

ARTICLES

How to use a Chapter 11 subchapter to restructure debts

MARCH 18, 2025

By [Garrett Eggen](#)

Published in the [Portland Business Journal](#)

In recent years, the economic landscape for small businesses has been challenging. Many took on significant debt to help alleviate their financial distress, including loans through the [U.S. Small Business Administration](#).

However, as these repayment obligations come due, businesses that have not fully recovered are struggling to meet them. This is especially true considering Covid-19's lingering impact on the global supply chain, inflation, and the ever-increasing costs of borrowing.

As a business restructuring attorney, I have seen firsthand how these economic challenges have forced small business owners to make difficult decisions regarding their operations, workforce and financial obligations. Fortunately, there are a number of legal and financial strategies available that can provide relief to struggling small businesses. Among these strategies is reorganizing through Subchapter V of Chapter 11 of the Bankruptcy Code.

Subchapter V provides small businesses with a previously unavailable means by which they can restructure their debts through the bankruptcy process. When compared to a traditional Chapter 11 bankruptcy case, Subchapter V offers a cost-effective restructuring process that enables small business owners to retain their equity in their business.

Eligibility for Subchapter V

The primary eligibility requirement for a debtor seeking to file a Subchapter V bankruptcy is that the debtor must have non-contingent and liquidated debts of less than \$3,024,725 (to be increased to \$3,424,000 on April 1). The debtor must also be involved in commercial or businesses activities. This requirement has been broadly construed so as to include most businesses that otherwise qualify to utilize Subchapter V bankruptcy.

Subchapter V provides small business debtors with many cost-saving advantages when compared to a traditional Chapter 11 bankruptcy case. These include:

- **No Creditors' Committee:** Traditional Chapter 11 cases involve the appointment of a creditors' committee to represent the interests of unsecured creditors. Involvement of a creditors' committee often leads to substantial costs through increased litigation and the debtor's obligation to pay the fees of the creditors' committee's professionals. Fortunately, the appointment of a creditors' committee is not required in a Subchapter V case, thereby eliminating these costs to the debtor.
- **No Disclosure Statement:** In a traditional Chapter 11 case, the debtor is required to file a disclosure statement that contains information concerning the debtor's financial situation, how it plans to repay debts, and other information to be considered when determining whether to support the debtor's reorganization plan. By contrast, a Subchapter V debtor can file its plan of reorganization without first filing a disclosure statement. This often results in a significant reduction in attorneys' fees borne by a Subchapter V debtor in obtaining confirmation of its reorganization plan.
- **No U.S. Trustee Fees:** In a traditional Chapter 11 bankruptcy case, the debtor is required to pay quarterly payments to the United States Trustee based on the debtor's disbursements in the case. However, a Subchapter V debtor is not required to make these payments.

Debtor-friendly plan confirmation

In a traditional Chapter 11 case, debtors must often obtain the approval of creditors that are not being paid in full to confirm a reorganization plan. This can be a challenging process, particularly if creditors are reluctant to accept repayment terms. Fortunately, Subchapter V offers a more debtor-friendly framework to confirm a reorganization plan.

For instance, unlike in standard Chapter 11 cases, owners of a small business can retain their equity without needing to pay all non-consenting creditor classes in full, provided the reorganization plan is otherwise "fair and equitable."

Plus, creditor consent isn't required, meaning the court can approve a Subchapter V debtor's reorganization plan without the consent of any creditors, as long as the plan meets certain statutory requirements.



Subchapter V provides a wonderful opportunity for small businesses struggling with debt. By offering a faster, less expensive, and more flexible restructuring process, Subchapter V enables businesses to regain financial stability while continuing operations.

For business owners considering their options, consulting with an experienced bankruptcy attorney can provide valuable insights into whether Subchapter V is the right solution. In the ever-evolving economic landscape, having access to this powerful restructuring tool may be the key to long-term success and sustainability.

Related Attorneys

Garrett S. Eggen

Attorney

503.972.4257

geggen@sussmanshank.com