan might appropriately address to protect unsecured creditors.

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<sup>315</sup> New § 1191(c)(3)(B).

<sup>316</sup> *Id.*

## **B. Removal of Debtor in Possession for Default Under Confirmed Plan**

New Section 1185(a) provides that, on request of a party in interest, and after notice and a hearing, the court *shall* order that the debtor not be a debtor in possession for cause or “for failure to perform the obligations of the debtor under a plan confirmed under this subchapter.”<sup>317</sup> If removal of the debtor in possession occurs after the trustee’s service has been terminated upon substantial consummation of a consensual plan confirmed under new § 1191(a), new § 1183(c)(1) provides for reappointment of the trustee.

New § 1183(c)(5) specifies the duties of a trustee when the debtor ceases to be a debtor in possession. A specific duty is operation of the business of the debtor. The duties do not include liquidation of the debtor’s assets. Nothing in subchapter V appears to authorize the trustee to do so.

The trustee’s operation of the business will be difficult, if not impossible, if secured creditors or lessors take possession of assets on account of the debtor’s defaults. Even if the trustee can operate the business, its future is unclear. Perhaps the plan will have provisions for the cure of defaults and the trustee can manage the business to cure defaults so that the plan can go forward. If not, the plan will remain in default, and the trustee will do nothing more than observe as creditors exercise their remedies under the plan unless the plan is modified or the case is converted to chapter 7.

Property of the estate issues arise when reappointment of the trustee based on the debtor’s default occurs after confirmation of a consensual plan under new § 1191(a). Under § 1141(b), property of the estate vests in the debtor upon confirmation of a consensual plan unless the plan or confirmation order provides otherwise.<sup>318</sup> If property of the estate vested in the debtor upon

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<sup>317</sup> New § 1185(a). Section V(C) discusses removal for cause.

<sup>318</sup> See *supra* Section XI(B).

confirmation, the debtor is in possession of its own assets, not property of the estate. Arguably, this means that there is no property of the estate that the trustee can manage and no “debtor in possession” to be removed.

Under this view, new § 1185(a) operates only when property of the estate does not vest in the debtor at confirmation, either because cramdown confirmation occurs (and property of the estate remains property of the estate under new § 1186<sup>319</sup>) or because the plan or confirmation order so provides.

It is arguable that Congress did not intend to limit the operation of new § 1185(a) based on how property vests at confirmation. One possible interpretation of new § 1185(a), therefore, is that it impliedly authorizes the trustee to take possession of property of the debtor. Another potential interpretation is that it impliedly reverts the debtor’s assets into the estate.

In many cases, postconfirmation modification may not be a realistic possibility. First, only the debtor may modify a plan.<sup>320</sup> Moreover, if the plan was a consensual one confirmed under new § 1191(a), postconfirmation modification under new § 1193(b) is not permissible after substantial consummation (which presumably occurred unless the debtor made no payments under the plan). Finally, if cramdown confirmation occurred such that modification is permissible, the fact that the debtor did not seek to modify it to deal with defaults does not generate confidence that it can effectively do so once the trustee has taken over.

Given these considerations, it seems likely that the eventual effect in most cases of postconfirmation removal of the debtor in possession will be dismissal or conversion to chapter 7. If so, a more effective remedy than removal of the debtor in possession may be dismissal or

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<sup>319</sup> See *supra* Section XI(B).

<sup>320</sup> New § 1193(b).

conversion. If continuation of the debtor’s business is advisable (perhaps, for example, to liquidate it as a going concern), the court may authorize a chapter 7 trustee to do so.<sup>321</sup>

### **C. Postconfirmation Dismissal or Conversion to Chapter 7**

Section 1112(b)(1) provides that the court, upon request of a party in interest, shall dismiss a chapter 11 case or convert it to a case under chapter 7 for “cause.” “Cause” includes “material default by the debtor with respect to a confirmed plan.”<sup>322</sup> Section 1112 remains applicable in a subchapter V case.

If the court converts the case to chapter 7, the U.S. Trustee appoints an interim trustee under § 701(a)(1). The interim trustee may be a panel trustee or the sub V trustee. The interim trustee becomes the trustee in the case unless creditors elect a different trustee at the § 341(a) meeting.<sup>323</sup>

#### **1. Postconfirmation dismissal**

The effects of postconfirmation dismissal differ depending on whether the debtor has received a discharge. The timing of the discharge under subchapter V depends on the type of confirmation that occurs.

The debtor receives a discharge under § 1141(d) upon confirmation of a consensual plan under new § 1191(a).<sup>324</sup> Courts have ruled that the postconfirmation dismissal of a chapter 11 case does not affect the discharge that the debtor has received or the binding effect of the plan.<sup>325</sup>

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<sup>321</sup> § 721.

<sup>322</sup> § 1112(b)(4)(N).

<sup>323</sup> § 702(d).

<sup>324</sup> See *supra* Section X(A).

<sup>325</sup> E.g., *National City Bank v. Troutman Enterprises, Inc.* (*In re Troutman Enterprises, Inc.*), 253 B.R. 8, 13 (B.A.P. 6<sup>th</sup> Cir. 2002) (“[C]onversion does not disturb confirmation or revoke the discharge of preconfirmation debt.”); *In re T&A Holdings, LLC*, 2016 WL 7105903, at \*5 (Bankr. N.D. Ill. Nov. 2, 2016) (“[T]he terms of a confirmed Chapter 11 plan remain binding post-dismissal as does the discharge granted through or in connection with such plan.”); *In re Potts*, 188 B.R. 575, 581-82 (Bankr. N.D. Ind. 1995).

If cramdown confirmation occurs, the debtor does not receive a discharge until the completion of payments.<sup>326</sup> Courts dealing with similar provisions for the delay of discharge in cases under chapters 11, 12, and 13 have concluded that a plan cannot have binding effect if the case is dismissed prior to the entry of discharge.<sup>327</sup> Thus, dismissal after confirmation without a discharge will generally restore the parties to their pre-bankruptcy status.

Section 349, which deals with the effect of dismissal of a case, remains applicable in a subchapter V case. Unless the court orders otherwise for cause, (1) § 349(b)(1) provides for the reinstatement of any receivership proceeding; any transfer avoided under §§ 522, 544, 545, 547,

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<sup>326</sup> New § 1192.

<sup>327</sup> Chapters 12 and 13 have always delayed discharge until the completion of plan payments or grant of a “hardship” discharge, §§ 1228, 1328. Chapter 11 has done so in the cases of individuals since the addition of § 1141(d)(5) by BAPCPA. In chapter 12 and 13 cases, courts have concluded that a confirmed plan is not binding upon dismissal of the case without a discharge. See *First National Bank of Oneida, N.A. v. Brandt*, 597 B.R. 663, 668-69 (M.D. Fla. 2018) (Collecting cases holding that chapter 12 or 13 confirmed plan is no longer binding upon dismissal). But see *Weise v. Community Bank of Central Wisconsin (In re Weise)*, 552 F.3d 584 (7th Cir. 2009).

The district court in *First National Bank of Oneida, N.A. v. Brandt*, 597 B.R. 663 (M.D. Fla. 2018) addressed the binding effect of a confirmed plan upon dismissal of an individual’s chapter 11 case on remand from the Eleventh Circuit. *First National Bank of Oneida, N.A. v. Brandt*, 887 F.3d 1255 (11<sup>th</sup> Cir. 2018). The Eleventh Circuit noted that case law in chapter 13 cases dealing with dismissal without a discharge “could perhaps become relevant to a determination of whether and how the dismissal of Brandt’s Chapter 11 case without a discharge affects the enforceability of his confirmed Chapter 11 plan.” *Id.* at 1261. The district court determined that it was, 597 B.R. at 669, and ruled that the confirmed plan was not binding upon dismissal prior to confirmation based on that case law, the provisions of § 349(b), and public policy. *Id.* at 671.

In *Community Bank of Central Wisconsin (In re Weise)*, 552 F.3d 584 (7th Cir. 2009), the bankruptcy court, on the debtors’ motion, dismissed their chapter 12 case after confirmation of their plan that incorporated a settlement between debtors and bank that, among other things, released lender liability claims against the bank. In connection with dismissal, the bankruptcy court determined that, under U.S.C. § 349(b), cause existed for the plan’s terms with regard to the settlement to remain binding on the parties. The Seventh Circuit ruled that the bankruptcy court did not abuse its discretion and that cause existed under § 349(b) to keep some terms of the plan binding on the parties. The Seventh Circuit stated that § 349(b) “explicitly contemplates that the court can choose to keep some terms binding on the parties where there is cause.” *Weise, supra*, 552 F.3d at 591. The court observed, “[N]egotiation alone would not be an acceptable standard for ‘cause,’ since every confirmed plan that required the consent of the creditor would involve some degree of negotiation.” *Id.* at 589.

The district court in *Brandt, supra*, 597 B.R. 663, distinguished *Weise* because the bankruptcy court in dismissing Brandt’s chapter 11 case made no mention of binding the parties to plan provisions and “chose not to keep specified plan terms binding.” *Id.* at 670.

548, 549, or 724(a); and any lien avoided under § 506(d); and (2) § 349(c) reverts property of the estate in the entity in which such property was before the filing of the case.<sup>328</sup>

## 2. Postconfirmation conversion

When conversion of a subchapter V case to chapter 7 after confirmation occurs, the question is, what property is property of the estate? The answer depends on whether property of the estate vested in the debtor upon confirmation and, if it did, the court's view of the effect of such vesting.

The general rule of § 1141(b) is that confirmation of a plan results in the vesting of property of the estate in the debtor, unless the plan or the confirmation order provides otherwise. In a sub V case, the general rule applies when the court confirms a consensual plan under new § 1191(a), but not when cramdown confirmation occurs under new § 1191(b) because new § 1186 keeps property in the estate.<sup>329</sup>

Some courts have concluded that conversion of a chapter 11 case to chapter 7 does not revert property in the estate that vested in the reorganized debtor at confirmation unless the plan or confirmation order provides otherwise.<sup>330</sup> Other courts have ruled that property of the estate

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<sup>328</sup> § 349.

<sup>329</sup> See *supra* Section XI(B).

<sup>330</sup> E.g., *Bell v. Bell (In re Bell)*, 225 F.3d 203, 216 (2d Cir. 2000); *National City Bank v. Troutman Enterprises, Inc. (In re Troutman Enterprises, Inc.)*, 253 B.R. 8, 13 (B.A.P. 6<sup>th</sup> Cir. 2002) ("Property which reverted in a reorganized debtor at confirmation remains property of that entity; conversion does not bring that property into the converted case."); *Lacy v. Stinky Love, Inc. (In re Lacy)*, 304 B.R. 439, 444-46 (D. Col. 2004) (discussing cases); *In re Freeman*, 527 B.R. 780 (Bankr. N.D. Ga. 2015) (In chapter 11 case of individual, holding that preconfirmation assets vested in debtor but income earned postconfirmation and prior to conversion did not, and discussing cases); *In re L & T Machining, Inc.*, 2013 WL 3368984 (Bankr. D. Kan. July 3, 2013); *In re Sundale, Ltd.*, 471 B.R. 300 (Bankr. S.D. Fla. 2012); *In re Canal Street Limited Partnership*, 260 B.R. 460, 462 (Bankr. D. Minn. 2001); *In re K & M Printing, Inc.*, 210 B.R. 583 (Bankr. D. Ariz. 1997); *Carter v. Peoples Bank and Trust Co. (In re BNW, Inc.)*, 201 B.R. 838, 848-49 (Bankr. S.D. Ala. 1996); *In re T.S. Note Co.*, 140 B.R. 812, 813-14 (Bankr. D. Kan. 1992) (The court granted a motion to convert but noted that property of the chapter 7 estate would consist only of non-administered assets remaining in the preconfirmation estate, such as possible causes of action. "[W]hat is being converted . . . are the cases and the assets, if any, whether tangible or intangible, remaining in the debtor's preconfirmation estate. . . ."); *In re TSP Indus., Inc.*, 117 B.R. 375 (Bankr. N.D. Ill. 1990). See also *Pioneer Liquidating Corp. v. United States Trustee (In re Consol. Pioneer Mortgage Entities)*, 264 F.3d 803 (9<sup>th</sup> Cir. 2001) (holding that

upon conversion consists of property owned by the debtor at the time of commencement of the case,<sup>331</sup> on the confirmation date,<sup>332</sup> or on the date of conversion.<sup>333</sup>

Under these principles, property of the estate in a sub V case converted to chapter 7 after cramdown confirmation includes all the debtor's property. The result is the same if a consensual plan or the order confirming it provides that property of the estate not vest in the debtor until the occurrence of some later event that has not occurred at the time of conversion.

