
TABLE OF CONTENTS

PREFACE TO THE ELEVENTH EDITION.....	III
ACKNOWLEDGMENTS.....	VII
TABLE OF CASES.....	XXIII
Chapter 1. Introduction.....	1
A. Consensual and Judicial Liens	1
1. Introduction.....	1
2. Consensual Liens	3
a. Security Interests in Personal Property	3
(i) Types of Security Devices	3
(ii) Creation of the Security Interest.....	4
(iii) Perfection and Priorities	5
(iv) Default.....	8
b. Security Interests in Real Property	8
(i) Introduction	9
(ii) Types of Security Devices	9
(iii) Creation of Security Interest	10
(iv) Perfection and Priorities	11
(v) Rents.....	12
(vi) Foreclosure.....	13
3. Judicial Liens	14
a. Judgment and Execution Liens.....	14
(i) Judgment Liens	14
(ii) Execution Liens	15
b. Attachment Liens.....	16
B. Early Bankruptcy Law	18
C. Overview of Bankruptcy	19
1. Introduction.....	19
2. Types of Bankruptcy	20
3. Eligibility for Bankruptcy.....	22
4. The Petition in Bankruptcy and the Automatic Stay	23
5. The Trustee in Bankruptcy	24
6. Meeting of Creditors	26
7. Claims in Bankruptcy	27
8. Distribution of Assets to Unsecured Creditors	27
9. Discharge	28
D. Commencement of Bankruptcy.....	29
Chapter 2. The Bankruptcy Estate	33
A. Introduction.....	33
1. The <i>Butner</i> Doctrine.....	33
2. Defining Property of the Estate	34
a. What Is Included	34
b. Divided Property Interests, Possession at Filing, and Turnover	35
United States v. Whiting Pools, Inc.	36
Notes	42

c.	Consequences of Exclusion and Inclusion	43
d.	Unresolved Issues	44
B.	Exempt Property	46
1.	A Perspective	46
2.	The Collection Process	47
3.	Exemption Laws	48
4.	Exemptions in Bankruptcy	49
5.	Retirement Plans	50
6.	Impairment of Exemptions	52
a.	Avoidance of Security Interests Under § 522(f)(1)(B)	52
b.	Avoidance of Judicial Liens Under § 522(f)(1)(A)	53
(i)	Impairment	53
Problem	.....	53
In re Silveira	.....	54
Notes	.....	58
(ii)	The “Fixing of a Lien”	59
Problem	.....	60
7.	Prebankruptcy Planning	60
a.	Introduction	60
b.	Homestead Exemption	61
(i)	Section 522(b)(3)(A)	61
Problem	.....	62
(ii)	Section 522(p)	62
(iii)	Section 522(q)	63
c.	Fraudulent Use of Exemptions	63
Norwest Bank Nebraska v. Tveten	.....	65
Hanson v. First National Bank in Brookings	.....	72
Notes	.....	76
8.	Asset Protection Trusts	77
Chapter 3.	Claims	81
A.	Introduction	81
1.	Terminology	81
2.	Claims Procedures	82
a.	Allowed Claims	82
Problem	.....	83
b.	Time Limits for Filing Proof of Claim	83
B.	Rights to Payment	83
1.	Legal Rights	83
In re Piper Aircraft	.....	84
Notes	.....	88
Note: Mass Future Claims in Bankruptcy	.....	90
2.	Equitable Rights	96
a.	Specific Performance	96
b.	Covenants Not to Compete	97
Notes	.....	99
c.	Environmental Claims	99
United States v. Apex Oil Co.	.....	100
Notes	.....	104

