

# BANKRUPTCY AND THE REVENUE CYCLE: COMPLIANCE, COORDINATION, AND COLLECTIONS IN A POST-PETITION WORLD

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1

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2

## Learning Objectives

- Understand the operational and legal differences between Chapter 7 and Chapter 13 bankruptcies.
- Recognize and appropriately respond to bankruptcy notices to maintain compliance with federal law.
- Implement coordinated procedures between hospitals, agencies, and legal counsel to protect accounts and minimize risk.

3

## Medical Debt and Bankruptcy

- Personal bankruptcy filings are on the rise nationally.
  - 2024: 478,752
  - 2025: 533,949 (up 12%)
- Surveys suggest around 50% to 60% of bankruptcy debtors claim medical debt as their primary reason for filing.

4

## Federal Bankruptcy Framework

- Title 11 of the United States Code
- “[I]t gives to the honest but unfortunate debtor...a new opportunity in life and a clear field for future effort, unhampered by the pressure and discouragement of preexisting debt.” Local Loan Co. v. Hunt, 292 U.S. 234, 244 (1934).

5

## The Automatic Stay

- Effective immediately upon a debtor’s bankruptcy filing.
- Prohibits collection activity on pre-petition debt.
- Violations can result in sanctions and fines.
- Intent is irrelevant – strict liability applies.

6

## Common Automatic Stay Violations

- Automated billing systems.
- Collection calls made after notice.
- Continued litigation and judgment enforcement actions.
- Lack of communication between facility and collection agency.
- Improper credit reporting updates.

7

## Pre-Petition vs. Post-Petition Charges

- Automatic stay applies only to pre-petition charges.
- Collection activity may continue for post-petition charges.
- Charges must be clearly segregated.
- Pre-petition charges must be omitted from post-petition billing statements.

8

## Chapter 7 Bankruptcy (Liquidation)

- Most common consumer bankruptcy filing.
- Debtor's non-exempt assets liquidated to pay creditors.
- Typically discharges unsecured medical debts.
- Short timeline from filing to discharge (3 to 6 months).
- Proof of Claim required only if it is an "Asset Case."

9

## Chapter 13 Bankruptcy (Reorganization)

- Designed for debtor with regular income.
- Repayment plan for 3 to 5 years.
- Proof of Claim required to receive any distribution.
- Ongoing monitoring is essential.

10

## Notice of Bankruptcy

- Notice of a bankruptcy can come in many forms: official notice from the bankruptcy court, communication from bankruptcy attorney, communication from patient, PACER search.
- Verify key information: case number, filing date, type of bankruptcy (chapter 7 or 13).
- Receipt of notice triggers compliance obligations.
- Immediate Action: flag and freeze collection activity on all pre-petition accounts.

11

## Accounts on Facility A/R

- Immediately flag pre-petition charges/accounts.
- Segregate post-petition charges/accounts.
- Suppress statements and collection activity.
- Coordinate with legal and compliance teams.

12

## Accounts Turned Over to Collection Agency

- Notify collection agency of bankruptcy notice immediately.
- Recall or suspend all collection activity.
- Confirm collection agency suspends any accounts in litigation.
- Credit reporting considerations.

13

## Best Practices & Risk Reduction

- Standardized internal bankruptcy workflows.
- Centralized notice intake.
- Establish clear communication channels.
- Documentation and audit trails.
- Regular training and audits.

14

## Post-Bankruptcy Actions

- Debts are discharged when a discharge order is entered.
  - *Chapter 7: 3 to 6 months*
  - *Chapter 13: 3 to 5 years*
- Account balances should reflect a zero balance and be closed to prevent further collection activity.
- Watch for cases being dismissed or converted.

15

## Key Takeaways

- Recognize: Identify bankruptcy notice immediately.
- Freeze: Stop all collection activity on pre-petition charges.
- Verify: Confirm bankruptcy filing and debtor information.
- Classify: Segregate pre-petition and post-petition charges.
- Act: Assign appropriate workflow (Chapter 7 or 13) and monitor case.

16

## Questions and Discussion

- Open Q&A
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