If property of the estate vested in the debtor at the time of confirmation of a consensual plan, however, what constitutes property of the estate at conversion is uncertain. In the first instance, it depends on whether the court applies the vesting principles in existing case law noted above and, if so, which view it adopts.

An alternative argument is that the provision in new § 1185(a) for removal of the debtor in possession for postconfirmation default under a plan requires a different analysis of property of the estate upon conversion. As the previous Section discusses, it is arguable that new § 1185(a) requires the revesting of property of the estate upon removal of the debtor in possession after default under a consensual plan; otherwise, § 1185(a) has no effective operation in that circumstance. If so, the same result follows if conversion occurs.

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"language and purpose" of liquidating plan demonstrated that assets vested in debtor upon confirmation revested in estate upon conversion); 6 HON. WILLIAM L. NORTON JR. & WILLIAM L. NORTON, III, *NORTON BANKRUPTCY LAW AND PRACTICE* § 14:13 (3d ed. 2019) (discussing different approaches to revesting of assets upon conversion after confirmation).

Property of the estate that vests in a chapter 11 debtor at confirmation may not include avoidance actions. *See Still v. Rossville Bank (In re Wholesale Antiques, Inc.)*, 930 F.2d 458 (6<sup>th</sup> Cir. 1991) (Trustee in case converted to chapter 7 may recover unauthorized postpetition transfers under § 549 that occurred prior to confirmation.); *In re Sundale, Ltd.*, 471 B.R. 300, 307 n. 15 (Bankr. S.D. Fla. 2012); *In re T. S. Note Co.*, 140 B.R. 812, 813 (Bankr. D. Kan. 1992).

<sup>331</sup> *Smith v. Lee (In re Smith)*, 201 B.R. 267 (D. Nev. 1996), *aff'd* 141 F.3d 1179 (9<sup>th</sup> Cir. 1998).

<sup>332</sup> *Carey v. Flintridge Lumber Sales, Incl (In re RJW Lumber Co.)*, 262 B.R. 91 (Bankr. N.D. Ca. 2001).

<sup>333</sup> *In re Midway, Inc.*, 166 B.R. 585, 590 (Bankr. D.N.J. 1994).



To avoid these potential issues and to insure that the estate has property at the time of conversion, creditors negotiating a consensual plan may want to insist on a provision in the plan that will keep assets as property of the estate until the debtor completes payments or meets some other milestone.

### **XIII. Effective Date and Retroactive Application of Subchapter V**

Section 5 of SBRA provides:

This Act and the amendments made by this Act shall take effect 180 days after the date of enactment of this Act.

This language does not restrict application of subchapter V to cases filed on or after the effective date of February 19, 2020. It thus differs from the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, which provided that most of its provisions did not apply “with respect to cases commenced [under the Bankruptcy Code] before the effective date of this Act.”<sup>334</sup>

Debtors in pending chapter 11 cases have sought to amend their petitions after SBRA’s effective date to elect application of subchapter V. They argue that Bankruptcy Rule 1009(a) permits amendment of a petition “as a matter of course at any time before the case is closed” and that SBRA does not restrict application of subchapter V to cases filed after its enactment.

Courts have permitted debtors in pending cases to amend their petitions to proceed under subchapter V.<sup>335</sup> Procedurally, they have ruled that, under Interim Rule 1020(a), a debtor’s amendment to the petition to elect subchapter V in an existing case means that the case proceeds

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<sup>334</sup> Pub. L. 109-8, 119 Stat. 23, § 1501(b) (2005).

<sup>335</sup> *In re Ventura*, 2020 WL 1867898 (Bankr. E.D.N.Y. 2020); *In re Body Transit, Inc.*, 2020 WL 1486784 (Bankr. E.D. Pa. 2020); *In re Moore Properties of Person County, LLC*, 2020 WL 995544 (Bankr. M.D.N.C. 2020); *In re Progressive Solutions, Inc.*, 2020 WL 975464 (Bankr. C.D. Cal. 2020).

under subchapter V unless and until the court orders otherwise;<sup>336</sup> the court need not approve the election.<sup>337</sup>

As an initial matter, courts addressing whether a debtor is barred from making the election if it occurs after expiration of the timing requirements for a status conference (60 days after the order for relief) and the filing of a plan (90 days) have concluded that it does not. They observe that the court has the authority to extend those times for cause, as long as the delay is due to circumstances not justly attributed to the debtor, and that the debtor cannot comply with procedural requirements that did not exist.<sup>338</sup>

Consideration of whether a debtor may amend its petition in a case filed before SBRA's effective date begins with the threshold issue of whether a new bankruptcy law can retroactively apply to affect existing debtor-creditor rights, as the bankruptcy court observed in *In re Moore Properties of Person County, LLC*.<sup>339</sup> The *Moore Properties* court and others<sup>340</sup> have noted two conflicting canons of statutory construction that the Supreme Court considered in *Landgraf v. USI Film Products*<sup>341</sup> in determining whether to apply new statutory provisions to prior conduct in the absence of statutory direction.

One canon, said the *Landgraf* Court, is that “a court is to apply the law in effect at the time it renders its decision.”<sup>342</sup> The conflicting one is that “[r]etroactivity is not favored in the

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<sup>336</sup> See *supra* Section III(A).

<sup>337</sup> *In re Body Transit*, 2020 WL 1486784, at \*6 (Bankr. E.D. Pa. 2020) (treating objection to debtor's motion for authority to proceed under subchapter V as an objection to amendment of the petition to make the election); *In re Progressive Solutions, Inc.*, 2020 WL 975464, at \*5 (Bankr. C.D. Cal. 2020).

<sup>338</sup> *In re Ventura*, 2020 WL 975464, at \*8-9 (Bankr. E.D.N.Y. 2020); (“Given that the Debtor's case was filed over 15 months ago, the Court finds that to argue the Debtor should have complied with the procedural requirements of a law that did not exist is the height of absurdity. The Debtor is not required to comply with deadlines that clearly expired before the Debtor could have elected to proceed as a subchapter V debtor.”); *In re Progressive Solutions, Inc.*, 2020 WL 975464, at \*4 (Bankr. C.D. Cal. 2020) (addressing timing of status conference).

<sup>339</sup> *In re Moore Properties of Person County, LLC*, 2020 WL 995544, at \*2-5 (Bankr. M.D.N.C. 2020).

<sup>340</sup> *In re Ventura*, 2020 WL 1867898, at \*9-10 (Bankr. E.D.N.Y. 2020); *In re Body Transit*, 2020 WL 1486784, at \*4-5 (Bankr. E.D. Pa. 2020).

<sup>341</sup> *Landgraf v. USI Film Products*, 511 U.S. 244, 264-71 (1994).

<sup>342</sup> *Id.* at 264, *quoting* *Bradley v. School Board of Richmond*, 416 U.S. 696, 711 (1974).

law,” and “congressional enactments and administrative rules will not be construed to have retroactive effect unless their language requires this result.”<sup>343</sup>

The *Landgraf* Court explained that the presumption against retroactive application arises from “[e]lementary considerations of fairness . . . that individuals should have an opportunity to know what the law is and to conform their conduct accordingly,” and from the principle that “settled expectations should not be lightly disrupted.”<sup>344</sup> The presumption against retroactivity particularly applies, the Court reasoned, to “new provisions affecting contractual or property rights, matters in which predictability and stability are of prime importance.”<sup>345</sup> The Court ruled that amendments to Title VII of the Civil Rights Act of 1964 providing for a jury trial of claims for certain damages, enacted while an employee’s appeal after a bench trial was pending, did not apply to the employee’s action.

In its opinion, the *Landgraf* Court cited *United States v. Security Industrial Bank*.<sup>346</sup> At issue in *Security Industrial Bank* was a provision of the Bankruptcy Code (which comprehensively revised bankruptcy law) that, in a change from existing law, permitted a chapter 7 debtor to avoid a nonpossessory, non-purchase money security interest on exempt personal property.<sup>347</sup> The Court ruled that the provision could not apply to a security interest arising from a transaction that occurred prior to the enactment of the new law.

The Court in *Security Industrial Bank* recognized that the Constitution’s bankruptcy clause<sup>348</sup> “has been regularly construed to authorize the retrospective impairment of contractual

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<sup>343</sup> *Id.* at 264, *quoting* *Bowen v. Georgetown Univ. Hospital*, 488 U.S. 204, 208 (1988).

<sup>344</sup> *Id.* at 265.

<sup>345</sup> *Id.* at 271. Among other cases, the Court cited *United States v. Security Industrial Bank*, 459 U.S. 70, 79-82 (1982), which the text discusses next.

<sup>346</sup> *United States v. Security Industrial Bank*, 459 U.S. 70 (1982).

<sup>347</sup> 11 U.S.C. § 522(f)(1)(B).

<sup>348</sup> U.S. Const. Art. I, § 8, cl. 4.

obligations”<sup>349</sup> but that the bankruptcy power could not be exercised “to defeat traditional property interests” because the bankruptcy power is subject to the Fifth Amendment’s prohibition against taking private property without compensation.<sup>350</sup> The Court thus recognized a distinction between the contractual right of a secured creditor to obtain repayment of its debt and its property right in the collateral.<sup>351</sup>

The Court avoided the question of the constitutional validity of the provision, choosing instead to construe it as being inapplicable to pre-enactment security interests under the principle it deduced from its case law that “[n]o bankruptcy law shall be construed to eliminate property rights which existed before the law was enacted in the absence of an explicit command from Congress.”<sup>352</sup>

The bankruptcy court in *Moore Properties* concluded that the application of subchapter V in a chapter 11 case filed by an LLC prior to its effective date created “none of the taking or retroactivity concerns” that the Supreme Court expressed in *Landgraf* and *Security Industrial Bank*.<sup>353</sup> With two exceptions inapplicable in the case before it, the court continued, the provisions of subchapter V incorporated most of existing chapter 11 and did not “alter the rubric under which debtors may affect pre-petition contractual rights of creditors, much less vested property rights.”<sup>354</sup>

The *Moore Properties* court explained that the modification of prepetition contractual relationships in a chapter 11 case occurs through a plan. The court then set out the changes that

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<sup>349</sup> *United States v. Security Industrial Bank*, 459 U.S. 70, 74 (1982), *citing* *Hanover National Bank v. Moyses*, 186 U.S. 181 (1902).

<sup>350</sup> *Id.* at 75, *citing* *Louisville Joint Stock Bank v. Radford*, 295 U.S. 555 (1935).

<sup>351</sup> *Id.*

<sup>352</sup> *Id.* at 81, *citing* *Holt v. Henley*, 232 U.S. 637 (1913) and *Auffm’ordt v. Rasin*, 102 U.S. 620 (1881).

<sup>353</sup> *In re Moore Properties of Person County, LLC*, 2020 WL 995544, at \*4 (Bankr. M.D. N.C. 2020).

<sup>354</sup> *Id.*

subchapter V made to existing requirements for the contents of the plan and for its confirmation and concluded that none of them amounted to an impermissible retroactive taking.