C.	Determining the Amount of a Claim	105
D.	Secured Claims.....	107
1.	Introduction.....	107
2.	Valuing a Secured Claim	110
a.	Cramdown.....	110
	Associates Commercial Corporation v. Rash.....	111
	Notes	116
b.	Redemption.....	117
3.	Avoiding Liens Under § 506(d).....	118
4.	Postfiling Interest on Secured Claims	121
E.	Priority Claims.....	122
1.	Domestic Support Obligations (DSO)	123
2.	Administrative Expenses.....	124
	In re Jartran.....	124
	Problem.....	127
	Note.....	128
Chapter 4. Discharge.....		129
A.	Introduction.....	129
B.	Denial of Discharge Because of Debtor’s Misconduct.....	130
	Problem.....	131
C.	Nondischargeable Debts	132
1.	Unscheduled Debts	132
	In re Madaj	132
	Notes	136
2.	Domestic Support Obligations.....	136
a.	Section 523(a)(5).....	136
	In re Werthen	137
	Note	142
b.	Section 523(a)(15).....	142
	Problems	143
3.	Willful and Malicious Injury	143
	Kawaaauhau v. Geiger	144
	Notes	147
	Problem.....	149
4.	Educational Loans.....	149
a.	The <i>Brunner</i> Test	150
	(i) Second Prong	151
	(ii) Third Prong.....	152
b.	Partial Discharge	153
c.	Federal Legislation	153
5.	Fraudulently Incurred Debts	154
	Husky Int’l Electronics, Inc. v. Ritz	155
	Notes	161
	Problem.....	162
6.	Fraud and Defalcation	162
7.	Credit Card Fraud.....	162
	American Express Travel Related Services Co. v. Hashemi	164
	Notes	166

8.	Fine, Penalty or Forfeiture.....	168
a.	Punitive Damages	168
b.	Criminal Penalties	169
c.	Restitution Settlements.....	171
9.	Taxes.....	171
	Problem.....	172
D.	Protection of the Discharge	173
1.	Introduction.....	173
	Taggart v. Lorenzen.....	174
	Note.....	180
2.	Discharge Exceptions Procedures	180
	Problems	180
E.	Discrimination Against Debtors	181
	In re Majewski	182
	Notes.....	183
	Toth v. Michigan State Housing Development Authority.....	184
	Notes.....	187
	Chapter 5. Stays and Injunctions.....	189
A.	Introduction.....	189
B.	Applicability of the Stay	190
1.	Creditor Processes Stayed	190
2.	Parties and Property Protected.....	191
3.	Exceptions to the Stay	192
a.	Section 362(b)	192
	Problem.....	193
b.	Police and Regulatory Power Exception	194
4.	Termination of the Stay.....	196
C.	Effect of Violation of Stay.....	196
1.	Damages	196
a.	Willful Violation	196
b.	Meaning of “Individual”	197
2.	Void or Voidable?.....	198
	In re Soares.....	198
	Notes	206
D.	Secured Claims	207
	Johnson v. First National Bank.....	208
	Problem.....	214
E.	Actions Against Nondebtors.....	215
1.	Co-Defendants in Lawsuits	215
	A.H. Robins Co. v. Piccinin.....	217
	Notes	222
2.	Third Parties Liable to Pay the Debtor’s Obligations	223
a.	Guarantors.....	223
	Credit Alliance Corp. v. Williams.....	223
	Notes	225
b.	Issuers of Letters of Credit	227
F.	Relief from Automatic Stay for Cause	228
	In re Holtkamp.....	229

Notes	231
Problem.....	232
G. Relief from Stay and Adequate Protection Rights for Undersecured Creditors.....	232
United Savings Assoc. of Texas v. Timbers of Inwood Forest Assoc.....	233
Notes	239
Note: Single Asset Real Estate	242
H. Prepetition Waiver of Stay	243
Chapter 6. Executory Contracts and Leases	247
A. Executory Contracts	247
1. Introduction.....	247
2. Decision to Assume or Reject	248
3. Meaning of “Executory Contract”.....	249
Problem.....	252
4. Rejection of Licenses of Intellectual Property.....	253
Lubrizol Enterprises v. Richmond Metal Finishers.....	253
Note.....	257
Mission Product Holdings, Inc. v. Tempnology, LLC	259
Notes and Problems	266
5. Contracts Not Assignable Under Nonbankruptcy Law	267
a. Assumption	267
In re Catapult Entertainment.....	268
Notes	276
b. Assignment	280
In re Pioneer Ford Sales	281
Notes	285
6. Enforcement Before Assumption or Rejection.....	288
Matter of Whitcomb & Keller Mortgage Co.....	288
Notes	293
B. Leases	295
1. Rejection by Debtor in Possession as Lessor	295
Precision Industries v. Qualitech Steel SBQ.....	297
Notes	302
2. Rejection by Debtor in Possession as Lessee.....	304
3. Liability for Use of Leased Property Before Rejection and Time Limits for Assumption or Rejection.....	305
a. Real Estate Leases	306
Problem	307
b. When Rejection Occurs	308
c. Personal Property Leases	308
d. Time in Which to Assume or Reject	310
4. Evicting the Debtor in Possession.....	311
a. Expiration of Lease	311
b. Termination Before Expiration of Lease	312
5. Assumption and Assignment.....	313
a. The Perils of Assumption.....	313
b. Shopping Center Leases	314

