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The Insolvency Insider: Updates in Restructuring

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March and April 2026 produced several notable rulings from bankruptcy and appellate courts addressing postpetition default interest, trustee standing to pursue alter ego claims, valuation methodology for inventory in plan confirmation disputes, and the appropriate standard for claim objection settlements. These decisions have meaningful implications for creditor recoveries, disputes over whether an asset is property of the estate, and plan negotiations in restructuring cases.

Default Interest or Late Charges, Not Both

On April 4, 2026, Judge Philip Bentley of the Bankruptcy Court for the Southern District of New York denied a debtor's motion to disallow or reduce an oversecured lender's claim for postpetition default interest in the *33 Mako, LLC* chapter 11 case. The debtor was a single-asset real estate entity whose asset was a vacant single-family residence in Amagansett, New York.

The dispute before the court concerned the lender's entitlement to approximately $516,000 in postpetition default interest and an additional late charge. The debtor acknowledged that the lender was oversecured and entitled to postpetition interest under section 506(b) but argued that the court should not award interest at the contractual default rate.

Judge Bentley anchored his analysis in the settled principle that courts construing section 506(b) presume oversecured creditors are entitled to collect interest at the contractual default rate. The decision relied on Second Circuit and Southern District of New York precedent emphasizing that predictability in the treatment of secured loans remains an important bankruptcy policy.

The court then examined the five-factor framework typically used in the Second Circuit: (i) whether the estate was solvent, (ii) whether the contractual default rate constitutes a penalty, (iii) whether the creditor engaged in misconduct, (iv) whether awarding default-rate interest would materially harm other creditors, and (v) whether allowance of such interest would impair the debtor's fresh start. Judge Bentley found that solvency is a threshold consideration, not simply another factor, and strengthens the presumption in favor of the contractual default rate where disallowance would benefit only the debtor or its equity holders.

The court found no basis to disallow or reduce the postpetition default interest at the contractual rate. However, the court disallowed the lender's separate late charge on the grounds that an oversecured creditor may receive default interest or late charges, but not both, where both charges compensate for the same injury.

Judge Bentley's decision reinforces the strong presumption that oversecured creditors are entitled to the benefit of their contractual bargain under section 506(b) unless a debtor can point to concrete equitable considerations warranting a different result.

Trustee Standing Expanded

On April 6, 2026, the Second Circuit affirmed a judgment concluding that HK International Funds Investments (USA) Limited, LLC ("HK") was the alter ego of debtor Ho Wan Kwok and that HK's assets therefore belonged to the bankruptcy estate. The appeal addressed substantive questions concerning trustee standing and alter-ego liability.

On the issue of standing, the Second Circuit grounded its opinion in section 544(a), which permits trustees or debtors-in-possession to assert the rights of a hypothetical lien creditor. This differs from trustee standing under section 541, which broadly sweeps all legal interests and rights of *the debtor* into the estate. By relying on section 544, the Second Circuit avoided a conflict with its own precedent, *Shearson Lehman Hutton, Inc. v. Wagoner*[1], which provided that "a bankruptcy trustee has no standing generally to sue third parties on behalf of the estate's creditors but may only assert claims held by the bankrupt corporation itself."

Instead, the Second Circuit ruled that section 544 and *Wagoner* can coexist. The focus should rest on whether the claims sought to be brought by the trustee are "general" or "personal." The Second Circuit held that where a claim is general and could be brought by any creditor of the debtor, it is appropriate for the trustee to assert that claim. It went on to find that the reverse veil piercing claims at issue were general. With that finding, the Second Circuit affirmed the judgment of the district court permitting the trustee to assert those claims.

On the merits, the Second Circuit concluded that HK was Kwok's alter ego because HK had no revenue, bank accounts, officers, directors, or employees, maintained virtually no records (apart from those tied to the Lady May yacht at issue in the case), and functioned as a shell through which Kwok controlled and enjoyed the assets.