The *Moore Properties* court noted that subchapter V changes the requirements of § 1123 for the content of a plan in only three ways. New § 1181(a) makes inapplicable (1) the requirement in § 1123(a)(8) that the plan of an individual provide for payment of earnings from personal services as is necessary for execution of the plan and (2) the prohibition in § 1123(c), in an individual case, of the use, sale, or exempt property when an entity other than the debtor proposes the plan.<sup>355</sup> The third change is that new § 1190(3) creates an exception to the provisions in § 1123(b)(5) that prohibit the modification of a residential mortgage for a non-purchase money mortgage when the loan proceeds were used primarily in the debtor's small business.<sup>356</sup>

The *Moore Properties* court concluded that, even if the bankruptcy power could not be used to alter pre-existing contractual rights, the exclusion of paragraph (a)(8) and subsection (c) from plan content requirements did not alter such rights, and the exception to the antimodification provision in § 1123(b)(5) had no bearing in the case.<sup>357</sup>

The court next considered the changes that subchapter V makes in the requirements for plan confirmation. When confirmation occurs under new § 1191(a) because all creditors accept

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<sup>355</sup> See *supra* Section VII(A).

<sup>356</sup> See *supra* Section VII(B).

<sup>357</sup> *In re Moore Properties of Person County, LLC*, 2020 WL 995444, at \*4 (Bankr. M.D.N.C. 2020).

In a footnote, the court observed that new § 1190(2), which requires any debtor to contribute earnings as necessary for execution of the plan, rendered § 1123(a)(8) superfluous and that § 1123(c) is inapplicable because only the debtor can propose a plan. *Id.* at \*4 n. 13.

In another footnote, the court explained that the exception to the antimodification provision did not prohibit the availability of subchapter V in the case before it for two reasons. First, the exception could not apply because the debtor was an artificial entity with no principal residence. Second, even if it did apply, the question would be whether its application would constitute an impermissible taking. If it did, the court said, it would not apply the exception rather than declare the entirety of subchapter V inapplicable, citing *United States v. Security Industrial Bank*, 459 U.S. 70 (1982). *Id.* at \*4, n. 14.

the plan, the court explained, the plan must meet all the existing requirements of § 1129(a), except for paragraph (a)(15), which the court concluded was inapposite.<sup>358</sup>

New § 11191(b) changes the existing cramdown requirements of § 1129(b) to permit confirmation without acceptance by any impaired class (as § 1129(a)(1) requires) if the plan does not discriminate unfairly and is fair and equitable to the dissenting class. Thus, except for removal of the requirement of an accepting impaired class, subchapter V has the same standard for confirmation as existing § 1129(b), but it alters the definition of “fair and equitable” for classes of unsecured creditors and interests by substituting the disposable income requirement for the absolute priority rule in §§ 1129(b)(2)(B) and (C), respectively.<sup>359</sup>

The court concluded, “The alteration of the definition of fair and equitable in an existing case does not, standing alone, amount to an impermissible retroactive taking.”<sup>360</sup>

The court acknowledged that, if a case were pending for an extended period of time on SBRA’s effective date, the case “could be sufficiently advanced that the substantive alterations in the requirements for plan confirmation arise to a taking of vested property rights.”<sup>361</sup> In the case before it pending for only nine days before the effective date, however, the court reasoned that it did not have to consider “the extent to which parties in interest may have so invested in such a case or the court may have entered orders that created sufficient vested property interests or post-petition expectations to prevent the application of subchapter V to those rights or make

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<sup>358</sup> *Id.* at \*5. The court noted that § 1129(a)(15) applies only in individual cases and that, even in individual cases confirmed without acceptance by all classes, the disposable income requirement of new § 1191(c) makes the (a)(15) requirement for commitment of disposable income superfluous.

<sup>359</sup> *Id.* See *supra* Section VIII(B)(3), (4).

<sup>360</sup> *Id.*

<sup>361</sup> *Id.*

its application offend ‘[e]lementary considerations of fairness’ such that the parties ‘have an opportunity to know what the law is and to conform their conduct accordingly.’”<sup>362</sup>

Because the application of new subchapter V in the existing case did not violate the Supreme Court’s rulings in *Landgraf* or *Security Industrial Bank*, the *Moore Properties* court concluded, it had the obligation to apply the law in effect at the time of its decision.<sup>363</sup>

The bankruptcy court in *In re Body Transit*<sup>364</sup> applied the *Moore Properties* analysis in a small business case that had been pending for a month before SBRA’s effective date to reject the secured creditor’s contention that the court should follow the presumption against retroactive application of statutes. The court went on to consider the creditor’s argument that permitting the debtor to proceed under subchapter V would infringe on its rights to obtain a chapter 11 trustee who, in addition to taking control of the debtor’s assets and business, would also have the right to file a plan.<sup>365</sup>

The court agreed with the *Moore Properties* court that, in ruling on a belated objection to a subchapter V election, the court properly considers the extent to which parties have invested in the case and whether the court has entered orders that create sufficient vested postpetition expectations such that application of subchapter V would offend elementary considerations of fairness.<sup>366</sup> In addition, the court noted that a debtor’s ability to amend under Bankruptcy Rule 1009 is subject to objection if the amendment is made in bad faith or would unduly prejudice a

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<sup>362</sup> *Id.*, quoting *Landgraf v. USI Film Products*, 511 U.S. 244, 265 (1994), and citing *In re Progressive Solutions, Inc.*, 2020 WL 975464 (Bankr. E.D. Cal. 2020).

<sup>363</sup> *Id.*

<sup>364</sup> *In re Body Transit*, 2020 WL 1486784 (Bankr. E.D. Pa. 2020).

<sup>365</sup> The court had scheduled a hearing on the creditor’s motion for appointment of a trustee. The creditor asserted that debtor had failed to pay postpetition rent, has used its cash collateral without authority, and had failed to file reports and provide accurate financial information. *Id.* at \*3.

<sup>366</sup> *Id.* at \*6.

party.<sup>367</sup> The court concluded that this Rule 1009 standard stated the same principle as the *Moore Properties* formulation and is appropriate in evaluating an objection to a belated subchapter V election.<sup>368</sup>

The *Body Transit* court ruled that whether a subchapter V trustee's inability to file a plan unduly prejudices creditors turns on the facts of each case and that the creditor had not met its burden of showing prejudice in the case before it.<sup>369</sup> The court summarized, "[I]n the absence of a particularized showing, and based on the present circumstances of this case, [the creditor] has not met its burden of showing the level of prejudice required to override the Debtor's right to amend its petition under [Bankruptcy Rule] 1009."<sup>370</sup>

In *In re Ventura*,<sup>371</sup> an individual operating a bed and breakfast business in her residence through a limited liability company filed a chapter 11 case four months before SBRA's effective date, the date before a scheduled foreclosure sale in a judicial foreclosure action. She had discharged her personal liability on the mortgage in a chapter 7 bankruptcy case filed some six years earlier.

The debtor proposed a plan to bifurcate the mortgage claim, notwithstanding the anti-modification provision of § 1123(b)(5), on the theory that the property did not qualify as a "residence" based on her use of it as a bed and breakfast. After the court had ruled that the exception applied as long as the debtor used any part of the property for her residence,<sup>372</sup> the court scheduled a hearing on confirmation of the lender's plan, which provided for the sale of the

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<sup>367</sup> *Id.* at \*7, citing *In re Cudeyo*, 213 B.R. 910, 918 (Bankr. E.D. Pa. 1997); *In re Brooks*, 393 B.R. 80, 88 (Bankr. M.D. Pa. 2008); *In re Romano*, 378 B.R. 454, 467-68 (Bankr. E.D. Pa. 2007); and *In re Bendi, Inc.*, 1994 WL 11704, at \*2 (Bankr. W.D. Pa. 1994).

<sup>368</sup> *Id.*

<sup>369</sup> *Id.* at \*8.

<sup>370</sup> *Id.*

<sup>371</sup> *In re Ventura*, 2020 W.L. 1867898 (Bankr. E.D.N.Y. 2020).

<sup>372</sup> Other courts have accepted the debtor's position. See generally W. HOMER DRAKE, JR., PAUL W. BONAPFEL, AND ADAM M. GOODMAN, *supra* note 60, § 5:42 (2d ed. 2019).



property and a carve-out from the proceeds to pay all other classes in full, for February 26, 2020 – one week after SBRA’s effective date.<sup>373</sup>

The court adjourned the confirmation hearing to give the debtor the opportunity to determine whether to amend her petition to elect application of subchapter V, which she did nine days later. The lender objected to the amendment, asserting among other things that it had vested rights at the time of the amendment in that its plan was ripe for confirmation.<sup>374</sup> The lender also asserted that the debtor could not modify the mortgage in a subchapter V case under § 1190(3) because the debtor used the mortgage proceeds to purchase the property, not to invest in the limited liability company that operated the bed and breakfast.

The *Ventura* court first noted that subchapter V properly applies retroactively, agreeing with the analysis in *Moore Properties* and *Body Transit*. In addition, the court concluded that the

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<sup>373</sup> *In re Ventura*, 2020 W.L. 1867898, at \*4-5 (Bankr. E.D.N.Y. 2020).

<sup>374</sup> *Id.* at \*5. The debtor in the current case and in two previous bankruptcy cases had asserted that her debts were “primarily consumer debts.” *Id.* at \*3. The debtor owed \$ 1,678,664.80 on the mortgage, and the property was worth no more than \$ 1,200,000. *Id.* Although the opinion does not reflect what other debts the debtor has, the context indicates that she had other unsecured debt that were relatively small.

The lender asserted that, in these circumstances, the debtor did not qualify as a small business debtor, and that, even if she did, she should be judicially estopped from amending her petition to designate herself as a small business debtor based on her representations in the previous and current cases.

The court acknowledged that a purchase money mortgage on a residence is generally a consumer debt, but ruled that “the fact that a debtor incurs mortgage debt to buy a residence does not automatically mean that the debt is a consumer debt.” *Id.* at \*12. The test, the court explained, is whether a debt is incurred with an eye toward profit. “Courts must look at the substance of the transaction and the borrower’s purpose in obtaining the loan, rather than merely looking at the form of the transaction,” the court stated. *Id.*, quoting *In re Martin*, 2013 WL 54233954, at \*6 (S.D. Tex. 2013) and citing *In re Booth*, 858 F.2d 1051, 1055 (5<sup>th</sup> Cir. 1988) (debt incurred with an eye toward profit is a business debt, rather than a consumer debt).

The court found that the property was the debtor’s residence but that the primary purpose of purchasing it was to own and operate a bed and breakfast. The court concluded that the mortgage was a business debt and that she qualified as a small business debtor. *Id.* at \*12.

The court declined to apply judicial estoppel to bar her amendment to designate herself as a small business debtor. The court ruled that her amendment to describe the mortgage as a business debt was not necessarily with her prior descriptions of the debt. She had referred to it as a bed and breakfast and described it on her Schedule A/B as a “B & B Inn” rather than as a “single-family” home. Moreover, the court had taken no action in any of the cases based on the description of the mortgage debt as a consumer debt, so it was not misled. Nor had the debtor taken unfair advantage of the lender by changing the description of her debt to fit within a statute that did not exist when she filed her cases. *Id.* at \*13-14.

revision of the definition of “small business debtor” does not appear to affect contractual or vested property rights.<sup>375</sup>

The court then addressed whether the exception in new § 1190(3) to the anti-modification provision of § 123(b)(5) could apply to the lender’s property rights that vested prior to SBRA’s effective date. The court held that, because the debtor had discharged her personal liability in her previous chapter 7 case, application of new § 1190(3) would not deprive the lender of its right under state law to receive the value of the property.

