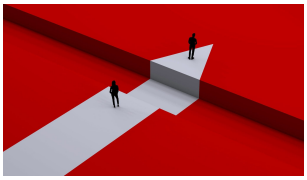

Court Strikes Down Arbitrary Fee Increases for Debtors in Bankruptcy Cases

Sep 30, 2022

Categories:

Publications
SCOTUS Collection

Authors:

Matthew C. Blickensderfer

***Siegel v. Fitzgerald*, 142 S. Ct. 1770 (June 6, 2022)**

The federal Constitution authorizes Congress to establish "uniform Laws on the subject of Bankruptcies throughout the United States." In 2017, Congress enacted a significant fee increase for debtors in bankruptcy cases that applies in only 48 of the 50 states. Is this a "uniform" law on the subject of bankruptcies? No, according to a unanimous U.S. Supreme Court decision in *Siegel v. Fitzgerald*.

How did Congress come to increase bankruptcy fees in all but two states? The answer is politics. In 1978, Congress began transferring to the new U.S. Trustee program administrative functions that were then overseen by bankruptcy judges. The initial pilot program was optional. When Congress sought to make the program mandatory and nationwide in 1986, however, legislators from two states—North Carolina and Alabama—balked.

The Congressional compromise was to create a mandatory, nationwide program except for the six federal judicial districts in North Carolina and Alabama. In those districts, administrative functions continued to be managed as they had historically—*i.e.*, by bankruptcy judges themselves, usually through oversight of administrators appointed by the judges. The U.S. Trustee program managed these functions everywhere else.

Congress funds the U.S. Trustee program from user fees paid to the program, most of which are borne by the debtors in bankruptcy cases. In contrast, the administrators in bankruptcy cases in North Carolina and Alabama are funded from the budget of the federal judiciary. The federal judiciary mostly tried to harmonize these systems by charging fees equivalent to those in the U.S. Trustee program. But when Congress hiked U.S. Trustee program fees in 2017, the judiciary didn't go along. Consequently, debtors in bankruptcy cases in 48 states were paying dramatically higher fees

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

FBT Gibbons

than those in North Carolina and Alabama.

The Supreme Court had no trouble finding this disparity to be unconstitutional. Writing for a unanimous Court, Justice Sonia Sotomayor wrote that while the Constitution's Bankruptcy Clause gives Congress flexibility to address regional bankruptcy concerns, it does not permit arbitrary distinctions among debtors. This distinction, based on a political compromise, was arbitrary, rather than a response to legitimate regional concerns.

Key Takeaways:

- The Court's ruling in *Siegel v. Fitzgerald* was limited to the particulars of the 2017 fee increase. But it's hard not to think that the Court would also strike down the two-state carveout from the U.S. Trustee program if that issue were presented to it; indeed, the Court found that the controversy "existed only because Congress itself had arbitrarily separated the districts into two different systems . . ."
- The Court left unsettled the question of remedy. The debtors argued they are entitled to refunds of their unconstitutional overpayments. The United States counter-argued that the holding should apply only prospectively, or that the solution is for debtors in North Carolina and Alabama bankruptcies to pay higher fees that match those in other states. This issue will, at least in the short term, be resolved in lower federal courts—although there are already efforts to get the U.S. Supreme Court to decide this issue.

Explore the full wrap-up and analysis from Frost Brown Todd's Appellate practice group on the most consequential rulings during the 2021 U.S. Supreme Court term for businesses and industries.

© 2026 FBT Gibbons LLP. May be considered attorney advertising in some jurisdictions.

2026 FBT Gibbons LLP. All rights reserved. ADVERTISING MATERIAL.

FBT Gibbons