

**Congressman Cline Testimony**  
**Committee on the Judiciary Hearing/Antitrust, Commercial and Administrative**  
**Law Subcommittee**  
**“Oversight of Bankruptcy Law and Legislative Proposals”**  
**Tuesday, June 25, 2019**

---

Thank you to the subcommittee and to Chairman Cicilline and Ranking Member Sensenbrenner for the opportunity to appear before you today to discuss the Small Business Reorganization Act.

As you know, Article I, Section 8 of the United States Constitution grants Congress the ability to enact “uniform laws on the subject of Bankruptcies.” And since the signing of our Constitution, Congress, in various forms, has done just that. The Bankruptcy Code that exists today was enacted in 1978 and has undergone several significant amendments – in 1984, 1994, and 2005. It is due for another with legislation I have introduced with Chairman Cicilline, the Small Business Reorganization Act.

In 2010, the National Bankruptcy Conference Small Business Working group identified a problem regarding small businesses in the current bankruptcy law and presented to Congress a report which recommended amendments to the Bankruptcy Code to add a new chapter for small business reorganizations.

Chapter 11 of the Bankruptcy Code was primarily designed to allow a business to restructure its debt obligations while maintaining operations, with the underlying principle being that a business in its entirety is more valuable than

---

assets valued independently. The point of Chapter 11 is that preservation of the business benefits both the creditor, who should receive a higher recovery because of the debtor's restructuring than they would otherwise obtain through a liquidation, and the debtor, who can remain in business.

Unfortunately, the current Bankruptcy Code makes it difficult for small businesses to reorganize and forces them to use alternatives that often lead to liquidation. When the choice is between a process that is time consuming and needlessly expensive, or the "simpler" route of negotiating with creditors or liquidation under state law, many small businesses, overwhelmed by their situation, choose the latter.

Our legislation intends to fix this problem by allowing small businesses with less than \$2.5 million in debt to file bankruptcy in a timelier and cost-effective manner, and hopefully allows them to remain in business. This not only benefits the owners, but employees, suppliers, customers, and others who rely on that business.

Under our legislation, small business owners could retain a stake in the company if the reorganization plan doesn't discriminate unfairly and is fair and equitable with respect to each class of claims or interests. A bankruptcy court couldn't approve the plan unless all of the small business's disposable income,

---

excluding amounts necessary for the payment of ordinary operating expenses, is applied to the plan over a three-to-five-year period.

Mr. Chairman, our districts depend on their small businesses. They are convenience stores, restaurants, and pharmacies. Those who endeavor to open and run a small business are proud of their work and their standing in our communities. Unfortunately, they also take on a sometimes-insurmountable financial burden. When they are forced to close, it has a great impact on the rest of us.

I am proud to introduce the Small Business Reorganization Act, along with Chairman Cicilline, to provide an important avenue of relief to the people in our communities who employ countless individuals and drive our local economies.