Moreover, the court observed, even if the debt had not been discharged, new § 1190(3) might not “raise significant Constitutional doubts to warrant only prospective application.”<sup>376</sup> Invoking the principle of *Security National Bank* that bankruptcy law may abrogate contractual rights, but not vested property rights, of mortgagees, the court stated that the contractual right of a secured creditor to obtain repayment of the debt may be quite different in legal contemplation from property rights in the collateral. Consequently, the court concluded, application of new § 1190(3) to modify the mortgage would not violate the lender’s Fifth Amendment rights.<sup>377</sup> The court in a later part of its opinion ruled that whether the mortgage qualified for bifurcation involved factual issues that required an evidentiary hearing.<sup>378</sup>

The *Ventura* court found no prejudice to the lender based on the history of the case, including the fact that the lender’s plan was before the court for confirmation. The court saw no Constitutional issues and declined to treat its prior rulings as creating “vested” rights. The court

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<sup>375</sup> *Id.* at \*9, citing *Moore Properties of Person County, LLC*, 2020 WL 995544, at \*4, n. 10 (Bankr. M.D.N.C. 2020).

<sup>376</sup> *Id.* at \*10.

<sup>377</sup> *Id.* at \*10.

<sup>378</sup> *Id.* at \*15-16. Section VII(B) discusses this aspect of the court’s ruling in connection with consideration of new § 1190(3).

reasoned, “Until a plan is confirmed no property rights can be said to have vested in either [the debtor or the lender].”<sup>379</sup>

To summarize, a debtor in an existing chapter 11 case who qualifies as a small business debtor under its revised definition may amend the petition to elect application of subchapter V, and the case will proceed under subchapter V unless the court orders otherwise. Courts will consider, on a case-by-case basis, whether the amendment should not be allowed because the amendment is in bad faith, will cause undue prejudice to other parties, or offends elementary considerations of fairness.

Courts may also consider the timing of the amendment. One court observed that the doctrine of laches may apply to a belated amendment to a petition to elect application of subchapter V.<sup>380</sup>

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES ACT”), enacted March 27, 2020, raised the debt limit for a debtor to be eligible to elect subchapter V to \$ 7.5 million.<sup>381</sup> Because the statute specifically states that the amendment applies only to cases commenced on or after the date of its enactment, a debtor in an existing case with debts over the debt limit in § 101(51D) but less than \$ 7.5 million cannot amend its petition to elect application of subchapter V.

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<sup>379</sup> *Id.* at \*11.

<sup>380</sup> *In re Body Transit*, 2020 WL 1486784, at \*6, n. 11 (Bankr. E.D. Pa. 2020).

<sup>381</sup> Coronavirus Aid, Relief, and Economic Security Act § 1113(a), Pub. L. No. 116-136, 134 Stat. 281 (Mar. 27, 2020). *See supra* Section III(B).

**Lists of Sections of Bankruptcy Code  
and Title 28 Affected or Amended By  
The Small Business Reorganization Act of 2019**

Enacted August 23, 2019, Effective February 19, 2020

(As Amended By The CARES Act, Enacted and Effective March 27, 2020)

May 2020

	<b>Sections of The Small Business Reorganization Act of 2019</b>	
SBRA § 1	Short Title – “The Small Business Reorganization Act of 2019”	
SBRA § 2	Enacts Subchapter V of Chapter 11 of the Bankruptcy Code, new §§ 1181—1195.	
SBRA § 3(a)	Amends 11 U.S.C. § 547(b) to provide that trustee’s avoidance of preferential transfer must be “based on reasonable due diligence in the circumstances of the case and taking into account a party’s known or reasonably knowable affirmative defenses” under § 547(c). Applicable in all bankruptcy cases.	
SBRA § 3(b)	Amends 28 U.S.C. § 1409(b) to provide for venue only in the district of the defendant, for a proceeding brought by a trustee to recover a debt from a noninsider when the debt is less than \$ 25,000. Applicable in all bankruptcy cases.	
SBRA § 4(a)	Conforming amendments to the Bankruptcy Code.	
SBRA § 4(b)	Conforming amendments to Title 28.	
SBRA § 5	Effective date.	
SBRA § 6	Determination of budgetary effects.	
11 U.S.C.	<b>Amendments Relating to Cases of All Small Business Debtors</b>	SBRA
§ 101(51C)	New definition of “small business case” as a case in which a small business debtor (defined in § 101(51D)) does not elect application of subchapter V	§ 4(a)(1)(A)
§ 101(51D)	Revised definition of “small business debtor”; CARES Act makes technical correction dealing with exclusion of public companies	§ 4(a)(1)(B); CARES Act § 1113(a)(4)(A)

§ 103(i)	<p>New subsection (i) provides that subchapter V applies only to a case in which a small business debtor elects its application</p> <p>CARES Act amendment provides that subchapter V applies only to a case in which a “debtor (as defined in section 1182)” elects its application.</p>	§ 4(a)(2); CARES Act § 1113(a)(2)
§1102(a)(3)	No committee of unsecured creditors will be appointed in the case of a small business debtor (regardless of election), unless the court orders otherwise	§ 4(a)(11)

11 U.S.C.	<b>Sections of Bankruptcy Code Inapplicable or Modified in Subchapter V Cases</b>	New Subchapter V Section
§ 105(d)	§ 105(d) provisions for status conference are inapplicable. New § 1188 requires status conference and filing of report by debtor 14 days before it.	New § 1181(a)
§ 327(a)	New § 1195(a) states that person is not disqualified for employment under § 327 solely because the person holds a prepetition claim of less than \$ 10,000.	New § 1195(a)
§ 1101(1)	§ 1101(1) definition of debtor in possession is inapplicable. Replaced by new § 1182(2).	New § 1181(a)
§ 1102(a) § 1102(b) § 1103	<p>Paragraphs (1), (2), and (4) of § 1102(a) and paragraphs (1) and (2) of § 1102(b) deal with the appointment of committees. § 1102(b)(3) governs provision of information to, and communications with, creditors. Section 1103 describes the powers and duties of committees.</p> <p>These provisions are not applicable unless the court orders otherwise. Under amended § 1102(a)(3), no committee is appointed in a case of a small business debtor unless the court orders otherwise.</p>	New § 1181(b)
§ 1104 § 1105	Provisions for appointment of trustee (§ 1104) and termination of trustee’s appointment (§ 1105) are inapplicable. Replaced by § 1183 (appointment of trustee in all subchapter V cases) and § 1185 (removal of debtor in possession and reinstatement of debtor in possession)	New § 1181(a)
§ 1106	<p>§ 1106 specification of duties of trustee and examiner is inapplicable.</p> <p>New § 1183(b) states the trustee’s duties. The court may order the trustee to perform certain § 1106 duties (new § 1183(b)(2)), and several are applicable if the debtor in possession is removed (new § 1183(b)(5)). The subchapter V trustee has the same duties regarding domestic support obligations (new § 1183(b)(6)) that a chapter 11 trustee has under § 1106(c).</p>	New § 1181(a)

§ 1107	<p>§ 1107 is inapplicable. § 1107(a) gives the debtor most of the rights, powers, and duties of a trustee. It is replaced by new § 1184, which gives the subchapter V debtor the same rights, powers, and duties.</p> <p>§ 1107(b) states that a professional is not disqualified under § 327(a) from employment by the debtor in possession solely because of the professional's representation of the debtor prior to the case. No comparable provision exists in subchapter V, but the provision in new § 1195 that a professional is not disqualified solely because the professional holds a claim of less than § 10,000 impliedly has the same effect.</p>	New § 1181(a)
§ 1108	§ 1108 authorizes trustee (or debtor in possession) to operate the debtor's business. It is inapplicable and replaced by new § 1184 (authorizing debtor to operate business) and new § 1183(b)(5) (trustee's duties upon removal of debtor in possession include operating debtor's business)	New § 1181(a)
§ 1115	§ 1115 provisions for property of the estate in the chapter 11 case of an individual do not apply. If a plan is confirmed under the cramdown provisions of new § 1191(b), language similar to § 1115 provides that such property is property of the estate of any subchapter V debtor.	New § 1181(a)
§ 1116	§ 1116, which states the duties of trustee or debtor in possession in a small business case, is inapplicable. New §§ 1187(a) and (b) require the debtor to perform the specified duties.	New § 1181(a)
§ 1121	Provisions governing who may file a plan are inapplicable. Only the debtor may file a plan under new § 1189(a).	New § 1181(a)
§ 1123(a)(8)	<p>Requirement that plan provide for payment of earnings or other income of debtor who is an individual as is necessary for the execution of the plan is inapplicable.</p> <p>New § 1191(c)(2) requires, as a condition to confirmation of a cramdown plan under new § 1191(b), that a plan provide for all disposable income for a three- to five-year period (or its value) be applied to make payments under the plan.</p>	New § 1181(a)
§ 1123(c)	Prohibition on use, sale, or lease of exempt property of individual in a plan without consent of the debtor is inapplicable. It is unnecessary because only the debtor may file a plan under new § 1189(a).	New § 1181(a)
§ 1125	Provisions in § 1125 for disclosure statement and solicitation of acceptances or rejections of plan do not apply unless the court orders otherwise. A plan must include some of the information that a disclosure statement must have. New § 1190(1). If the court requires a disclosure statement, the provisions of § 1125(f) apply under new § 1187(c).	New § 1181(b)
§ 1127	Provisions dealing with modification of plan are inapplicable and are replaced by new § 1193.	New § 1181(a)

§ 1129(a)(9)(A)	Confirmation requirement of § 1129(a)(9)(A) is that plan must provide for cash payment of priority claims specified in § 507(a)(2) (administrative expenses (including professional fees and trustee fees) and court fees) and § 507(a)(3) (involuntary gap claims), unless the claimant agrees otherwise. The court may confirm a plan that provides for payment of these claims through the plan under the cramdown provisions of new § 1191(b).	New § 1191(e)
§ 1129(a)(15)	Projected disposable income requirement for confirmation in case of individual is inapplicable. New § 1191(c)(2) requires, as a condition to confirmation of a cramdown plan under new § 1191(b), that a plan provide for all disposable income for a three- to five-year period (or its value) be applied to make payments under the plan.	New § 1181(a)
§ 1129(b)	<p>“Cramdown” provisions are not applicable.</p> <p>New § 1191(b) states cramdown requirements when the requirements of § 1129(a)(8) (that all impaired classes accept the plan) and § 1129(a)(10) (that at least one impaired class of creditors accept the plan) have not been met.</p> <p>New § 1191(b) permits cramdown confirmation if the plan does not discriminate unfairly and if it is “fair and equitable with respect to” each impaired, nonaccepting class. The “fair and equitable” requirement in subchapter V does not include the absolute priority rule.</p> <p>For a secured creditor, the “fair and equitable” requirements of § 1129(b)(2)(A) govern. New § 1191(c)(1).</p> <p>To be fair and equitable, (1) the plan must provide for all disposable income for a three to five year period (or its value) be applied to make payments under the plan, new § 1191(c)(2); and (2) there must be a reasonable likelihood that the debtor will be able to make all payments under the plan, and the plan must provide appropriate remedies to protect creditors if payments are not made, new § 1191(c)(3).</p>	New § 1181(a)
§ 1129(c)	Provisions for confirmation when more than one plan meets confirmation requirements is inapplicable. It is unnecessary because only the debtor may file a plan under new § 1189(a).	New § 1181(a)
§ 1129(e)	Provision requiring confirmation of plan in small business case within 45 days of its filing is inapplicable in subchapter V case. New § 1189(b) requires filing of plan within 90 days after the order for relief (unless the court extends the time) but does not contain a deadline for confirmation.	New § 1181(a)
§ 1141(d)	Provisions for chapter 11 discharge do not apply when the court confirms a cramdown plan under § 1191(b). New § 1192 states discharge provisions when cramdown confirmation occurs.	New § 1181(c)

