

The Consolidated Appropriation Act of 2021 and Bankruptcy

This summary was provided by the Bankruptcy Court of the Eastern District of Missouri.

On December 27, 2020, the Consolidated Appropriation Act ("CAA") was signed into law by the President. The CAA funds the federal government in 2021 and provides COVID-related relief to individuals and businesses. The CAA amends the Bankruptcy Code in the ways summarized below. These amendments sunset in either one or two years.

This information is meant as an informative resource for members of the bankruptcy bar and debtors in the Eastern District of California. As with all legislation, there may be multiple interpretations of a specific section, provision, clause, etc. No information contained within this document shall be construed as the United States Bankruptcy Court for the Eastern District of California providing legal advice or advisory opinions.

Stimulus Checks Not Property of the Estate

The CAA amends Section 541 of the Bankruptcy Code to ensure that federal COVID-19 relief payments received by a debtor pursuant to 26 U.S.C. § 6428 are not treated as property of the estate subject to the claims of creditors.

Chapter 13 Discharge Available Even if Certain Plan Payments Not Made

The CAA amends Section 1328 of the Bankruptcy Code to give the bankruptcy court discretion to grant a discharge to a Chapter 13 debtor who has defaulted on three residential mortgage payments or less on or after March 13, 2020 because of a material COVID-19 related financial hardship. The bankruptcy court may also grant a discharge to a debtor whose confirmed plan provides for curing defaults on a residential mortgage, and the debtor has entered into a qualifying loan modification or forbearance agreement with the lender. The debtor will not be discharged of the mortgage debt but will be eligible to receive a plan discharge of other debts even though the debtor did not pay all mortgage payments when due under the plan. This provision sunsets on December 27, 2021.

No Discrimination Based on Bankruptcy Filing

The CAA amends Section 525 of the Bankruptcy Code to provide that no person may be denied relief under three enumerated CARES Act provisions based on their status as a debtor or former debtor. The three CARES Act provisions are: (a) the foreclosure moratorium and right to request forbearance (15 U.S.C. § 9056), (b) the forbearance of mortgage payments for multifamily properties (15 U.S.C. § 9057), and (c) the temporary moratorium on eviction filings (15 U.S.C. § 9058). This provision sunsets on December 27, 2021.

CARES Act Forbearance Claims; Modification of Chapter 13 Plan

The CARES Act allows mortgagors under federally backed residential and multifamily mortgages to request payment forbearance because of COVID-19 hardships. In the case

of federally backed residential mortgages, the forbearance period can last up to 12 months. At the end of the forbearance periods, the mortgagor must pay the deferred mortgage payments in a lump-sum. These deferred mortgage payments caused procedural and administrative complications in Chapter 13 cases. To remedy these complications, the CAA allows qualified servicers to file a proof of claim for the deferred payments, even if the claims bar date has passed. The CAA also authorizes debtors to modify a confirmed Chapter 13 plan to address the deferred payment plan. If the debtor fails to modify his plan, the bankruptcy court (on its own motion), the U.S. Trustee's office, the Chapter 13 trustee and/or any party in interest may move for such a modification. These changes sunset in on December 27, 2021.

Debtors Eligible for PPP Loans

The Paycheck Protection Program (the "PPP") was created as part of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Small Business Administration ("SBA") administers the forgivable loan program. The CARES Act is silent about excluding companies in bankruptcy from receiving PPP loans, but the SBA has opposed PPP loans for debtors and promulgated rules denying bankrupt small businesses access to PPP loans. Caselaw around the country has been split on the issue. Most recently, the Eleventh Circuit held that debtors are not eligible for PPP loans. (See USF Federal Credit Union, et al. v. Gateway Radiology Consultants, P.A., 2020 WL 7579338 (11th Cir. December 22, 2020).

The CAA addresses this issue and amends the Bankruptcy Code to permit PPP loans to certain debtors. However, the statute states PPP loans will be available only if the SBA Administrator sends a letter to the Director of the Executive Office for United States Trustee permitting PPP loans in bankruptcy. Because the CAA delegates the discretion whether to approve PPP loans during bankruptcy to the SBA administrator, it is not yet clear whether PPP loans will be available.

PPP loans in bankruptcy would be available: (a) only in cases pending on or filed on or after the date the SBA sends the aforementioned letter to the Office of the United States Trustee, and (b) only to certain types of debtors, namely Subchapter V small business debtors, Chapter 12 family farmer debtors, and self-employed Chapter 13 debtors. This provision, if it becomes effective, will sunset on December 27, 2022.

Extended Time for Performance Under an Unexpired Non-Residential Real Property Lease in a Subchapter V Case

The CAA amends Section 365(d) of the Bankruptcy Code to allow the court to extend a Subchapter V small business debtor's time to perform under an unexpired lease of non-residential real property if the debtor is experiencing or has experienced a material financial hardship due, directly or indirectly, to COVID-19. The extension is limited to 60 days after the filing unless the court finds the debtor is continuing to experience a COVID-19 financial hardship, in which case the court may extend the period for an additional 60 days. Any deferred obligations that are unpaid at confirmation constitute administrative expenses, but the debtor may spread the payments out over time under the confirmed

plan. These changes apply only to cases commenced under Subchapter V, and they sunset in two years on December 27, 2022.

Extended Time to Assume or Reject an Unexpired Non-residential Real Property Lease

The CAA amends Section 365(d)(4)(A) of the Bankruptcy Code to give the debtor (or trustee) 210 days after the order for relief to assume an unexpired non-residential real property lease, thereby extending the period under prior law by an additional 90 days. This change applies to cases under all chapters and sunsets in two years on December 27, 2022.

Preferences

The CAA amends Section 547 of the Bankruptcy Code to prohibit a debtor or trustee from avoiding payments made by a debtor during the preference period for "covered rental arrearages" and "covered supplier arrearages." To qualify for the exemption, (a) the debtor and the counterparty must have entered into a lease or executory contract before the filing, (b) they must have amended the lease or contract after March 13, 2020, and (c) the amendment must have deferred or postponed payments otherwise due under the lease or contract. The preference exemption will **not** apply to the payment of fees, penalties, or interest imposed in the post-March 13, 2020 amendment. This provision sunsets in two years on December 27, 2022.

Utilities

The CAA amends Section 366 of the Bankruptcy Code to prohibit a utility from discontinuing utility services to an individual debtor so long as the individual debtor pays the utility company for services rendered in the twenty-day post-filing period and continues to make all other post-petition utility payments, even if the individual debtor did not otherwise provide the utility company with adequate assurance of payment. This provision sunsets in one year on December 27, 2021.

Customs Duties

The CAA amends Section 507(d) of the Bankruptcy Code so that a party that pays the United States government a customs duty on behalf of an importer is subrogated to the government's priority status under Section 507(b)(8)(F) for customs duties. This provision benefits customs brokers and forwarders who frequently pay the government for customs duties on behalf of their importer-clients. This provision sunsets in one year on December 27, 2021.