



**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF TENNESSEE**

Joel W. Solomon United States Courthouse
900 Georgia Avenue
Chattanooga, Tennessee 37402

BANKRUPTCY COURT – THE COURT OF SECOND CHANCES

What do the following fifteen people have in common: Presidents Thomas Jefferson, Abraham Lincoln, Ulysses S. Grant, and William McKinley; Senator George McGovern; business innovators Henry Ford, J.C. Penney, and Henry John Heinz; financial advisor Dave Ramsey; talk-show host Larry King; celebrated author Mark Twain; entertainment entrepreneurs Walt Disney and P.T. Barnum; actress Debbie Reynolds; and NFL Hall of Fame Quarterback Johnny Unitas?

They are all well-known and successful, to be sure. But in addition, they all suffered insurmountable financial reverses, and they all got a second chance by filing for bankruptcy.

This list shows the wide variety of people who may need the protection of bankruptcy. Many other widely recognized names could be included, too. It also shows that many people will encounter financial reverses and difficulties in their lives and incur debts they are unable to repay. Often this is through no fault of their own. Financial reverses can result from a downturn in the economy or a serious illness, or through poor financial planning or management, bad business decisions, or other personal or financial reasons.

Indebtedness from such reverses can become so great that a person or business will never be able to pay it all back. In addition to the financial burden, such debt can place a heavy mental and emotional burden on those trying to carry on with their lives. Individuals and businesses in this position need a second chance.

The Framers of the Constitution recognized this need for a second chance. Article I of the United States Constitution gives Congress the power to “establish . . . uniform laws on the subject of bankruptcies throughout the United States.” Through the years, Congress has not only passed laws creating bankruptcy protections, but has also created bankruptcy courts to handle bankruptcy proceedings. Bankruptcy courts are federal courts and are components of U.S. District Courts. Wherever there is a U.S. District Court, there is a corresponding U.S. Bankruptcy Court.

The Framers also recognized that laws on bankruptcy should be consistent throughout the country. For this reason, the Constitution refers to “uniform” laws on bankruptcy. Uniformity is achieved in part by Congress’s giving federal courts exclusive jurisdiction over bankruptcy proceedings. This means that all bankruptcies are handled in federal courts and not in state courts.

Bankruptcy proceedings start when a person or business who can no longer repay their debts files a petition with the local bankruptcy court. In some cases, creditors of the person or business may file the petition to have the person or business declared bankrupt.

Bankruptcy may result in the debts being liquidated or in the development of a repayment plan. Whether through liquidation of debt or the institution of a repayment plan, the goal is to be fair not only to the bankrupt individual or business, but also to the creditors. Sometimes this will require that the property of the bankrupt person or business be sold to pay back as much of the debt as possible. This may be necessary because the goal of a bankruptcy proceeding is not a free pass, but a new start.

As is clear from the list of names above, bankruptcy is not a reflection of bad character or a sign of poor business judgment. And it does not preclude a person from achieving great success later on. The federal courts, through bankruptcy proceedings, provide an important opportunity for a second chance and a new start in business and in life.

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