

Bond Overview¹

Chapter 7 Blanket Bond

The United States Trustee in Region 2 maintains a chapter 7 blanket bond (the “Chapter 7 Blanket Bond”). Pursuant to Section 322 of the Bankruptcy Code, the United States Trustee² sets and approves the amount of the Chapter 7 Blanket Bond and files a copy of the same with the Clerk’s Office for the United States Bankruptcy Court for the District of Connecticut. See 11 U.S.C. § 322.

The Chapter 7 Blanket Bond is reset and renewed every year. In Region 2, the premium for the Chapter 7 Blanket Bond is allocated and paid according to the amounts held by each individual trustee on the Connecticut Panel of Chapter 7 Trustees. The premiums paid are considered an expense of the estate and are allocated to individual estates as suggested in the Handbook for Chapter 7 Trustees.

The chapter 7 trustees are principals on the Chapter 7 Blanket Bond, and the bond is written in favor of the United States of America.

The Chapter 7 Blanket Bond may not cover the chapter 7 trustee in a case that involves operating a business in chapter 7 or fully cover a chapter 7 trustee holding funds that exceed the blanket bond. The chapter 7 trustee has an obligation to continually review the adequacy of bond coverage and to inform the United States Trustee of any situation, such as an upcoming asset sale, which may necessitate an increase in bond coverage. In such instances, the chapter 7 trustee must consult the United States Trustee and bonding company for further information, including whether a separate case bond is appropriate. 28 U.S.C. § 586.

Chapter 7 Separate Case Bonds

Elected and other non-panel chapter 7 trustees must obtain a separate case bond for any case to which they are elected or appointed. Typically, the amount of the case bond is set at 150% of the funds held by the estate. The cost of the bond is considered an expense of the estate.

The chapter 7 trustee has an obligation to continually review the adequacy of bond coverage and to inform the United States Trustee of any situation, such as an upcoming asset sale, which may necessitate an increase in bond coverage. Generally, the chapter 7 trustee may not cancel or decrease the amount of the bond without United States Trustee authorization.

¹ This overview is intended for informational purposes only and not intended to provide legal advice or be a statement of policy by, nor to be binding upon, the United States Department of Justice or the United States Trustee Program. Readers should check primary sources where appropriate and use the traditional legal research techniques to make sure that the information has not been affected or changed by recent developments.

² The United States Trustee Program is a component of the United States Department of Justice responsible for supervising the administration of bankruptcy cases and private trustees under title 11 of the United States Code. The United States Department of Justice policy prohibits its employees from prosecuting actions on behalf of, or providing legal advice to, private citizens.

Auctioneer Bonds

Auctioneers retained by a chapter 7 trustee are entrusted with estate property, and as a result, they should be bonded. The trustee must ensure that auctioneers are adequately bonded, prior to retaining them to conduct an auction or authorizing them to take possession of estate property, in an amount that is sufficient to cover all receipts from the sale. 11 U.S.C. § 704(a)(2), 28 U.S.C. § 586, and D. Conn. Bankr. L. R. 6005-1.

The bond must be in favor of the United States of America and is distinct from any other auctioneer's bond required under state law.

In lieu of a bond in each case, an auctioneer may be permitted to file with the Court a blanket bond covering all cases in which he or she may act. *See* D. Conn. Bankr. L. R. 6005-1.

Chapter 11 Case Bonds

A chapter 11 trustee must obtain a separate case bond for any case to which she is appointed. Typically, the amount of the case bond is set at 150% of the funds held by the estate. The cost of the bond is considered an expense of the estate.

The chapter 11 trustee has an obligation to continually review the adequacy of bond coverage and to inform the United States Trustee of any situation, such as an upcoming asset sale, which may necessitate an increase in bond coverage. Generally, the chapter 11 trustee may not cancel or decrease the amount of the bond without United States Trustee authorization.

Once the chapter 11 plan is confirmed and goes effective, the separate case bond is no longer required by the United States Trustee.

Chapter 11, Subchapter V Trustee Blanket Bond

The United States Trustee in Region 2 maintains a subchapter V trustee blanket bond (the "Subchapter V Blanket Bond").

The Subchapter V Blanket Bond renews every year. In Region 2, the premium for the Subchapter V Blanket Bond is allocated and paid on a pro rata basis by Subchapter V Trustees appointed to the pools of Subchapter V Trustees appointed in Region 2. The bond premium is not considered an expense of the estate and it cannot be allocated to individual estates.

The subchapter V trustees are principals on the bond, and all bonds are written in favor of the United States of America.

Chapter 12 and Chapter 13 Blanket Bonds

The United States Trustee in Region 2 maintains a chapter 12 and chapter 13 blanket bond similar to the chapter 7 blanket bond (*supra*).

Questions regarding bonding issues related to trustees appointed and supervised by the United States Trustee for cases pending in the District of Connecticut may be directed to Bankruptcy Analyst Erin Hogan at erin.hogan@usdoj.gov.