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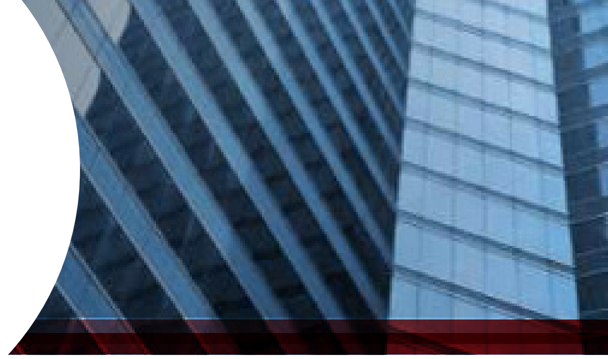

**News**
Bankruptcy

# Navigating Bankruptcy: Understanding Plan Confirmation Requirements Across Chapters Part 3

**By Dan Staeven, Esq.**

**For individuals and businesses facing financial distress, bankruptcy offers a structured path towards a fresh start or reorganization. A critical step in any bankruptcy case is the confirmation of a repayment or reorganization plan. Completion of the plan is typically what entitles the debtor to a discharge. The plan outlines how the debtor will address their debts, and its approval by the bankruptcy court is essential for the case to proceed. While the fundamental goal of confirmation remains consistent across different chapters, the specific requirements vary significantly depending on the type of bankruptcy filed.**

**This article, part of a continuing series on bankruptcy plans, provides an overview of the key requirements for confirming a Chapter 13 bankruptcy plan under the U.S. Bankruptcy Code.**

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## Chapter 13: Repayment

Chapter 13 bankruptcy, often called a wage earner's plan, is exclusively available to individuals with regular income who seek to reorganize their financial affairs over a three-to-five-year period. To be eligible, the individual debtor must have secured debts and unsecured debts below statutorily set limits (currently, $1,580,125 and $526,700, respectively), which are adjusted periodically for inflation. Unlike Chapter 11, Chapter 13 plans do not require a vote by creditors; instead, the court confirms the plan if it satisfies the mandatory requirements set forth in 11 U.S.C. § 1325(a).

### I. Plan Validity and Good Faith

For a plan to be confirmed, it must meet several foundational legal and procedural standards:

- **Statutory Compliance:** The plan must comply with all applicable provisions of Chapter 13 and the Bankruptcy Code.
- **Proper Fee Payment:** The plan must require the debtor to pay all required post-petition filing fees and other charges due under chapter 123 of title 28 of the U.S. Code.

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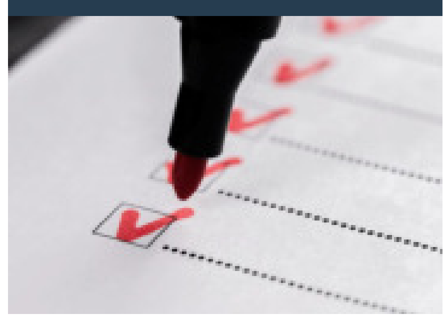


- **Good Faith:** The plan must be proposed in good faith and not by any means forbidden by law. This test requires an examination of the totality of the circumstances to determine if the plan represents an honest effort by the debtor to repay creditors.
- **Tax Returns:** The debtor must have filed all applicable federal, state, and local tax returns required to be filed for tax periods ending within four years before the case was filed.

**II. Treatment of Claims and Best Interests of Creditors**
The plan must ensure creditors are treated appropriately under the law:

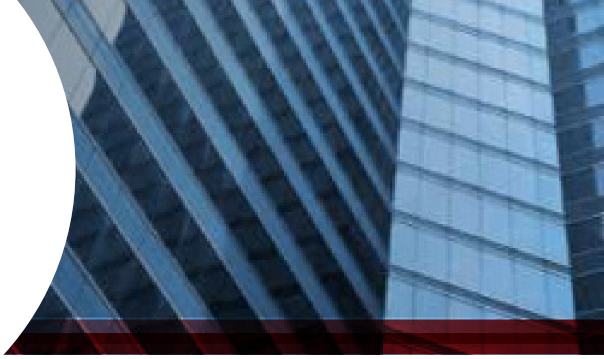
- **Best Interests of Creditors Test:** This is one of the most critical tests for confirmation. The value of the property to be distributed under the plan to each unsecured creditor must not be less than the amount that creditor would receive if the debtor's estate were liquidated under Chapter 7.
- **Treatment of Secured Claims**: For secured claims, the plan must satisfy one of three options for each secured creditor:
  - The creditor accepts the plan.
  - The debtor retains the collateral, and the creditor receives payments that add up to the present value (as of the effective date of the plan) equal to the allowed amount of the secured claim, with the lien remaining until the debt is paid or the plan is completed.
  - The debtor surrenders the property securing the claim to the creditor.
- **Priority Claims:** Unless the holder of a priority claim agrees to different treatment, the plan must provide for full payment in deferred cash payments of all priority claims over the life of the plan.

**III. The Disposable Income Test (Best Effort)**
If the bankruptcy trustee or the holder of an allowed unsecured claim objects to the plan, the court must apply the "disposable income" test:

- **Full Payment:** The plan must provide for payment in full of the objecting claim; or
- **Projected Disposable Income:** The plan must commit all of the debtor's projected disposable income to be received during the applicable commitment period to payments under the plan.
  - **Disposable Income Defined**: Disposable income is calculated as income not reasonably necessary for the maintenance or support of the debtor or their dependents, or for the payment of domestic support obligations.
  - **Commitment Period:** The applicable commitment period is three years, unless the debtor's current monthly income (CMI) is greater than the applicable median family income for the debtor's state, in which case the period is five years.

**IV. Domestic Support Obligations**
The plan must address post-petition domestic support obligations and may need to certify payments related to educational expenses:

- **Domestic Support Obligations (DSO)**: The debtor must have paid all amounts payable under any DSO that



became due after the bankruptcy filing but before the plan's confirmation date.

**V. Feasibility of the Plan**

Finally, the court must be satisfied that the debtor can successfully complete the reorganization:

- **Ability to Pay:** The debtor must be able to make all payments and comply with the plan. This is generally evaluated through the debtor's budget and projected income over the plan's term, ensuring they have the financial capacity to perform the plan.

**Conclusion**

The Chapter 13 confirmation process is unique in that it focuses heavily on the debtor's ability to fund the plan and satisfy the stringent "Best Interests of Creditors" and "Disposable Income" tests. Unlike Chapter 11, creditor acceptance is not a requirement; the court's confirmation hinges entirely on the debtor's proposed repayment structure meeting all the mandatory requirements of 11 U.S.C. § 1325(a) and (b). Successfully navigating these requirements is the key for an individual to enter into a long-term, court-monitored repayment plan.

While successfully navigating the plan confirmation process can seem overwhelming, Frost Law's dedicated team of bankruptcy professionals is here to help clients meet these challenges, offering experienced and personalized guidance throughout the entire process. Contact our team today at (410) 497-5947 or schedule a confidential consultation.

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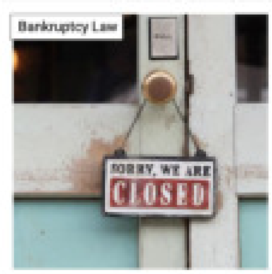


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