	In re Trak Auto Corporation.....	316
c.	Effect of Violation of Use Clause.....	321
	Matter of U.L. Radio Corp.	321
	Note	326
	In re Standor Jewelers West	327
	Note	329
Chapter 7. The Avoiding Powers.....		331
A.	Preferences	331
1.	The Concept of a Preference	331
	Problems	333
2.	Transfer of Debtor's Interest in Property and the "Earmarking" Doctrine	334
	Problems	334
3.	The Preference Period.....	335
4.	Contemporaneous Exchanges	335
	Problems	336
5.	False Preferences: Delayed Perfection of Liens	337
6.	Ordinary Course Payments.....	339
a.	Policy Basis of § 547(c)(2)	339
	Problem.....	342
	Union Bank v. Wolas.....	343
	Notes	348
b.	Meaning of Ordinary Course Under § 547(c)(2)	350
	In re National Gas Distributors	350
	Note	358
7.	The "Subsequent Advance" Rule.....	358
	Problem.....	358
	Note.....	359
	Note: Time of Transfer of Payment by Check	359
	Problem.....	360
8.	Security Interests in Inventory and Accounts Receivable	360
	Problem.....	362
9.	Other Safe Harbors and the Future of Preference Law	363
	Problem.....	364
10.	Insider Preferences	364
	Problem.....	366
11.	Letters of Credit.....	366
	In re Powerine Oil Co.....	368
	Note.....	372
B.	Setoff.....	373
1.	What Is Setoff?	373
	Citizens Bank of Maryland v. Strumpf.....	373
	Notes	376
	Problems	378
2.	The Improvement in Position Test	379
	Problem.....	379
C.	Fraudulent Transfers	380
1.	Actual Fraud	380

2.	Constructive Fraud	384
a.	Introduction	384
b.	Religious and Charitable Contributions	386
c.	Bonuses and Obligations Under Employment Contracts	387
3.	Foreclosures.....	388
	BFP v. Resolution Trust Co.	388
	Notes	395
	Problem	396
4.	Ponzi Schemes	397
	Problem	398
	Notes	399
5.	Settlement Payments Defense	401
	Merit Management Group LP v. FTI Consulting, Inc.	401
	Notes	411
6.	Corporate Distributions as Fraudulent Transfers.....	412
	Problem	414
7.	Reasonably Equivalent Value in Corporate Transactions	414
	In re Northern Merchandise.....	414
	Problems	418
8.	Leveraged Buyouts.....	419
	Problem	420
	Bay Plastics v. BT Commercial Corp.	421
	Note.....	435
a.	Insolvency	435
b.	The Innocent Shareholder Defense	436
c.	Private Equity Funds and Fraudulent Conveyance Law	437
d.	Special Defenses for Counterparties to Swaps, Derivatives, Repurchase Agreements and Other Financial Contracts.....	438
	Notes	439
D.	The Strong-Arm Clause.....	439
1.	Introduction	439
a.	Section 544(a)(1).....	439
b.	Section 544(a)(3).....	441
2.	Knowledge of the Trustee in Bankruptcy.....	441
	McCannon v. Marston.....	442
	Notes	445
3.	Property Held by Debtor as Nominee or Trustee.....	445
	Problem	448
Chapter 8. Equitable Subordination and Substantive Consolidation		451
A.	Equitable Subordination	451
1.	Claims of Insiders	451
a.	Inequitable Conduct.....	451
	Matter of SI Restructuring	453
	Notes	460
b.	Undercapitalization.....	461
c.	Recharacterization	462

