

CRS Report for Congress

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Proposed Bankruptcy Legislation to Address Natural Disaster Victims

Robin Jeweler
Legislative Attorney
American Law Division

Summary

Several bills have recently been introduced to amend the U.S. Bankruptcy Code, 11 U.S.C. § 101 *et seq.* in the wake of Hurricane Katrina. H.R. 3662 would delay the effective date for the means test amendments to the Code enacted in the Bankruptcy Abuse Prevention and Consumer Protection Act. H.R. 3697 and S. 1647 would make substantive amendments to the Code to deal with victims of natural disasters. They are discussed below. This report will be updated as events warrant.

Many members of the public and of Congress have expressed concern over how bankruptcy law in general and implementation of the new bankruptcy provisions in the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA), P.L. 109-8, many of which take effect on October 17, 2005, will affect victims of Hurricane Katrina.¹ This report reviews bills introduced to date which would amend provisions of the U.S. Bankruptcy Code, 11 U.S.C. § 101 *et seq.*

Two provisions, a bill, H.R. 3662, 109th Cong., 1st Sess. (2005), entitled the “Financial Safeguards for Hurricane Survivors Act of 2005” and a proposed (but not adopted) amendment to H.R. 2862, 109th Cong., 2^d Sess. (2005),² would delay the effective date for the BAPCPA amendments by two years or one year respectively. This would allow hurricane victims more time to file under the current (soon to expire) provisions of chapters 7, 11, and 13.³

H.R. 3697, 109th Cong., 2^d Sess. (2005), the “Hurricane Katrina Bankruptcy Relief and Community Protection Act of 2005” would make substantive changes to the Code.

¹ For more background, see CRS Report RL33082, *Bankruptcy Relief and Natural Disaster Victims*.

² S.Amdt. 1678, 109th Cong., 2nd Sess. (2005).

³ Both individual and business bankruptcy filings have increased in anticipation of the BAPCPA. Two airlines, Delta and Northwest, filed on the same day. See 17 BNA BANKR. L. REP. 762, *U.S. Bankruptcy Filings Up 16 Percent, Marking Record Number for Any Quarter*, Sept. 1, 2005.

It would add a definition of “natural disaster” derived from federal or state law to the Code, and define “victim” as one whose home, place of business, or principal assets are located in the area of the disaster and whose financial condition is materially adversely affected by it.⁴

In addition, it would:

- exempt disaster victims from the BAPCPA’s mandatory credit counseling requirements.
- exempt them from liberalized provisions under the BAPCPA permitting the lifting of the automatic stay, 11 U.S.C. § 362(b)(22), to facilitate residential evictions.
- permit the court to extend time periods for the many debtor responsibilities under amended 11 U.S.C. § 521. For example, a debtor must provide copies of all payment advices or other evidence of payment received within 60 days of filing; an itemized statement of monthly net income; and a statement at the beginning of the case disclosing reasonably anticipated increases in income or expenditures for the coming year. Failure to file (along with other required information) results in mandatory dismissal after 45 days.
- amend the means test under the BAPCPA to include “the actual reasonably necessary expenses incurred as a result of being a victim of a natural disaster.”
- exempt natural disaster victims from dismissal or conversion to chapter 13 based on the means test.
- amend chapter 11 business reorganization to allow the court to consider a debtor’s status as a disaster victim when weighing whether dismissal of the chapter 11 case would be in the best interests of creditors and the estate.
- allow additional time for filing a chapter 11 reorganization plan for a debtor who can’t meet deadlines because of a natural disaster;
- extend deadlines for small business chapter 11 debtors when in the best interest of creditors or warranted by a natural disaster.
- allow chapter 13 debtors additional time to file prepetition tax returns if the debtor’s status as a disaster victim so necessitates.
- amend 28 U.S.C. § 1408 by adding a new provision allowing debtors to file bankruptcy cases outside of their domiciliary venue if the debtor is a natural disaster victim.

S. 1647, 109th Cong., 2nd Sess. (2005), a companion bill of the same title, has comparable provisions. In addition, it includes a one year grace period during which those provisions of the BAPCPA which become effective on October 17, 2005, would not apply to individuals who reside or resided in areas affected by the hurricane whose financial condition is materially adversely affected.

⁴ This report reviews a prepublication edition of the bill provided online by the Bill Clerk of the House of Representatives at [<http://www.congress.gov/billtext/househtml/h3697.ih.html>].