

American Bankruptcy Board of Certification
Sample Exam
General Bankruptcy Multiple Choice
Total Time – Two Hours

NOTE: The Bankruptcy Multiple-Choice exam contains 50 questions. You must correctly answer 60%, or get at least 30 correct. We offer the following sample questions to give you an idea of the scope of the questions you are likely to encounter, as well as the types of subject matter covered.

1. Don Debtor's principal residence, worth \$120,000, is subject to two encumbrances: (1) a first mortgage for \$100,000; and (2) a judicial lien in favor of Credit Card Inc. for \$50,000 that is junior to the mortgage in priority. Assume that under the relevant state's law, Don is entitled to claim a \$30,000 homestead exemption in the home. If Don files a petition under Chapter 7 and brings a lien avoidance action under §522(f), how much, if any, of the lien can be avoided?
 - a. \$0, because the lien is not avoidable in any amount.
 - b. \$20,000, because the lien is avoidable only to the extent of the value of the home.
 - c. \$30,000, because the lien is avoidable only to the extent of the exemption.
 - d. \$50,000, because the sum of the first mortgage and the exemption exceed the value of the home.

D. is correct. Section 522(f)(2)(A) calculates impairment by summing the challenged judicial lien, all other liens, and the exemption, and then subtracting the value of the debtor's interest from that sum. The remainder is the amount that may be avoided. In this case, the \$50,000 judicial lien, the \$100,000 mortgage and the \$30,000 exemption = \$180,000, which exceeds by \$60,000 the value of the home. Since the mortgage and the exemption exceeded the value of the home, the whole lien may be avoided.

2. In a Chapter 7 case, when must a governmental unit file a non-tax claim for such claim to be timely?
- a. within 90 days after the date of the order for relief
 - b. within 90 days after the first date set for the §341 meeting of creditors
 - c. within 180 days after the date of the order for relief
 - d. within 180 days after the first date set for the §341 meeting of creditors

C is correct under Bankruptcy Rule 3002(c)(1), which treats all government claims as timely if filed within 180 days of the order for relief. Other claims must be filed within 90 days after the first meeting of creditors.

3. Prior to filing bankruptcy, the electric utility was threatening to discontinue service because the debtor owed \$1,000 in past-due charges for electrical service. If the debtor furnishes adequate assurance of payment for post-petition service, then which of the following is correct?
- a. The electric utility can discontinue electrical service because of the unpaid pre-petition charges.
 - b. The debtor can continue to receive electrical service without paying the pre-petition charges.
 - c. The debtor can continue to receive electrical service only by paying \$1,000 for the pre-petition service.
 - d. The debtor can continue to receive electrical service only by promptly curing the pre-petition default and assuming the service contract under § 365.

B is correct under §366(b).

4. Donna Debtor filed a voluntary petition under Chapter 7 on February 1. Almost two years earlier, Donna was libeled by Larry Lie. Under the relevant state statute of limitations, Donna had until April 1 to file a legal action against Larry. Tom Trustee was appointed as trustee in Donna's Chapter 7 case on March 1. When does the time within which Tom Trustee may commence a legal action against Larry on behalf of the estate expire?
- a. on April 1
 - b. sixty days after February 1
 - c. two years after February 1
 - d. two years after March 1

C is correct. § 108(a).

5. On Monday, June 1, the Bankruptcy Court announced its decision in a core proceeding from the bench. On Friday, June 5, a judgment was entered consistent with the decision announced from the bench. Absent an extension, if you wish to appeal the Bankruptcy Court's decision, your notice of appeal must be filed:
- a. within fourteen days of June 1.
 - b. within fourteen days of June 5.
 - c. within twenty-one days of June 1, because the intervening Saturday and Sunday are excluded from the computation.
 - d. within twenty-one calendar days of June 5, because the intervening Saturday and Sunday are excluded from the computation.

B is correct under FRCP 8002(a).