2.	Claims of Noninsiders.....	463
	Matter of Clark Pipe & Supply Co.	465
	Notes	471
B.	Substantive Consolidation	473
	In re Owens Corning.....	473
	Notes	485
	In re LTV Steel Co.	487
	Notes	491
Chapter 9. The Consumer Debtor in Chapters 7 and 13.....		495
A.	Introduction to Consumer Bankruptcy	495
1.	Background.....	496
2.	Private Sector Debt Relief	497
3.	Bankruptcy Relief	497
B.	The Consumer Debtor in Chapter 7 Before BAPCPA	498
1.	Access to Chapter 7 Under the 1978 Code	498
2.	The 1984 Substantial Abuse Test	499
C.	BAPCPA	500
1.	Introduction.....	502
2.	The Means Test.....	502
a.	General Power to Dismiss.....	503
b.	Presumption of Abuse	503
c.	Current Monthly Income	505
d.	Debtor's Monthly Expenses	506
	Ransom v. FIA Card Services.....	507
	Notes	516
e.	Residual Power of Court to Dismiss.....	517
f.	Safe Harbor.....	520
g.	Illustrative Cases	521
	Problems	521
h.	Policy Considerations.....	524
i.	A Chapter 11 Solution for a Consumer Debtor?.....	525
3.	Debtor's Duties.....	526
4.	Duties of Debtor's Attorney and U.S. Trustee	527
a.	Attorneys.....	527
b.	Debt Relief Agencies	527
c.	Advertising	529
d.	U.S. Trustee.....	530
e.	Audits.....	530
5.	Mandatory Credit Counseling.....	531
a.	Credit Counseling.....	531
b.	Financial Management Instructional Courses.....	532
D.	Chapter 13 as an Alternative for the Consumer Debtor	532
1.	An Overview of Chapter 13	533
2.	Eligibility for Chapter 13.....	535
	Problems	537
3.	Repeated Discharges and Filings.....	537
a.	Repeated Discharges.....	537
b.	Successive Filings Under BAPCPA.....	538

4.	Commencing a Chapter 13 Case	539
5.	Property of the Estate	541
	a. Role of Property of the Estate.....	541
	b. Conversion to Chapter 7	542
6.	The Plan.....	542
	a. Domestic Support Obligations.....	543
	b. Commitment Period	543
	c. Disposable Income	544
	(i) Before BAPCPA	544
	(ii) BAPCPA.....	546
	(iii) Does BAPCPA Work?	547
	Hamilton v. Lanning	548
	Note	554
	d. Modification of Plan	556
	e. Payments “Outside the Plan”	558
	f. Classification of Unsecured Claims	559
	In re Crawford	560
	Note	563
E.	Discharge.....	563
	1. Complete Payment Discharge	563
	2. Hardship Discharge	566
F.	Reaffirmation of Discharged Debts.....	567
	1. Introduction.....	567
	2. BAPCPA.....	568
G.	Secured Claims in Personal Property.....	569
	1. In Chapter 7	569
	In re Jones	571
	Note.....	574
	Problem.....	574
	2. In Chapter 13	574
	a. The “Hanging Paragraph”	574
	b. Cramdown.....	575
	c. Surrender.....	577
	In re Wright	578
	Notes	581
	d. Interest.....	582
	e. Refinancing Balances Due on Trade-In Vehicles	582
	Problem.....	583
	3. Valuation of Collateral.....	584
	4. Interest Rate.....	585
H.	Secured Claims in Debtor’s Residence	585
	1. Modification of Home Mortgages	585
	Nobelman v. American Savings Bank	586
	Notes	590
	Problem.....	591
	2. Modification of Wholly Unsecured Home Loans	592
	Problem.....	592
	Notes	592
	3. The Home Loan Crisis	593

