UNITED STATES TRUSTEE BOND MONITORING PROGRAM REQUIREMENTS FOR CHAPTER 7 AND CHAPTER 11 TRUSTEES

A. BLANKET BONDS

Surety: **Liberty Mutual Insurance Company**
Agent: **International Sureties, Ltd.**

1. Who and what is covered by the blanket bond?

The blanket bond is designed to cover all Chapter 7 cases, including no asset cases that become asset cases, and Chapter 11 non-operating cases, for those trustees who participate in the blanket bond program. The bond does not list a trustee's individual cases but rather limits liability to a specific dollar amount. *Only Chapter 7 cases and Chapter 11 non-operating cases with fund balances less than $5,000,000 are covered.*

2. What happens if a case covered by the blanket bond exceeds $5,000,000?

Any chapter 7 case or chapter 11 non-operating case with a fund balance exceeding $5,000,000 must be bonded on an individual basis for the full amount of the fund balance. For example, if a case covered by the blanket bond experiences an increase to $5,250,000, the case is automatically not covered by the blanket bond and a new bond in the amount of $5,250,000 must be purchased within five days. If an individually bonded case has a fund balance that falls below $5,000,000, the trustee may request authorization to cancel the individual bond and place the case under the blanket bond.

3. What are the bonding requirements for a Chapter 7 operating case?

An operating case is covered by the blanket bond as long as the fund balance is below $5,000,000.

4. How is my blanket bond coverage determined?

Schedule A of the blanket bond lists an aggregate limit of liability for each trustee covered by the bond. Each trustee's total case coverage is limited to the amount stated for that trustee. In order to determine a trustee's aggregate liability, the following formula is used: (Funds on deposit minus cases exceeding $5,000,000) x 150%.

The 150% margin requirement allows for fluctuations in a trustee's fund balances, minor case load changes and funds in transit. This does not mean that a trustee's total fund balance is required to continuously meet a 150% margin requirement. The margin is used 1) to establish an initial level of coverage and 2) when increases become necessary because the existing margin is not adequate.

For example, a trustee with a $100,000 fund balance at the time the blanket bond was executed would have been required to purchase $150,000 in coverage. When the trustee's actual fund balance appears to be exceeding the $150,000 level of coverage, the trustee should request an increase based on actual funds multiplied by the margin. However, a trustee may elect to use a higher margin at any time.

5. Are there any bond information reporting requirements?

The United States Trustee has a semi-annual reporting requirement for all chapter 7 and Chapter 11 trustees. At the end of each semi-annual period, every trustee must prepare a report that includes the following information:

a. A list of all Chapter 7 asset cases assigned to the trustee that meet blanket bond requirements, with the fund balances as of the end of the reporting period;

b. A list of all individually bonded Chapter 7 asset cases assigned, the fund balances of those cases as of the end of the reporting period, and the amount of the individual bonds issued for those cases;

c. A list of all Chapter 11 operating cases assigned, the fund balances of those cases as of the end of the reporting period, and the amount of the individual bonds issued for those cases;

d. A list of all Chapter 11 non-operating cases assigned to the trustee that meet blanket bond requ irements, with the fund balances as of the end of the reporting period.

If we determine that a trustee appears to be close or exceeding his or her aggregate limit as set forth on Schedule A of the blanket bond, our office will contact the trustee to discuss an increase in coverage.

The trustee should include a cover letter that includes an explanation of any problems with bonding or to request changes in coverage. *The report is to be submitted no later than 15 days from the end of the reporting period, i.e., July 15 or January 15, to the attention of Darlene Thompson, Legal Assistant. For trustees administering cases filed in the San Fernando Valley, Northern Division, Riverside and Santa Ana, two copies of the report and cover letter should be provided; for all other trustees, one copy is required.*

6. How often can I make changes in my blanket bond coverage?

A trustee may request an increase or decrease in his or her aggregate limit of liability at any time. Trustees should monitor their fund balances at regular intervals in order to determine if their coverage should be increased or if a case has exceeded the $5,000,000 case limit. A request for an increase in coverage should be made no later than five days after the margin is exceeded.

U.S. Trustee Bond Program Requirements, Continued.

Any requests for changes in blanket bond coverage should be made in writing and signed by the trustee. The request should set forth the total fund balance for all cases covered by the blanket bond, the amount of additional coverage requested and be accompanied by a list of the blanket bond cases and their fund balances. Requests should be sent to the Los Angeles office to the attention of Marjorie Gibson. They may be faxed to (213) 894-6778.

7. How is a new trustee added to the blanket bond?

When a trustee is appointed to the panel, a letter will be issued by our office requesting that an amendment be issued to Schedule A of the blanket bond that includes the trustee. The minimum amount of coverage for all new trustees is $100,000. Any questions from new trustees concerning their blanket bond participation should be directed to Bankruptcy Analyst Marjorie Gibson.

8. How should I bill the estates for blanket bond coverage?

Each trustee will be charged an annual premium based on his or her amount of aggregate coverage. The premium as of January 4, 2002 is $.50 for every $1,000.00, which includes the cost of the margin. Generally speaking, the costs should be prorated to each of the estates covered at the time of the billing.

9. Is a trustee responsible for paying the bond premium once a final report has been filed in all cases?

Yes. The trustee is required to maintain bond coverage until a zero balance bank statement is filed for a Chapter 7 case. For a chapter 11 case, the trustee must maintain coverage until the court authorizes a discharge from the bond or until the final decree. Please keep in mind that at this stage, bond coverage should be continuously reduced to minimize the cost of the premium.

B. INDIVIDUAL BONDS - Ch. 7 Cases in excess of $5 Million and Ch. 11 Non-Operating

1. How do I request changes in coverage or obtain individual case bonds?

Once a chapter 7 case or chapter 11 non-operating case is required to be individually bonded, you should contact the surety company of your choice and purchase bond coverage equal to at least 100% of the bankruptcy estate's combined fund balances, but not less than $10,000 minimum. The original bond should be filed with the U.S. Bankruptcy Court and a copy forwarded to the appropriate supervising U.S. Trustee office addressed as follows:

Los Angeles	Marjorie Gibson
Riverside	George Alfano
Santa Ana	Kristina Howard

U.S. Trustee Bond Program Requirements, Continued.

Woodland Hills Sandra Cruz

a. Chapter 11 - New Bonds

Chapter 11 trustees are required to obtain a bond with the appropriate amount of coverage immediately following their appointments. The bond should be in the amount of any cash on hand at the time of the appointment, taking into consideration the minimum requirement of $10,000. The original bond is to be filed with the court within five days of the trustee's appointment and a copy is to be forwarded to the appropriate U.S. Trustee office as indicated previously.

Please keep in mind, that if a trustee is listed on Schedule A of the blanket bond and the case is a non-operating chapter 11 with a fund balance under $5,000,000, the case will automatically be covered by the blanket bond once we receive a letter from the trustee requesting blanket bond coverage.

b. Noticing Changes in Individual Bond Coverage

When increases and decreases in coverage are necessary, the attached notice should be completed and submitted to the appropriate office as indicated above, along with four copies. We will review the notice, update our case bonding records and file the package on behalf of the trustee with the court. The original and two copies will be filed with the court, plus a copy to be conformed, and the fourth copy will be maintained by the U.S. Trustee office. You will note that a line has been added to the bottom of the form indicating that the notice has been reviewed by the staff prior to submission to the court. Copies of the most recent bank statements for a chapter 7 case must be submitted with all requests for decreases in bond coverage. For chapter 11 cases, you may submit either the most recent bank statements or interim reports.

3/1/02