

## Introduction to Bankruptcy

## Why Bankruptcy Law

- Individuals and corporations get into situations where their assets are exceeded by their liabilities.
  - What should happen then?

## Why Bankruptcy Law

- Individuals and corporations get into situations where their assets are exceeded by their liabilities.
  - What should happen then?
- It would be very foolish to argue that this should never be allowed to happen.

## If it were never allowed to happen

- John Smith wants to buy a new house, costing \$150,000, and only has \$50,000 in cash and liquid assets. If he buys the house on a mortgage, and then home prices fall by half, he may well be bankrupt. There is no way, other than paying cash, to assure that this will never happen.

## If it were never allowed to happen

- John Smith wants to start a business, and \$150,000 of capital is required. He only has \$50,000 of his own. Yet the business may fail, and, if so, he may go bankrupt.

## If it were never allowed to happen

- John Smith wants neither to buy a house nor to start a business. But he has savings of \$50,000 and must decide where to invest it. But potential borrowers are precluded from borrowing the money for they might go bankrupt.

## If it were never allowed to happen

- John Smith v. ...  
to start a busi...  
\$50,000 and...  
But potential...  
borrowing th...  
bankrupt.

A market economy means that bankruptcies will arise. We must have some system of dealing with them.

## American Bankruptcy

- The Constitution explicitly gives the federal government the authority to regulate bankruptcies.
- Congress has passed a series of bankruptcy laws, regulating the practice.

## Bankruptcy Courts

- Judges are appointed for a limited period of time (15 years), and settle bankruptcy issues throughout their district.

## Bankruptcy Courts

- Judges are appointed for a limited period of time (15 years), and settle bankruptcy issues throughout their district.
- Two common types of bankruptcy:
  - Chapter 7 provides for dissolution of the assets.

## Bankruptcy Courts

- Judges are appointed for a limited period of time (15 years), and settle bankruptcy issues throughout their district.
- Two common types of bankruptcy:
  - Chapter 7 provides for dissolution of the assets.
  - Chapter 11 provides for a restructuring of the assets.

## Bankruptcy Courts

- Judges are appointed for a limited period of time (15 years), and settle bankruptcy issues throughout their district.
- Two common types of bankruptcy:
  - Chapter 7 provides for dissolution of the assets.
  - **Chapter 11 provides for a restructuring of the assets.**

Preserve the Going Concern Value

End

©2004 Charles  
W. Upton