

Bond Case Briefs

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BANKRUPTCY - PENNSYLVANIA

In re the Baptist Home of Philadelphia

United States Bankruptcy Court, E.D. Pennsylvania - December 31, 2014 - B.R. - 2014 WL 7409545

The Baptist Home of Philadelphia ("Debtor"), a nonprofit corporation, filed a chapter 11 bankruptcy case on April 25, 2014. At the time, the Debtor operated a senior care facility with 206 licensed skilled nursing beds and 126 independent living and personal care units in the northeast section of the City of Philadelphia.

Among the secured debts included in the bankruptcy schedules was approximately \$24 million owed to U.S. Bank, the Bond Trustee.

A Joint Motion of the Debtor and the Bond Trustee for Relief from the Automatic Stay was filed seeking authorization for a pre-confirmation distribution on account of the Bond Trustee's claim. All interested parties, including the Committee, agree that a pre-confirmation distribution to the Bond Trustee was in the best interests of the estate and creditors and that a complete payoff of the Bond Trustee's claim was desirable given the interest running on the Bond Trustee's claim.

Before a complete distribution to the Bond Trustee could be made, the court was required to resolve a dispute regarding the appropriate amount of the distribution necessary to pay off the Bond Trustee's claim. The dispute arose from divergent interpretations of a settlement agreement (the "Settlement Agreement") approved by this court in June 2014. The parties referred to the dispute as the "Carve-Out Dispute" and the parties reported that the amount at issue was approximately \$460,000. Resolution of the Carve-Out Dispute was important to all parties because once the extent of the Bond Trustee's distribution entitlement was known, the court could authorize distribution of the balance of the Bond Trustee's claim, thereby terminating the accrual of interest and expenses.

By order dated December 18, 2014, the court entered an interim order authorizing the Debtor to pay the Bond Trustee's claim less the roughly \$460,000 at issue in the Carve-Out Dispute (the "Holdback"). The specific issue before the court was whether the Bond Trustee or the Committee had the superior claim to the Holdback in the event that the ultimate distribution in the case was insufficient to pay in full both the Bond Trustee's claim and the allowed unsecured claims.

The court agreed with the Debtor and the Bond Trustee that the Settlement Agreement unambiguously expressed the parties' intent to provide a minimum recovery to unsecured creditors from the sale proceeds derived from the Bond Trustee's collateral and was not intended to reduce the Bond Trustee's allowed secured claim or subordinate any portion of that claim in favor of the unsecured creditors. Consequently, the court entered an order authorizing the Debtor to distribute the Holdback to the Bond Trustee.