Corporate Bankruptcy Law in the U.S.

Guide: ShaneHadden
Generated: 2026-11-02 13:30

Why would an insolvent company choose to file for bankruptcy?

An insolvent company may choose to file for bankruptcy to restructure its debts, protect itself from creditors, and create a plan for financial recovery. Bankruptcy can provide a fresh start by discharging certain debts and allowing the company to negotiate new terms with creditors. It also offers legal protection during the reorganization process, preventing asset liquidation. Additionally, filing can help maintain operations and preserve jobs while the company works to regain profitability.

What does the U.S. have bankruptcy laws?

The U.S. has bankruptcy laws to provide a framework for individuals and businesses facing insolvency. These laws protect creditors while allowing debtors to reorganize or discharge debts. The primary laws are in Title 11 of the U.S. Code, covering different bankruptcy types. They promote economic stability by enabling debtors to have a fresh start and ensuring fair treatment for creditors.

What are the different types of corporate bankruptcy in the U.S.?

In the U.S., there are primarily three types of corporate bankruptcy:

1. **Chapter 7**: Liquidation bankruptcy where a company's assets are sold to pay creditors.

2. **Chapter 11**: Reorganization bankruptcy allowing a company to restructure its debts while continuing operations.

3. **Chapter 13**: Primarily for individuals, but small businesses can use it to create a repayment plan over time.

Each type serves different purposes based on the company's situation and goals.

Describe the process of Chapter 7.

Chapter 7 bankruptcy involves liquidating a debtor's non-exempt assets to pay creditors. The process starts when the debtor files a petition with the bankruptcy court. A trustee is appointed to oversee the case and assess which assets can be sold. Creditors are notified to file claims. After liquidation, remaining unsecured debts are discharged, freeing the debtor from further obligation. The entire process usually takes a few months, allowing individuals or businesses to begin anew financially.

Explain the Chapter 11 process.

Chapter 11 allows a company to reorganize its debts while continuing operations. It starts with a petition filed in bankruptcy court. The company becomes a debtor-in-possession, proposing a reorganization plan. Creditors vote on this plan, and the court must approve it. The plan often includes debt restructuring. Successful completion allows the company to emerge from bankruptcy, aiming for profitability while satisfying creditors.

What is substantive consolidation in bankruptcy?

Substantive consolidation is a bankruptcy concept where the assets and liabilities of related entities are merged into a single pool for creditor distribution. This occurs when the entities are so interconnected that separating them is impractical or unfair. It simplifies the bankruptcy process and aims for equitable treatment of creditors. Courts evaluate the degree of interdependence and potential for fraud when

deciding on substantive consolidation.

What is a bankruptcy remote entity?

A bankruptcy remote entity is a legal structure that isolates assets from the financial risks of its parent company. If the parent files for bankruptcy, the assets in the remote entity are protected from creditors. These entities are used to enhance credit quality and reduce risk in financial transactions. They usually have limited operations and are established with specific legal safeguards to ensure asset protection.

What is a creditors committee in bankruptcy?

A creditors committee in bankruptcy is a group of unsecured creditors appointed to represent all unsecured creditors' interests. This committee oversees the bankruptcy process, negotiates with the debtor, and influences the reorganization plan. Members are selected based on the amount of debt owed. The committee ensures fair treatment of creditors and may hire advisors to assist in their efforts. Their role is crucial in shaping the outcome of the bankruptcy proceedings.

What is the order of distribution of assets in a bankruptcy?

In a U.S. bankruptcy, the order of asset distribution is:

1. Secured creditors (e.g., lenders with collateral).

2. Unsecured priority claims (e.g., certain taxes, child support).

3. Unsecured creditors (e.g., suppliers, credit card debt).

4. Equity holders (e.g., shareholders).

This order ensures that creditors are paid based on their legal rights and the priority of their claims.