6. This morning Donna Debtor filed bankruptcy. She owes Big Bank \$3,000 on an unsecured loan and has \$2,000 on deposit in her checking account. Under the relevant state law, Big Bank has a right to setoff the checking account balance against the loan debt, but had not yet done so. If the Big Bank now places a freeze on the account and refuses to honor checks drawn against the account, has Big Bank violated the automatic stay?
- a. No, because §542(b) excuses parties owing debts to the debtor from paying that portion of the debt that is subject to setoff.
 - b. No, because the funds in the checking account are “cash collateral” under §363.
 - c. Yes, because of §362(a)(7).
 - d. Yes, because of §362(a)(3).

A is correct.

7. When is a discharge effective?
- a. In a Chapter 7 case, the debts are discharged 90 days following the first date set for the meeting of creditors.
 - b. In a Chapter 11 case, the debts are discharged when the plan is confirmed.
 - c. In a Chapter 13 case, the debts are discharged when the plan is confirmed.
 - d. In a Chapter 13 case in which the debtor seeks a “hardship discharge,” the debts are discharged as soon as the distributions under the plan equal the amount that would have been paid if the debtor had been liquidated under Chapter 7.

B is correct. § 1141(d)(1)(A).

8. Debtor Inc. is in deep financial trouble. It has dozens of creditors and it has stopped paying its monthly bills. Among its creditors are three suppliers, Supplier A, Supplier B, and Supplier C. Each is owed \$2,000 in unsecured trade debt. Debtor Inc. also owes \$12,000 to Electric Co. for past due electrical bills. Another creditor is Contractor Inc., which asserts a \$12,000 unsecured breach of contract claim. Debtor Inc. disputes the Contractor Inc. claim and asserts, in good faith, that Contractor Inc. committed a material breach of the contract and is entitled to no payment whatsoever. Debtor Inc.'s only secured creditor is Finance Co. Finance Co. is owed \$15,000 and holds a perfected security interest in Debtor Inc.'s delivery truck, which has a value of \$6,000. Assume that the bankruptcy court will order relief against Debtor, Inc. if a proper involuntary petition is filed under §303 of the Bankruptcy Code. The petition will be successful if which of the following creditors joins it?
- a. Supplier A, Supplier B, and Supplier C join in the petition.
 - b. Supplier A, Supplier B, and Contractor Inc. join in the petition.
 - c. Supplier A, Supplier B, and Electric Co. join in the petition.
 - d. Electric Co., alone, files the petition.

C is correct under §303(b)(1) .

9. In a divorce decree entered in a divorce action in a state court of record, Don Debtor was ordered to pay \$500 per month in child support to his ex-wife for the support of the minor children of the marriage. Don was \$1,000 in arrears on the child support payments at the time he filed Chapter 7. Can Don's ex-wife collect the arrearages and future support payments during the bankruptcy?
- a. The automatic stay will prevent the collection of the arrearage from Don's future wages, but will not prevent the collection of future support payments from Don's future wages.
 - b. The automatic stay will prevent the collection of the arrearage and future support payments from the property of Don's Chapter 7 estate.
 - c. The automatic stay will prevent the collection of the arrearage and future support payments from Don's future wages.
 - d. The automatic stay will prevent the collection of the arrearage from Don's Chapter 7 estate, but will not prevent the collection of future support payments from Don's Chapter 7 estate.

B is correct because §362(b)(2) except from the stay the collection of support from property that is not property of the estate. Thus, regardless of whether the support obligation accrued pre-petition, only collection against property of the estate is stayed. Since Don's future wages will not be property of his Chapter 7 estate, A, C, & D are all incorrect. D states the time when the stay expires, but is incorrect because it fails to recognize the §362(b)(2) exception to the stay's coverage.

10. May the best interest of creditors test under §1129(a)(7) be waived by an impaired class of creditors?
- a. Yes, a majority of the claims in the class may bind the dissenting members of the class by a vote of more than one-half in number and at least two-thirds in amount.
 - b. Yes, as long as the Court determines that the plan is fair and equitable.
 - c. No, each holder of an impaired claim may object to confirmation of the plan on this ground.
 - d. No, this protection cannot be waived by any class or by any holder.

C is correct because §1129(a)(7) provides this protection to “each holder.” Thus, A and B are incorrect. D is incorrect because the protection does not apply to a holder who accepts the plan.