The decision is important because it clarifies that a chapter 11 trustee may use section 544(a) to pursue general reverse veil-piercing claims where state law permits such claims and where success would benefit the estate as a whole. The ruling may prove especially consequential in cases involving debtors who have attempted to shield high-value assets through closely held affiliates, family-owned entities, or other nominally separate structures.

Replacement Value Required

On March 6, 2026, Judge Beth E. Hanan of the Bankruptcy Court for the Western District of Wisconsin addressed whether a jewelry retailer's inventory should be valued at wholesale cost or retail price for purposes of plan confirmation under section 506(a) in the *JMG Ventures, LLC* chapter 11 case. JMG, a Subchapter V debtor, operates a jewelry store in Middleton, Wisconsin.

Kapitus, LLC filed a proof of claim for approximately $174,701 and asserted a blanket security interest in receivables, inventory, equipment, intangibles, investments, cash, and proceeds. Its lien, however, was subordinate to those of five other secured creditors whose aggregate claims totaled approximately $770,000.

The dispute turned on the value of JMG's inventory. If the inventory were valued at wholesale cost, the debtor's remaining collateral value would leave Kapitus wholly unsecured. If the inventory were valued at retail, Kapitus argued that its claim would be fully secured.

The court applied *Associates Commercial Corp. v. Rash*[2] and held that valuation turns on the debtor's actual proposed use of the property and the relevant market available to the debtor. Based on testimony that JMG routinely acquired replacement inventory in a wholesale market and that no similarly situated retailer would purchase inventory at retail for resale, the court concluded that wholesale cost was the correct replacement value for the inventory. Judge Hanan's application of *Rash* reinforces that courts will look to the debtor's actual replacement market, not the market in which the collateral is ultimately monetized, when valuing inventory for cramdown purposes.

The decision provides practical guidance for retail chapter 11 debtors and secured creditors litigating collateral valuation issues in cramdown disputes, particularly where a debtor's ordinary-course replacement market differs from the market in which the debtor ultimately resells goods to customers.

Claim Objection Settlement Standard Clarified

On April 2, 2026, Judge Goldblatt of the Bankruptcy Court for the District of Delaware, issued a memorandum opinion in *Yellow Corporation* that addressed settlements resolving multiemployer pension withdrawal liability and related claims. It also articulated a middle‑ground standard for reviewing claim‑objection settlements when another party-in-interest objects. The court approved most, but not all, of the proposed settlements, holding that the proper standard affords the debtor-in-possession some deference while still requiring careful and independent scrutiny of whether the settlement is actually reasonable.

The opinion is notable first for the standard of review. Rejecting both an extremely deferential business‑judgment approach and a standard that would effectively require full merits adjudication, the court adopted a middle‑ground test that affords some deference to the debtor while still requiring an independent assessment of whether a settlement amount falls within a reasonable range of outcomes. Analyzing the widely adopted standard from *Newman v. Stein*,[3] which held that proposed settlements must rise only above the "lowest point in the zone of reasonableness," the court clarified that it must engage in "a searching inquiry into the reasonableness of the proposed settlement with the full participation of the objecting party" to meet the standard. In practical terms, the court would not simply rubber-stamp the settlements, but neither would it substitute its own opinion for the business judgment of the estate fiduciary.

Applying that standard, the court reviewed the procedure used and judgements made by the debtor in deciding to settle, including the odds of success attributed to each withdrawal liability claim. The court largely endorsed the principal five-step methodology used but was not willing to approve every compromise presented in the name of global peace. It held that the settlement with the New York Teamsters was unreasonable because the amount attributable to liquidated damages exceeded what the court believed the claim could support. The court also rejected settlements with Locals 617 and 1730 because the agreed amounts were not tied to any articulated methodology that permitted a finding of reasonableness.

For practitioners, *Yellow* is an important reminder that complex litigation and settlement momentum alone does not excuse the need to build a record that justifies the reasonableness of a proposed settlement.

1. 944 F.2d 114 (2d Cir. 1991).
2. 520 U.S. 953 (1997).
3. 464 F.2d 689, 698 (2d Cir. 1972).

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