Lenders Take Notice – A New Bankruptcy Subchapter Goes Into Effect February 19, 2020 – Increased Filings Expected

The Small Business Reorganization Act (SBRA) goes into effect on February 19, 2020. The SBRA creates a new Subchapter V to Chapter 11, expanding access to bankruptcy relief for small businesses. With a debt ceiling of approximately $2.75 million, small business owners can take advantage of the new subchapter's streamlined procedures and powerful tools to achieve an effective reorganization.

Key changes in the SBRA:

- Debtors have the exclusive right to propose a plan, in contrast to traditional Chapter 11's provisions for a competing plan process.
- No Creditors' Committees are appointed, reducing administrative costs.
- Company owners may retain their interest in the company without committing substantial new value or other assets to the plan.
- A plan may be confirmed even over objections by all creditors so long as all projected disposable income is committed to the plan payments for a period of three to five years, which is similar to the streamlined Chapter 13 requirements for individual debtors.

Changes under the SBRA eliminate many of the prohibitive costs and roadblocks for traditional small business debtors. As a consequence, lenders should expect to see bankruptcy filings rise for their small business borrowers.

To learn more on this topic, please contact the Commercial Restructuring, Workouts & Asset Recovery Practice Group at Partridge Snow & Hahn.

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