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District Court Affirms Controversial 'Cramdown' Plan in Momentive Case

June 12, 2015

On May 4 the U.S. District Court for the Southern District of New York affirmed U.S. Bankruptcy Judge Robert D. Drain's decision confirming the reorganization plan for Momentive Performance Materials Inc. and its affiliated debtors. The bankruptcy judge's decision was controversial because it forced the debtors' senior secured creditors to accept new secured notes that generated interest at below-market rates. The secured creditors have filed a notice of appeal to the 2nd U.S. Circuit Court of Appeals. In this article, SRZ partner Adam C. Harris and former Schulte lawyers David M. Hillman, Karen S. Park and Lucy F. Kweskin discuss the court's ruling, which is troubling for secured creditors because it provides a road map Chapter 11 debtors can use to pursue reorganization plans that seek to force secured lenders to accept new secured notes at below-market rates.

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