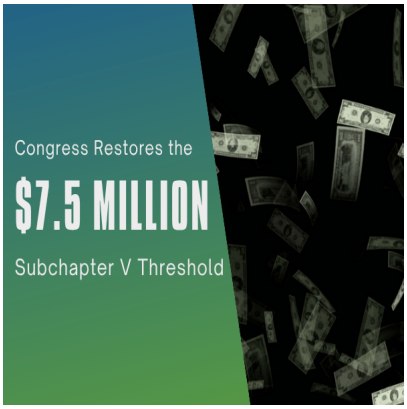

Congress Restores the $7.5 Million Subchapter V Threshold — Permanently

Description

For two years, a narrow band of distressed companies has fallen into a gap in the bankruptcy code. Carrying too much debt to qualify for Subchapter V's streamlined reorganization process, yet too small to absorb the cost and time of a conventional Chapter 11, these businesses had one fewer viable path back to solvency. That gap is about to close.

Congress has passed the Bankruptcy Threshold Adjustment Act of 2026 (H.R. 7730). The House approved H.R. 7730 on September 16, and the Senate passed the same House bill without amendment by unanimous consent on September 28. Because both chambers approved identical text, no conference committee or other House-Senate reconciliation is required. The legislation now awaits the President's signature. Once enacted, it will permanently raise the Subchapter V debt eligibility limit from the current, inflation-adjusted $3,424,000 to $7.5 million, without a sunset provision.

Why this matters for the lower middle market

The CARES Act's temporary increase to $7.5 million, in place from 2020 to mid-2024, proved how much unmet demand existed at this debt level. When it lapsed, the American Bankruptcy Institute estimates roughly 1,475 businesses were shut out of Subchapter V between June 2022 and March 2026 simply because their debt exceeded the reduced ceiling, not because their operations were beyond saving.

That's precisely the population Newpoint Advisors Corporation was built to serve. Our target clients carry $5 million to $50 million in revenue (construction, manufacturing, transportation, professional services, healthcare). These are companies too substantial for informal workouts, too thinly capitalized for a traditional Chapter 11 process, and, until now, often too leveraged for Subchapter V. The restored $7.5 million threshold puts Subchapter V's faster timeline, reduced cost structure, and single-trustee framework back within reach for a meaningfully larger share of the lower middle market.

Newpoint's role as financial advisor in Subchapter V cases

Newpoint has two professionals on its team who serve as Subchapter V trustees. They have been involved in over 150 appointments, including several cases where it made sense for Newpoint's Sub V trustees to become the Trustee in Possession or act as a financial advisor to the Debtor in Possession to help assemble a plan of reorganization and advise the debtor on better cash collateral or business operations. Here are two cases that exemplify the extensive trustee and financial advisory skills that Newpoint has applied to situations utilizing Subchapter V.

Subchapter V – Crave Brands, LLC, Northern District of Illinois (21-04729)

Situation: Restaurant chain branded as MeatHeads had defaulted on multiple loans and was under bankruptcy protection. The bank was in the process of beginning an Article 9 UCC Sale when the company filed bankruptcy. They had COVID-19-induced revenue loss from the closing of many in-person dining rooms, plus a $6.5MM loan at 18% interest, which left the company in a downward spiral. This was intensified by the lack of trust between the debtor and the secured creditor.

Solution: While the company was under bankruptcy protection, Matthew Brash was appointed as the Subchapter V Trustee from the United States Trustee's office. After discovering the lack of trust between all concerned parties, they all agreed to expand Matthew Brash's powers with the appointment to Trustee-In-Possession, to formulate a restructuring plan for all levels of the organization with the goal of returning it to profitability by utilizing Newpoint Advisors Corporation to facilitate this effort. The other intention was to maximize collateral and generate the highest return to all creditors.

Result: Newpoint's Sub V Trustee led negotiations on a proposed reorganization plan where the unsecured creditors were paid 100%. Plus, the guarantor and secured creditor agreed to take ownership of the business in exchange for the release of personal guarantors.

Subchapter V – Papa Turney's Old Fashion BBQ, Middle District of Tennessee (20-01045)

Situation: A debtor required intervention as Subchapter V Trustee due to legal proceedings needing structured financial oversight and assistance with a reorganization plan within a strict deadline.

Solution: Tim Stone was appointed the Subchapter V Trustee, who reviewed bankruptcy filings, assisted with financial reporting, and coordinated meetings to develop a reorganization plan. The Trustee leveraged Newpoint to provide cash flow management training and held weekly calls with stakeholders to refine operations.

Result: Newpoint proposed a plan successfully confirmed as the reorganization plan, demonstrating effective advisory intervention and strategic guidance in resolving the debtor's financial distress.

What this means going forward

Newpoint professionals have been appointed as Subchapter V trustees and Chapter 11 trustees, as well as retained as financial advisors for pre-petition and post-petition matters, for many lower middle

market companies. Our extensive expertise and focus on how to care for and manage small distressed matters make Newpoint an excellent choice to support attorneys and debtors managing small distressed situations.

Category

1. Releases

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