	In the cramdown context, discharge does not occur under new § 1192 until the debtor has completed payments under the plan for three years, or such longer period not to exceed five years as the court determines. The new § 1192 discharge applies to (1) debts listed in § 1141(d)(1)(A) and (2) all other debts allowed under § 503 and provided for in the plan, except for debts (x) on which the last payment is due after the applicable three to five year period and (y) of the kind specified in § 523(a).	
	<b>Conforming Amendments to Other Sections of the Bankruptcy Code and to Title 28 to Take Account of New Subchapter V</b>	
11 U.S.C.		SBRA
§ 322(a)	Amended to make its provisions for qualification of trustee in a case applicable to a subchapter V trustee appointed under new § 1183.	§ 4(a)(3)
§ 326(a)	Excepts subchapter V trustee appointed under new § 1183 from percentage limitations on compensation applicable to trustees in chapter 11 (and chapter 7) cases.	§ 4(a)(4)(A)
§ 326(b)	Provides that standing subchapter V trustee (like standing chapter 12 and 13 trustees) cannot receive compensation under § 330. (Standing trustees receive compensation under 28 U.S.C. § 586(e), as amended to include standing subchapter V trustees.)	§ 4(a)(4)(B)
§ 347	<p>Current § 347(a) provides for a chapter 7, 12, or 13 trustee to pay into the court, for disposition under chapter 129 of title 28, funds that remain unclaimed 90 days after final distribution under § 726, § 1226, or § 1326. It thus does not apply in chapter 11 cases. SBRA § 4(a)(5)(a) adds subchapter V to the list of trustees and adds new § 1194 to the list of sections providing for distributions. New § 1194 provides for the subchapter V trustee to make distributions under a plan confirmed under the cramdown provisions of new § 1191(b).</p> <p>Current § 347(b) provides that unclaimed property in a case under chapter 9, 11, or 12 at the expiration of the time for presentation of a security or performance of any other act as a condition to participate under any plan confirmed under § 1129, § 1173, or § 1225 becomes property of the debtor or any entity acquiring the debtor's assets under the plan. SBRA § 4(a)(5)(B) added new § 1194 to the list of plans confirmed, but the CARES Act made a technical correction to change this to § 1191. Accordingly, § 347(b) as amended and corrected provides for property that is distributed under a confirmed plan and that is unclaimed to become property of the debtor.</p> <p>It is unclear under these amendments what happens to funds that a trustee disburses under a confirmed plan that a creditor does not</p>	§ 4(a)(5); CARES Act § 1113(a)(4)(B)



	claim. Amended § 347(a) directs the trustee to pay them into court, but amended § 347(b) makes them property of the debtor. Perhaps the intended result is that unclaimed disbursements that a trustee makes become unclaimed funds subject to § 347(a) whereas unclaimed disbursements that a debtor makes become the debtor's property under § 347(b).	
§ 363(c)(1)	Extends provisions authorizing trustee who is authorized to conduct business to enter into transactions in the ordinary course of business without notice and hearing to subchapter V debtor and subchapter V trustee. (Other provisions in § 363 are applicable to a trustee, which includes a subchapter V debtor in possession, new § 1184.)	§ 4(a)(6)
§ 364(a)	Extends provisions authorizing trustee who is authorized to conduct business to obtain unsecured credit and incur unsecured debt without notice and hearing to subchapter V debtor and subchapter V trustee. (Other provisions in § 364 are applicable to a trustee, which includes a subchapter V debtor in possession, new § 1184.)	§ 4(a)(7)
§ 523(a)	Applies exceptions to discharge to discharge of individual subchapter V debtor under new § 1192 (which is the discharge that a debtor receives when a plan is confirmed under the cramdown provisions of new § 1191(b)). It is unclear whether under new § 1192 the exceptions apply to the discharge of a debtor that is not an individual. If the court confirms a consensual plan under new § 1191(a), the debtor receives a discharge under § 1141(d)(1)-(4), under which the § 523(a) discharge exceptions apply only in cases of individuals.	§ 4(a)(8)
§ 524(a)(1)	Makes discharge injunction applicable to discharge granted under new § 1192.	§ 4(a)(9)(A)(i)
§ 524(a)(3)	Makes discharge provisions relating to community claims applicable to discharge under new § 1192.	§ 4(a)(9)(A)(ii)
§ 524(c)(1) § 524(d)	Extends provisions governing reaffirmation of debt and for hearing on proposed reaffirmation (which apply to a discharge under § 1141(d)) to discharge granted under new § 1192.	§ 4(a)(9)
§ 557(d)(3)	Makes provisions for expedited consideration of appointment of trustee and for retention and compensation of professionals subject to § 1183 in cases of debtors that own or operate grain storage facilities	§ 4(a)(10)
§ 1146(a)	Prohibition on taxation of issuance, transfer, or exchange, or of the making or delivery of an instrument of transfer, under a plan confirmed under § 1129 is extended to a plan confirmed under § 1191.	§4(a)(12)

	<b>Conforming Amendments to Other Sections of the Bankruptcy Code and to Title 28 to Take Account of New Subchapter</b>	SBRA
28 U.S.C. § 586(a)(3), (b), (d)(1), (e)	<p>Provisions applicable to U.S. Trustees duties to supervise the administration of cases and trustees, (a)(3), appoint standing trustees (b), prescribe qualifications of trustees, (d)(1), and fix compensation of standing trustees, (e), extended to include cases and trustees under subchapter V.</p> <p>Adds new 28 U.S.C. § 586(e)(5), which provides for compensation of standing trustee in subchapter V case when trustee's services are terminated due to dismissal or conversion of the case or substantial consummation of a plan under new § 1183(c)(1). In these circumstances, the standing trustee does not make disbursements on which a percentage fee would be due. The court is to award compensation "consistent with services performed by the trustee and the limits on compensation of the trustee established pursuant to [28 U.S.C. § 586(e)(1)]."</p>	§ 4(b)(1)
28 U.S.C. § 589b	Provisions relating to reports of trustees and debtors in possession made applicable in subchapter V cases.	§ 4(b)(2)
28 U.S.C. § 1930(a)(6)(A)	Subchapter V cases excluded from requirement of payment of quarterly U.S. Trustee fees	§ 4(b)(3)
	<b>Amendments Applicable in All Cases</b>	
11 U.S.C. § 547(b)	As amended, 11 U.S.C. § 547(b) provides that a trustee may avoid a preferential transfer "based on reasonable due diligence in the circumstances of the case and taking into account a party's known or reasonably knowable affirmative defenses" under § 547(c).	SBRA § 3(a)
28 U.S.C. § 1409(b)	As amended, 28 U.S.C. § 1409(b) provides for venue only in the district of the defendant of a proceeding brought by a trustee to recover a debt from a noninsider when the debt is less than \$ 25,000.	SBRA § 3(b)

## **Summary of SBRA Interim Amendments to The Federal Rules of Bankruptcy Procedure To Implement SBRA**

Rule 1007(b)(5) – Eliminates requirement for filing statement of current monthly income for individual in a subchapter V case.

Rule 1007(h) – Modifies exceptions to requirement for filing supplemental schedule of property the debtor acquires after the filing of the case, as provided in § 541(a)(5), after the closing of the case. The exception does not apply to a chapter 11 plan confirmed under § 1191(b) (cramdown) and does apply after the discharge of a debtor in a plan confirmed under § 1191(b).

Rules 1015(c), (d), and (e) are renumbered as (d), (e), and (f).

Rule 1020(a) – Provides for election of subchapter V to be included in voluntary petition.

Rule 1020(c) – Eliminates provisions for case to proceed as small business case depending on whether committee of unsecured creditors has been appointed or whether an appointed committee has been sufficiently active.

Rule 1020(d) – Renumbered as Rule 1020(c) and eliminates requirement for service of objection to debtor's classification as a small business (or not) or election of subchapter V (unless committee has been appointed) and instead requires service on 20 largest.

Rule 2009 – permits single trustee in jointly administered case under subchapter V as well as in cases under chapter 7.

Rule 2011—Amends title of rule dealing with unclaimed funds to include cases under Subchapter V.

Rule 2012 – makes automatic substitution of trustee in chapter 11 case for debtor in possession in any pending action, proceeding, or matter in applicable to subchapter V trustee, unless debtor is removed from possession. (Same rule as Chapter 12).

Rule 2015(a)(1) – Makes requirement for chapter 11 trustee to file complete inventory of property of debtor (if court directs) inapplicable to subchapter V trustee.

Rule 2015(a)(5) – Makes requirement for payment of UST fees inapplicable in subchapter V case.

Rule 2015(b) – Rule 2015(b) renumbered as Rule 2015(c). New Rule 2015(b) requires debtor in possession in subchapter V case to perform duties of trustee described in Rule 2015(a)(2) through (4) and to file inventory if the court directs. Requires trustee to perform these duties if debtor is removed from possession.

Rule 3014 – Provides for court to determine the date for making of § 1111(b) election by secured creditor in case under subchapter V in which § 1125 provisions for disclosure statement do not apply. (General rule is that election must be made before conclusion of hearing on disclosure statement.)

Rule 3016(b) – Makes provisions for disclosure statement applicable only if a disclosure statement is required.

Rule 3016(d) – Makes provisions for use of standard form in “small business case” also applicable to a case under subchapter V case. (Note: under SBRA, a subchapter V case is not a “small business case,” although a subchapter V debtor is a “small business debtor.”)

Rule 3017.1(a) – Permits conditional approval of disclosure statement in subchapter V case in which court has ordered that disclosure statement requirements of § 1125 apply.

Rule 3017.2 – New rule requires court to fix, in a subchapter case in which § 1125 does not apply: (a) the time for accepting or rejecting a plan; (b) the record date for holders of equity security interests; (c) the date for the hearing on confirmation; (d) the date for transmission of the plan and notice of the (1) the time to accept or reject and (2) the confirmation hearing.

Rule 3018 – Conforming amendment to take account of new Rule 3017.2 and change in Rule 3017.1.

Rule 3019(c) – New rule 3019(c) provides that request to modify plan after confirmation in subchapter V case is governed by Rule 9014 and that provisions of Rule 3019(b) (procedures for postconfirmation modification of plan in individual chapter 11 case) apply.



UNITED STATES BANKRUPTCY COURT  
DISTRICT OF NEW JERSEY

In re: _____  _____,  Debtor.	Case No. ____ - _____
	Hon. _____,
	Chapter 11 (Subchapter V Small Business)

**SMALL BUSINESS DEBTOR'S PLAN OF REORGANIZATION  
[OR LIQUIDATION]**

This Plan of Reorganization [or Liquidation] is presented to you to inform you of the proposed Plan for restructuring the debt [or liquidating the assets] of [Debtor], and to seek your vote to accept the Plan.

You are encouraged to carefully review the full text of this document, including all exhibits and attachments, before deciding how to vote on the Plan. To assist you in your review, please note that a list of definitions and a section of frequently asked questions appear at the end of this document.

**IN ADDITION TO CASTING YOUR VOTE TO ACCEPT OR REJECT THE PLAN, YOU MAY OBJECT TO CONFIRMATION OF THE PLAN. IF YOU WISH TO OBJECT TO CONFIRMATION OF THE PLAN, YOU MUST DO SO BY [OBJECTION DATE/TIME].**

**YOUR BALLOT STATING HOW YOU ARE VOTING ON THE PLAN MUST BE RETURNED BY [DEADLINE]. THE BALLOT MUST BE MAILED TO THE FOLLOWING ADDRESS: [DEBTOR'S COUNSEL'S ADDRESS].**

**A HEARING ON THE CONFIRMATION OF THE PLAN IS SCHEDULED FOR [HEARING DATE/TIME] IN COURTROOM No. \_\_\_\_\_ AT THE [INSERT COURTHOUSE NAME AND FULL COURT ADDRESS, CITY, STATE, ZIP CODE].**

Your rights may be affected by this Plan. You should consider discussing this document with an attorney.

[DATE]

[COUNSEL FOR DEBTOR]

[CONTACT INFORMATION FOR COUNSEL FOR DEBTOR]

## **TABLE OF CONTENTS**

[Insert Table of Contents pursuant to D.N.J. LBR 3016-1(a)]

## **SUMMARY OF THE PLAN AND DISTRIBUTIONS TO CREDITORS**

[A concise summary of the Plan, describing with particularity the treatment of each class of Creditors and the source of funding for the Plan, should be stated here.]