4.	Cure of Defaults	595
5.	Three-to-Five Year Limitation	597
Chapter 10. Operating the Debtor and Proposing a Plan.....		599
A.	Introduction.....	599
1.	Rationale of Reorganization	599
2.	Reorganization Under Previous Law.....	601
3.	The Chapter 11 Approach.....	606
B.	Management and Control.....	609
1.	Role of Debtor in Possession.....	609
2.	Appointment of Trustee in Bankruptcy.....	611
3.	Examiners.....	612
4.	Creditors' Committees	614
C.	Operating the Business from Petition to Confirmation	619
1.	Introduction.....	619
2.	Use of Deposit Accounts and Other Cash Collateral	619
	Problem.....	620
3.	Obtaining Credit	622
a.	Critical Vendors.....	622
	Matter of Kmart Corporation	623
	Notes	627
	Note: Reclamation	628
b.	Rights of Administrative Claimants	629
	General Electric Credit Corp. v. Levin & Weintraub	630
	Notes	634
	Hartford Underwriters Ins. Co. v. Union Planters Bank ...	635
	Note	639
c.	Rights of Prepetition Creditors	639
d.	Cross-Collateralization	641
	Matter of Saybrook Manufacturing Co.	642
	Notes	646
D.	Proposing the Plan.....	648
1.	Introduction.....	648
2.	Exclusivity	649
3.	Acceptance of the Plan.....	651
a.	Solicitation.....	651
	Century Glove v. First American Bank of New York	651
	Note	658
	Note: Prepackaged Bankruptcies.....	659
	Note: Small Business Cases	660
b.	Trading Claims.....	661
	In re Figter Limited	661
	Notes	666
4.	Impairment of Claims or Interests	671
	In re Ultra Petroleum Corp.	674
5.	Classification of Claims	681
	In re U.S. Truck Co.	682
	Note.....	687
	Problem.....	687

Matter of Greystone III Joint Venture	688
Notes	695
Chapter 11. Confirming a Chapter 11 Plan	701
A. Feasibility	701
In re Orfa Corp. of Philadelphia	702
Note	706
B. Treatment of Priority Claims	707
C. Treatment of Secured Claims	708
1. § 1129(b)(2)(A) Standards for Cramdown	708
a. Deferred Cash Payments	708
Till v. SCS Credit Corp.	710
Notes	727
Matter of MPM Silicones, LLC	729
Note: Chapter 12—Family Farmers	735
b. Sale of Property	737
RadLAX Gateway Hotel v. Amalgamated Bank	738
Notes	744
c. Indubitable Equivalence	745
In re Arnold & Baker Farms	746
Notes	753
2. § 1129(b)(1) “Fairness” and Negative Amortization	755
Great Western Bank v. Sierra Woods Group	755
3. The § 1111(b) Election	761
Problem	765
D. Treatment of Unsecured Claims and Ownership Interests	765
1. Best Interests Test	765
2. Absolute Priority Rule	767
Problems	767
3. Inter-Class “Gifting”	770
In re DBSD North America	770
Notes	781
4. Structured Dismissals	783
Czyzewski v. Jevic Holding Corp.	783
Note	793
5. New Value Rule	793
Bank of America v. 203 North LaSalle Street Partnership	799
Notes	810
6. Unfair Discrimination	814
E. The Future of Chapter 11 Reorganizations	817
F. Effect of Confirmation of Plan	821
G. Modification of Plan	825
Chapter 12. The Sale Alternative Under Section 363	829
A. Introduction	829
B. Sale or Lease of Property in the Ordinary Course	829
C. Going Concern Sales Under Section 363	830
In re Chrysler LLC	831
Notes	839

D.	Selling Free and Clear Under Section 363(f)	843
1.	Liens.....	843
	In re PW.....	843
	Notes	857
2.	Successor Liability	862
	In re Trans World Airlines	863
	Matter of Motors Liquidation Co.	872
	Note: Personal Identifiable Information.....	888
E.	Break-Up Fees and Bidding Procedures	889
F.	Critiquing the Sale Alternative	892
Chapter 13. The Bankruptcy Courts		897
A.	Original Jurisdiction.....	897
1.	Limits Imposed by Article III of the US Constitution	897
	Stern v. Marshall	897
	Notes	915
2.	Further Limits on Original Jurisdiction	924
a.	Withdrawal of the Reference	924
b.	Abstention.....	925
c.	Arbitration.....	926
d.	Sovereign Immunity.....	929
B.	Venue.....	933
1.	Commencement of the Case	933
2.	Proceedings in the Case.....	936
C.	Appellate Jurisdiction	937
D.	Right to Jury Trial.....	942
	Granfinanciera, S.A. v. Nordberg	943
	Notes	952
E.	Transnational Bankruptcy.....	956
1.	Territorialism, Harmonization and Universalism.....	956
2.	The Fundamental Public Policy of the Forum Exception.....	964
	Matter of Vitro S.A.B. de C.V.....	964
	Notes	993
INDEX		995