**ARTICLE 1**  
**HISTORY OF THE BUSINESS OPERATIONS OF THE DEBTOR**

**1.1. Nature of the Debtor's Business.**

[Describe the Debtor's Business here.]

**1.2. History of Business Operations of the Debtor**

[Describe a brief history of the business operations of the Debtor]

**1.3 Filing of the Debtor's Chapter 11 Case.**

On [the Petition Date], the Debtor filed a voluntary petition for relief under the Bankruptcy Code. The Chapter 11 case is pending in the Bankruptcy Court in (Camden)(Newark)(Trenton), New Jersey.

**1.4. Legal Structure and Ownership.**

[Describe the Debtor's legal structure and ownership here.]

**1.5. Debtor's Assets.**

[Detail the identity and fair market value of the estate's assets either in this section or in an attached Exhibit. Identify the source and basis for valuation.]

**1.6. Debtor's Liabilities.**

[Identify the secured Claims, naming the collateral for such debts, priority Claims and unsecured Claims against the estate either in this section or in an attached Exhibit.]

**1.7. Current and Historical Financial Conditions.**

[The Debtor's relevant financial data, including the Debtor's historical and projected financial performance, should be summarized here, with reference to attached Exhibits like the Debtor's most recent financial statements, if any, a summary of the Debtor's periodic operating reports filed since the commencement of the Debtor's bankruptcy case, etc.]

**1.8. Events Leading to the Filing of the Bankruptcy Case.**

[Describe what problems compelled the filing of the Chapter 11 petition and, if applicable, how the Debtor has cured those problems for its successful rehabilitation.]

**1.9. Significant Events During the Bankruptcy Case.**

[Describe significant events during the Debtor's bankruptcy case, which may include:

- Any asset sales outside the ordinary course of business, debtor-in-possession financing, or cash collateral orders.
- The identity of professionals approved by the Bankruptcy Court.
- Any adversary proceedings that have been filed or other significant litigation that has occurred (including contested claim disallowance proceedings), and any other significant legal or administrative proceedings that are pending or have been pending during the case in a forum other than the Bankruptcy Court.
- Any steps taken to improve operations and profitability of the Debtor.
- Other events as appropriate.]

**1.10. Projected Recovery of Avoidable Transfers [Choose option]**

The Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

OR

The Debtor estimates that up to \$ \_\_\_\_\_ may be realized from the recovery of fraudulent, preferential or other avoidable transfers. While the results of litigation cannot be predicted with certainty and it is possible that other causes of action may be identified, the following is a summary of the preference, fraudulent conveyance and other avoidance actions filed or expected to be filed in this case:

Transaction	Defendant	Amount Claimed

OR

[If the Debtor does not yet know whether it intends to pursue avoidance actions]

The Debtor has not yet completed its investigation with regard to prepetition transactions. The Debtor anticipates completing its investigation by \_\_\_\_\_.  
If you received a payment or other transfer of property within 90 days of bankruptcy, the Debtor may seek to avoid such transfer.

**ARTICLE 2**  
**THE PLAN**

The Debtor's Plan must describe how its Creditors will be paid. Certain Claims are entitled to specific treatment under the Bankruptcy Code and are not placed in a class

for purpose of payment. For example, Administrative Expenses and Priority Tax Claims are not classified.

As required by the Code, the Plan places Claims and Equity Interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of Claims or Equity Interests is impaired or unimpaired. A Claim or Equity Interest can be impaired if the Plan alters the legal, equitable or contractual rights to which the Claimants are otherwise entitled. If the Plan is confirmed, each Creditor's recovery is limited to the amount provided in the Plan.

Only Creditors in classes that are impaired may vote on whether to accept or reject the Plan, and only Creditors holding Allowed Claims may vote. A class accepts the Plan when more than one-half (1/2) in number and at least two-thirds (2/3) in dollar amount of the Allowed Claims that actually vote, vote in favor of the Plan. Also, a class of Equity Interest holders accepts the Plan when at least two-thirds (2/3) in amount of the allowed Equity Interest holders that actually vote, vote in favor of the Plan. A class that is not impaired is deemed to accept the Plan.

## **2.1. Unclassified Claims.**

Certain types of Claims are automatically entitled to specific treatment under the Code. For example, Administrative Expenses and Priority Tax Claims are not classified. They are not considered impaired, and holders of such Claims do not vote on the Plan. They may, however, object if, in their view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan does not place the following Claims in any class:

### **A. Administrative Expenses**

The Debtor must pay all Administrative Expenses in full. If an Administrative Expense is disputed, the Bankruptcy Court must determine the validity and amount of the Administrative Expense, or in other words, "allow" the Administrative Expense. Any Administrative Expense that is undisputed and is due and owing on the Confirmation Date must be paid in accordance with this Plan, or upon such other terms as agreed upon by the Debtor and the Administrative Claimant or court order. If the Administrative Expense is disputed, payment will be made after the Administrative Expense is allowed by the Bankruptcy Court.

There are several types of Administrative Expenses, including the following:

1. If the Debtor trades in the ordinary course of business following its filing of the Chapter 11 Case, Creditors are entitled to be paid in full for the goods or services provided. This ordinary trade debt incurred by the Debtor after the Petition Date will be paid on an ongoing basis in accordance with the ordinary business practices and terms between the Debtor and its trade Creditors.

2. If the Debtor received goods it has purchased in the ordinary course of business within 20 days before the Petition Date, the value of the goods received is an Administrative Expense.
  
3. Administrative Expenses also include any post-petition fees and expenses allowed to professionals, including the allowed claim of the Trustee for fees and/or reimbursements, and for attorneys and accountants employed upon Bankruptcy Court authority to render services to the Debtor during the course of the Chapter 11 cases. These fees and expenses must be noticed to Creditors and approved by the Bankruptcy Court prior to payment.

The following chart lists the Debtor's estimated Administrative Expenses, and their proposed treatment under the Plan:

<b>Type</b>	<b>Estimated Amount Owed</b>	<b>Proposed Treatment</b>
Expenses arising in the ordinary course of business after the Petition Date		Payment through the Plan as follows: <hr/>
Administrative Tax Claim		Payment through the Plan as follows: <hr/>
The value of goods received in the ordinary course of business within 20 days before the Petition Date		Payment through the Plan as follows: <hr/>

Professional fees, as approved by the Bankruptcy Court		After Bankruptcy Court approval, Payment through the Plan as follows:  _____
Clerk's Office fees		Paid in full on the Effective Date.
Other Administrative Expenses		Payment through the Plan as follows:  _____
Trustee		Upon application under § 330 and after Bankruptcy Court approval, payment through the Plan as follows:  _____
TOTAL		

**B. Priority Tax Claims.**

Priority Tax Claims are unsecured income, employment, and other taxes described by § 507(a)(8) of the Code. Unless the holder of such a § 507(a)(8) Priority Tax Claim agrees otherwise, it must receive the present value of such Claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

Each holder of a Priority Tax Claim will be paid as set forth in the chart below:

<b>Name of Taxing Authority and Type of Tax</b>	<b>Estimated Amount Owed</b>	<b>Date of Assessment</b>	<b>Treatment</b>
			Pmt Interval = [Monthly] payment = Begin Date = End Date = Interest Rate % = Total Payment = \$
			Pmt Interval = [Monthly] payment = Begin Date = End Date = Interest Rate % = Total Payment = \$

## **2.2 Classes of Claims and Equity Interests.**

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

### **A. Classes of Secured Claims**

Allowed Secured Claims are Claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured Claims under § 506 of the Code. If the value of the collateral or setoffs securing the Creditor's Claim is less than the amount of the Creditor's Allowed Claim, the deficiency will be classified as a general unsecured Claim. In addition, certain claims secured only by the debtor's principal residence, may require different treatment pursuant to § 1190(3) of the Code as set forth below, if applicable.

The following chart lists all classes containing the Debtor's secured prepetition Claims and their proposed treatment under the Plan:

Class #	Description	Insider? (Yes or No)	Impairment	Treatment
	<i>Secured claim of:</i> Name =  Collateral description =  Allowed Secured Amount = \$ _____  Priority of lien =  Principal owed = \$ _____  Pre-pet. arrearage = \$ _____  Total claim =  \$ _____		[State whether impaired or unimpaired]	[Monthly Pmt.] =  Pmts Begin      =  Pmts End        =  [Balloon Pmt] =  Interest rate % =  Treatment of Lien [including whether claim is being treated under §1190(3)] =  [Additional payment required to cure defaults] =  Deficiency in the amount of \$ _____ to be classified and treated as a general unsecured Claim

	<i>Secured claim of:</i> Name =  Collateral description =  Allowed Secured Amount = \$ _____  Priority of lien =  Principal owed = \$ _____  Pre-pet. arrearage = \$ _____  Total claim =  \$ _____		[State whether impaired or unimpaired]	Monthly Pmt =  Pmts Begin =  Pmts End =  [Balloon pmt] =  Interest rate %  Treatment of Lien [including whether claim is being treated under §1190(3)] =  [Additional payment required to cure defaults] =  Deficiency in the amount of \$ _____ to be classified and treated as a general unsecured Claim
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#### B. Classes of Priority Unsecured Claims.

Certain priority Claims that are referred to in §§ 507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a Claim receive cash on the Effective Date of the Plan equal to the allowed amount of such Claim. However, a class of holders of such Claims may vote to accept different treatment.

The following chart lists all classes containing Claims under §§ 507(a)(1), (4), (5), (6), and (a)(7) of the Code and their proposed treatment under the Plan:

Class #	Description	Impairment	Treatment
	Priority unsecured claim pursuant to Section [insert] Total amt of claims = \$	[State whether impaired or unimpaired]	
	Priority unsecured claim pursuant to Section [insert] Total amt of claims = \$	[State whether impaired or unimpaired]	



### C. Class[es] of General Unsecured Claims

General unsecured Claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. [Insert description of § 1122(b) convenience class if applicable.]

The following chart identifies the Plan's proposed treatment of Class[es] \_\_\_\_ through \_\_\_\_, which contain general unsecured Claims against the Debtor:

Class #	Description	Impairment	Treatment
	[1122(b) Convenience Class]	[State whether impaired or unimpaired]	[Insert proposed treatment, such as "Paid in full in cash on effective date of the Plan or when due under contract or applicable nonbankruptcy law"]
	General Unsecured Class [including any claims set forth in Section 2.2.A, above]	[State whether impaired or unimpaired]	Monthly Pmt = Pmts Begin = Pmts End = [Balloon pmt] = Interest rate % from [date] = Estimated = percent of claim paid

### D. Class[es] of Equity Interest Holders.

Equity Interest holders are parties who hold an ownership interest (*i.e.*, equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are Equity Interest holders. In a partnership, Equity Interest holders include both general and limited partners. In a limited liability company ("LLC"), the Equity Interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the Equity Interest holder.

The following chart sets forth the Plan's proposed treatment of the class[es] of Equity Interest holders: [There may be more than one class of Equity Interest holders in, for example, a partnership case, or a case where the prepetition debtor had issued multiple classes of stock.]

Class #	Description	Impairment	Treatment
	Equity Interest holders	[State whether impaired or unimpaired]	

**2.3. Estimated Number and Amount of Claims Objections.**

The Debtor may object to the amount or validity of any Claim within 60 days of the Confirmation Date by filing an objection with the Bankruptcy Court and serving a copy of the objection on the holder of the Claim. The Claim objected to will be treated as a Disputed Claim under the Plan. If and when a Disputed Claim is finally resolved by the allowance of the Claim in whole or in part, the Debtor will pay the Allowed Claim in accordance with the Plan. [Set forth amount and number of Claims in each class that will be objected to.]

<b>Class</b>	<b>Number of Claims Objected To</b>	<b>Amount of Claims Objected To</b>

**2.4. Treatment of Executory Contracts and Unexpired Leases.**

Executory Contracts are contracts where significant performance of the contract remains for both the Debtor and another party to the contract. The Debtor has the right to reject, assume (i.e. accept), or assume and assign these types of contracts to another party, subject to the Bankruptcy Court's approval. The paragraphs below explain the Debtor's intentions regarding its Executory Contracts (which includes its unexpired leases) and the impact such intentions would have on the other parties to the contracts.

Check all that apply:

☐ Assumption of Executory Contracts.

The Executory Contracts shown on Exhibit \_\_\_\_\_ shall be assumed by the Debtor. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Bankruptcy Code, if any. Exhibit \_\_\_\_\_ also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of future performance, you must file and serve your objection to the assumption within the deadline for objecting to the confirmation of the Plan, unless the Bankruptcy Court has set an earlier time.

OR

[ ] Assumption and Assignment of Executory Contracts and Unexpired Leases.

The Executory Contracts shown on Exhibit \_\_\_\_\_ shall be assumed by the Debtor and assigned to the party listed in that Exhibit. Assumption and assignment by the Debtor means that the Debtor will undertake the obligations under such contracts and unexpired leases, will cure defaults of the type that must be cured under the Bankruptcy Code, if any, and will assign the contract to the party listed.

If you object to the assumption and assignment of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of future performance, you must file and serve your objection to the assumption and assignment within the deadline for objecting to the confirmation of the Plan, unless the Bankruptcy Court has set an earlier time.

OR

[ ] Rejection of Executory Contracts and Unexpired Leases.

The Executory Contracts shown on Exhibit \_\_\_\_ shall be rejected by the Debtor.

Further, the Debtor will be conclusively deemed to have rejected all executory contracts and/or unexpired leases not expressly shown on Exhibit \_\_\_\_\_, or not assumed before the date of the order confirming the Plan.

Rejection means that the Debtor has elected not to continue to perform the obligations under such contracts or leases. If the Debtor has elected to reject a contract or lease, the other party to the contract or lease will be treated as an unsecured Creditor holding a Claim that arose before the bankruptcy was filed.

**[The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of an Executory Contract Is \_\_\_\_\_. Any Claim based on the rejection of an Executory Contract will be barred if the proof of claim is not timely filed, unless the Bankruptcy Court orders otherwise.]**

**2.5. Means for Implementation of the Plan.**

[Describe how the Plan will be implemented, including how the Plan will be funded. For example, if the Plan proposes a sale of the Debtor's assets, describe how the sale will proceed, including anticipated marketing efforts and proposed bidding procedures. Then insert the paragraphs set forth below, if applicable.]

On Confirmation of the Plan, all property of the Debtor, tangible and intangible, including, without limitation, licenses, furniture, fixtures and equipment, will revert, free and clear of all Claims and Equitable Interests except as provided in the Plan, to the Debtor. The Debtor expects to have sufficient cash on hand to make the payments required on the Effective Date.

The Board of Directors of the Debtor immediately prior to the Effective Date shall serve as the initial Board of Directors of the Reorganized Debtor on and after the Effective Date. Each member of the Board of Directors shall serve in accordance with applicable non-bankruptcy law and the Debtor's certificate or articles of incorporation and bylaws, as each of the same may be amended from time to time.

[Additional provisions, if any, for implementing the plan can be inserted here.]

## **2.6. Payments.**

If the Plan is confirmed under §1191(a), payments to Creditors provided for in the Plan will be made by the Trustee pursuant to §1194(a). Once the Trustee's service is terminated under § 1183(c), the Debtor shall make Plan payments except as otherwise provided in the Plan or in the order confirming the Plan.

If the Plan is confirmed under section § 1191(b), except as otherwise provided in the Plan or in the order confirming the Plan, the Trustee shall make all Plan payments to creditors under the Plan.

## **2.7. Post-Confirmation Management.**

The Post-Confirmation Officers/Managers of the Debtor, and their compensation, shall be as follows:

<b>Name</b>	<b>Position</b>	<b>Compensation</b>

## **2.8. Tax Consequences of the Plan.**

*Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.*

The following are the anticipated tax consequences of the Plan: [List the following general consequences as a minimum: (1) Tax consequences to the Debtor of the Plan; (2) General tax consequences on Creditors of any discharge, and the general tax consequences of receipt of Plan consideration after Confirmation.]

## **2.9. Projections in Support of Debtor's Ability to Make Payments Under the Proposed Plan**

Debtor has provided projected financial information. Those projections are listed in Exhibit \_\_\_\_.

**ARTICLE 3**  
**FEASIBILITY OF PLAN**

The Bankruptcy Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or reorganization is proposed in the Plan.

**3.1. Ability to Initially Fund Plan.**

The Debtor believes that the Debtor will have enough cash on hand on the Effective Date of the Plan to pay all the Claims and expenses that are entitled to be paid on that date. Tables showing the amount of cash on hand on the Effective Date of the Plan, and the sources of that cash, are attached hereto as Exhibit \_\_\_\_.

**3.2. Ability to Make Future Plan Payments And Operate Without Further Reorganization.**

The Debtor must submit all or such portion of the 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.

The Debtor has provided projected financial information. Those projections are listed in Exhibit \_\_\_\_ (referenced in § 2.9, above).

The Debtor's financial projections show that the Debtor will have an aggregate annual average cash flow, after paying operating expenses and post-confirmation taxes, of \$\_\_\_\_. The final Plan payment is expected to be paid on \_\_\_\_.

[Summarize the numerical projections, and highlight any assumptions that are not in accord with past experience. Explain why such assumptions should now be made.]

**You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.**

**ARTICLE 4**  
**LIQUIDATION ANALYSIS.**

To confirm the Plan, the Bankruptcy Court must find that all Creditors and Equity Interest holders who do not accept the Plan will receive at least as much under the Plan as such Claimants and Equity Interest holders would receive in a Chapter 7 liquidation. A liquidation analysis is attached hereto as Exhibit \_\_\_\_.

## **ARTICLE 5**

### **DISCHARGE.**

#### **5.1. [Option 1 -- If § 1141(d)(3) is not applicable]**

Discharge. **If the Plan is confirmed under § 1191(a)**, on the Confirmation Date of this Plan, the Debtor will be discharged from any debt that arose before confirmation of this Plan, subject to the occurrence of the Effective Date, to the extent specified in § 1141(d) of the Bankruptcy Code; or

**If the Plan is confirmed under § 1191(b)**, as soon as practicable after completion by the Debtor of all payments due under the Plan, unless the court approves a written waiver of discharge executed by the Debtor after the order for relief under this chapter, the court shall grant the Debtor a discharge of all debts provided in section 1141(d)(1)(A) of this title, and all other debts allowed under section 503 of this title and provided for in this Plan, except any debt—

(1) on which the last payment is due after the first 3 years of the plan, or such other time not to exceed 5 years fixed by the court; or

(2) if applicable, of the kind specified in section 523(a) of this title.

#### **[Option 2– If § 1141(d)(3) is applicable]**

No Discharge. In accordance with § 1141(d)(3) of the Bankruptcy Code, the Debtor will not receive any discharge of debt in this bankruptcy case.

NOTE: If the Debtor is not entitled to discharge under 11 U.S.C. § 1141(d)(3) change this heading to “**NO DISCHARGE OF DEBTOR.**”

## **ARTICLE 6**

### **GENERAL PROVISIONS.**

#### **6.1. Title to Assets.**

If a plan is confirmed under § 1191(a), except as otherwise provided in the Plan or in the order confirming the Plan, (i) confirmation of the Plan vests all of the property of the estate in the Debtor, and (ii) after confirmation of the Plan, the property dealt with by the Plan is free and clear of all Claims and Equity Interests of Creditors, equity security holders, and of general partners in the Debtor.

If a plan is confirmed under § 1191(b), property of the estate includes, in addition to the property specified in § 541, all property of the kind specified in that section that the Debtor acquires, as well as earnings from services performed by the Debtor, after the date of commencement of the case but before the case is closed, dismissed, or converted to a case under chapter 7, 12, or 13 of the Bankruptcy Code, whichever occurs first. Except as provided

in § 1185 of the Bankruptcy Code, the Plan, or the order confirming the Plan, the Debtor shall remain in possession of all property of the estate.

**6.2. Binding Effect.**

If the Plan is confirmed, the provisions of the Plan will bind the Debtor and all Creditors, whether or not they accept the Plan. The rights and obligations of any entity named or referred to in this Plan will be binding upon, and will inure to the benefit of the successors or assigns of such entity.

**6.3. Severability.**

If any provision in this Plan is determined to be unenforceable, the determination will in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

**6.4. Retention of Jurisdiction by the Bankruptcy Court.**

The Bankruptcy Court shall retain jurisdiction of this case with regard to the following matters: (i) to make such orders as are necessary or appropriate to implement the provisions of this Plan and to resolve any disputes arising from implementation of the Plan; (ii) to rule on any modification of the Plan proposed under section 1193; (iii) to hear and allow all applications for compensation to professionals and other Administrative Expenses; (iv) to resolve all issues regarding Claims objections, and issues arising from the assumption/rejection of executory contracts or unexpired leases, and (v) to adjudicate any cause of action which may exist in favor of the Debtor, including preference and fraudulent transfer causes of action.

**6.5. Captions.**

The headings contained in this Plan are for convenience of reference only and do not affect the meaning or interpretation of this Plan.

**6.6. Modification of Plan.**

The Debtor may modify the Plan at any time before confirmation of the Plan pursuant to § 1193(a). However, the Bankruptcy Court may require additional items including revoting on the Plan.

If the Plan is confirmed under Section 1191(a), the Debtor may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated *and* (2) the Bankruptcy Court authorizes the proposed modifications after notice and a hearing.

If the Plan is confirmed under Section 1191(b), the Debtor may seek to modify the Plan at any time only if (1) it is within 3 years of the Confirmation Date, or such longer time not to exceed 5 years, as fixed by the court *and* (2) the Bankruptcy Court authorizes the

proposed modifications after notice and a hearing.

**6.7. Final Decree.**

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Debtor, or such other party as the Bankruptcy Court shall designate in the Plan Confirmation Order, shall file a motion with the Bankruptcy Court to obtain a final decree to close the case. Alternatively, the Bankruptcy Court may enter such a final decree on its own motion.

[Insert other provisions, as applicable.]



**ARTICLE 7**  
**ATTACHMENTS**

The following documents accompany the Plan [check those applicable, and list any other attachments here]:

- ☐ Debtor's Assets at Fair Market Value, annexed as Exhibit \_\_\_\_.
- ☐ Debtor's Liabilities, annexed as Exhibit \_\_\_\_.
- ☐ Financial forecast for the Debtor, annexed as Exhibit \_\_\_\_.
- ☐ Debtor's most recent financial statements issued before bankruptcy, annexed as Exhibit \_\_\_\_.
- ☐ Debtor's most recent post-petition operating report filed since the commencement of the Debtor's bankruptcy case, annexed as Exhibit \_\_\_\_.
- ☐ Summary of the Debtor's periodic operating reports filed since the commencement of the Debtor's bankruptcy case, annexed as Exhibit \_\_\_\_.
- ☐ Executory Contracts and Unexpired Leases, to be Assumed annexed as Exhibit \_\_\_\_.
- ☐ Executory Contracts and Unexpired Leases to be Assumed and Assigned, annexed as Exhibit \_\_\_\_.
- ☐ Executory Contracts and Unexpired Leases to be Rejected, annexed as Exhibit \_\_\_\_.
- ☐ Tables showing the amount of cash on hand as of the Effective Date, and the sources of that cash, annexed as Exhibit \_\_\_\_.
- ☐ Liquidation Analysis, annexed as Exhibit \_\_\_\_.

## **ARTICLE 8**

### **FREQUENTLY ASKED QUESTIONS**

**What Is the [DEBTOR] Attempting to Do in Chapter 11?** Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under Chapter 11, a debtor attempts to restructure the claims held against it. Formulation and confirmation of a plan of reorganization is the primary goal of Chapter 11. When reorganization is not feasible, however, a debtor may propose a liquidating plan under Chapter 11. The plan is the legal document which sets forth the manner and the means by which holders of claims against a debtor will be treated.

**Why Am I Receiving This Plan?** In order to confirm a plan of reorganization [or liquidation], the Bankruptcy Code requires that a debtor solicit acceptances of a proposed plan, which it is doing with this Plan. If the creditors are satisfied with the information provided in the Plan and the terms of the Plan as proposed, and have voted for the Plan and returned the requisite number of ballots to counsel for the Debtor, the Bankruptcy Court may confirm the Plan as proposed by the Debtor.

**How Do I Determine Which Class I Am In?** To determine the class of your claim or interest, you must first determine whether your claim is secured or unsecured. Your claim is secured if you have a validly perfected security interest in collateral owned by the Debtor. If you do not have any collateral, your claim is unsecured. The Table of Contents will direct you to the treatment provided to the class in which you are grouped. The pertinent section of the Plan dealing with that class will explain, among other things, who is in that class, what is the size of the class, what you will receive if the Plan is confirmed, and when you will receive what the Plan has provided for you if the Plan is confirmed. [Paragraph/Section] \_\_\_ lists all classes of claimants and their types of claims.

**Why Is Confirmation of a Plan of Reorganization [or Liquidation] Important?** Confirmation of the Plan is necessary because if the Plan is confirmed, the Debtor and all of its creditors are bound by the terms of the Plan. If the Plan is not confirmed, the Debtor may not pay creditors as proposed in the Plan while the Debtor remains in bankruptcy.

**What Is Necessary to Confirm a Plan of Reorganization [or Liquidation]?** Confirmation of the Plan requires, among other things, the vote in favor of the Plan of two-thirds in total dollar amount and a majority in number of claims actually voting in each voting class. If the vote is insufficient, the Bankruptcy Court can still confirm the Plan, but only if certain additional elements are shown including that 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.

**Am I Entitled to Vote on the Plan?** Any creditor of the Debtor whose claim is IMPAIRED under the Plan is entitled to vote, if either (i) the creditor's claim has been scheduled by the Debtor and such claim is not scheduled as disputed, contingent, or unliquidated, or (ii) the creditor has filed a proof of claim on or before the last date set by the Bankruptcy Court for such filings. Any claim to which an objection has been filed (and such objection is still pending) is not entitled to vote, unless the Bankruptcy Court temporarily allows the creditor to vote upon the creditor's motion. Such motion must be heard and determined by the Bankruptcy Court prior to the date established by the Bankruptcy Court to confirm the Plan.

**How Do I Determine Whether I Am in an Impaired Class?**  
[Section/Paragraph] \_\_\_\_\_ of the Plan identifies the classes of creditors whose claims are impaired. If your claim is impaired, your vote will be considered by the Bankruptcy Court.

**When Is the Deadline by Which I Need to Return My Ballot?** The Plan is being distributed to all claim holders for their review, consideration and approval. The deadline by which ballots must be returned is \_\_\_\_\_. Ballots should be mailed to the following address: [INSERT ADDRESS].

**How Do I Determine When and How Much I Will Be Paid?** In [Section/Paragraph] \_\_\_\_\_, the Debtor has provided both written and financial summaries of what it anticipates each class of creditors will receive under the Plan.

## **ARTICLE 9**

### **DEFINITIONS**

[Insert/omit definitions as appropriate.]

**9.1.** The definitions and rules of construction set forth in §§ 101 and 102 of the Bankruptcy Code shall apply when terms defined or construed in the Code are used in this Plan. The definitions that follow that are found in the Code are for convenience of reference only, and are superseded by the definitions found in the Code.

**9.2. Administrative Claimant:** Any person entitled to payment of an Administration Expense.

**9.3. Administrative Convenience Class:** A class consisting of every unsecured claim that is less than or reduced to an amount that the Bankruptcy Court approves as reasonable and necessary for administrative convenience.

**9.4. Administrative Expense:** Any cost or expense of administration of the Chapter 11 case entitled to priority under Section 507(a)(2) of the Code and allowed under Section 503(b) of the Code, including without limitation, any actual and necessary expenses of preserving the Debtor's estate, any actual and necessary expenses incurred following the filing of the bankruptcy petition by the Debtor-in-Possession, allowances of compensation or reimbursement of expenses to the extent allowed by the Bankruptcy Court under the Bankruptcy Code, the allowed claim of the Trustee for fees and/or reimbursements, and any fees or charges assessed against any of the Debtor's estates under Chapter 123, Title 28, United States Code.

**9.5 Administrative Tax Claim:** Any tax incurred pursuant to Section 503(b)(1)(B) of the Code.

**9.6. Allowed Claim:** Any claim against the Debtor pursuant to Section 502 of the Code to the extent that: (a) a Proof of Claim was either timely filed or was filed late with leave of the Bankruptcy Court or without objection by the Debtor, and (b) as to which either (i) a party in interest, including the Debtor, does not timely file an objection, or (ii) is allowed by a Final Order.

**9.7. Allowed Priority Tax Claim:** A Priority Tax Claim to the extent that it is or has become an Allowed Claim, which in any event shall be reduced by the amount of any offsets, credits, or refunds to which the Debtor or Debtor-in-Possession shall be entitled on the Confirmation Date.

**9.8. Allowed Secured Claim:** Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under § 506 of the Code

**9.9. Allowed Unsecured Claim:** An Unsecured Claim to the extent it is, or has become, an Allowed Claim, which in any event shall be reduced by the amount of any offsets, credits, or refunds to which the Debtor or Debtor-in-Possession shall be entitled on the Confirmation Date.

**9.10. Bankruptcy Code or Code:** The Bankruptcy Reform Act of 1978, as amended and codified as Title 11, United States Code.

**9.11. Bankruptcy Court:** The United States Bankruptcy Court for the District of New Jersey.

**9.12. Bankruptcy Rules:** The Federal Rules of Bankruptcy Procedure.

**9.13. Cash:** Cash, cash equivalents and other readily marketable securities or instruments issued by a person other than the Debtor, including, without limitation, readily marketable direct obligations of the United States of America, certificates of deposit issued by banks and commercial paper of any entity, including interest accrued or earned thereon.

**9.14. Chapter 11 Case:** This case under chapter 11 of the Bankruptcy Code in which [DEBTOR] is the Debtor-in-Possession.

**9.15. Claim:** Any “right to payment from the Debtor whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or any right to an equitable remedy for future performance if such breach gives rise to a right of payment from the Debtor, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, disputed, undisputed, secured or unsecured.” 11 U.S.C. § 101(5).

**9.16. Class:** A category of holders of claims or interests which are substantially similar to the other claims or interests in such class.

**9.17. Confirmation:** The entry by the Bankruptcy Court of an order confirming this Plan.

**9.18. Confirmation Date:** The Date upon which the Bankruptcy Court shall enter the Confirmation Order; provided however, that if on motion the Confirmation Order or consummation of the Plan is stayed pending appeal, then the Confirmation Date shall be the entry of the Final Order vacating such stay or the date on which such stay expires and is no longer in effect.

**9.19. Confirmation Hearing:** The hearing to be held on \_\_\_\_\_, 20\_\_ to consider confirmation of the Plan.

**9.20. Confirmation Order:** An order of the Bankruptcy Court or any amendment thereto confirming the Plan in accordance with the provisions of chapter 11 of the Bankruptcy Code.

**9.21. Creditor:** Any person who has a Claim against the Debtor that arose on or before the Petition Date.

**9.22. Debtor and Debtor-in-Possession:** [Debtor], the debtor-in-possession in this Chapter 11 Case.

**9.23. Disputed Claim:** Any claim against the Debtor pursuant to Section 502 of the Code that the Debtor has in any way objected to, challenged or otherwise disputed.

**9.24. Distributions:** The property required by the Plan to be distributed to the holders of Allowed Claims.

**9.25. Effective Date:** Pursuant to D.N.J. LBR 3020-1, the effective date of a chapter 11 plan is 30 days after entry of the order confirming the plan unless the plan or confirmation order provides otherwise.

**9.26. Equity Interest:** An ownership interest in the Debtor.

**9.27. Executory Contracts:** All unexpired leases and executory contracts as described in Section 365 of the Bankruptcy Code.

**9.28. Final Order:** An order or judgment of the Bankruptcy Court that has not been reversed, stayed, modified or amended and as to which (a) any appeal that has been taken has been finally determined or dismissed, or (b) the time for appeal has expired and no notice of appeal has been filed.

**9.29. IRC:** The Internal Revenue Code

**9.30. Petition Date:** [DATE], the date the chapter 11 petition for relief was filed.

**9.31. Plan:** This Plan, either in its present form or as it may be altered, amended, or modified from time to time.

**9.32. Priority Tax Claim:** Any Claim entitled to priority in payment under Section 507(a)(8) of the Bankruptcy Code.

**9.33. Reorganized Debtor:** The Debtor after the Effective Date.

**9.34. Schedules:** Schedules and Statement of Financial Affairs, as amended, filed by the Debtor with the Bankruptcy Court listing liabilities and assets.

**9.35. Secured Creditor:** Any creditor that holds a Claim that is secured by property of the Debtor.

**9.36. Trustee:** [NAME], the trustee appointed pursuant to 11 U.S.C. § 1183(a) and whose duties are prescribed under 11 U.S.C. 1183(b), the Plan, or the order confirming the Plan.

**9.37. Unsecured Creditor:** Any Creditor that holds a Claim in the Chapter 11 case which is not a secured Claim.

Respectfully submitted,

By: \_\_\_\_\_

[COUNSEL FOR DEBTOR]

**EXHIBIT \_\_\_\_ - Cash on hand on the Effective Date**

Cash on hand on the Effective Date: \$ \_\_\_\_\_

Less –

Amount of Administrative Expenses payable  
on effective date of Plan \$ \_\_\_\_\_

Amount of statutory costs and charges \$ \_\_\_\_\_

Amount of cure payments for executory contracts \$ \_\_\_\_\_

Other Plan Payments due on Effective Date \$ \_\_\_\_\_

Balance after paying these amounts..... \$ \_\_\_\_\_

The sources of the cash the Debtor will have on hand by the Effective Date are estimated as follows:

\$ Cash in the Debtor's bank account now

+ Additional cash Debtor will accumulate from net earnings between now and Effective Date [state the basis for such projections]

- + Borrowing [state separately terms of repayment]

+ Capital Contributions

+ Other

\$ Total [This number should match “cash on hand” figure noted above]



EXHIBIT \_\_\_\_ - **Liquidation Analysis**  
[Pursuant to Section 1190(1)(B) of the Bankruptcy Code]

***Debtor's Estimated Liquidation Value of Assets***

**Assets**

a. Cash on hand	\$
b. Accounts receivable	\$
c. Inventory	\$
d. Office furniture & equipment	\$
e. Machinery & equipment	\$
f. Automobiles	\$
g. Building & Land	\$
h. Customer list	\$
i. Investment property (such as stocks, bonds or other financial assets)	\$
j. Lawsuits or other claims against third-parties	\$
k. Other intangibles (such as avoiding powers actions)	\$

***Total Assets at Liquidation Value*** \$

**Less:**

Secured creditors' recoveries \$

**Less:**

Chapter 7 trustee fees and expenses \$

**Less:**

Chapter 11 Administrative Expenses \$

**Less:**

Priority claims, excluding Administrative Expense claims \$

**[Less:**

Debtor's claimed exemptions] \$

(1) Balance for unsecured claims \$

(2) Total dollar amount of unsecured claims \$

***Percentage of Claims Which Unsecured Creditors Would Receive Or Retain in a Chapter 7 Liquidation:*** \_\_\_\_\_% [Divide (1) by (2)]

***Percentage of Claims Which Unsecured Creditors Will Receive or Retain under the Plan:*** \_\_\_\_\_%

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