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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In Re:

Gracy Gonzalez

Debtor

Chapter 11

Case No. 15-35576

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**FIRST AMENDED DISCLOSURE STATEMENT TO
ACCOMPANY DEBTOR'S PLAN OF REORGANIZATION**

Gracy Gonzalez, debtor and debtor-in-possession herein (the "Debtor") has prepared the following Disclosure Statement to Accompany Debtor's Plan of Reorganization (the "Disclosure Statement") pursuant to the provisions of Chapter 11 of Title 11, United States Code (the "Bankruptcy Code").

THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCE OR REJECTION MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE COURT.

I. INTRODUCTION

The Debtor provides this Disclosure Statement to all of its known creditors in order to disclose that information deemed by the Debtor to be material, important, and necessary for creditors to arrive at a reasonably informed decision in exercising their right to vote on the Plan of Reorganization (hereafter "the Plan") presently on file with the Bankruptcy Court. A copy of the Plan accompanies this Statement. Capitalized terms in this Disclosure Statement have the same meaning given them in the Plan. Please refer to Article I of the Plan for those definitions.

In determining whether to vote in favor of the Plan, parties may wish to consider consulting with their own legal counsel, accountants, and/or tax advisers with respect to the legal, financial, or tax effects of the Plan. The information contained in this Plan has been compiled by the Debtor. No audit of the books or records of the Debtor has been undertaken.

A ballot with voting instructions is being distributed with this Plan. A class of claims accepts the Plan by a favorable vote of a majority in number and two-thirds in amount of claims actually voting. A class that is not “impaired” under the Plan is conclusively presumed to accept the Plan. A class that is “impaired” under the Plan is entitled to vote on the Plan. In order for a Plan containing an impaired class of claims to be confirmed, at least one class of claims that is impaired under the Plan must vote to accept the Plan, determined without including the acceptance of the Plan by any insider.

A class of claims is impaired for purposes of Bankruptcy Code §1124 if the non-bankruptcy rights to payment or performance of the holders of claims in that class have been altered by the Plan. Exceptions to this general description of impairment apply in circumstances where the Bankruptcy Code requires a specific treatment of a class of claims, e.g., tax claims entitled to a priority in payment pursuant to Bankruptcy Code §§507(a)(8) or 1129(a)(9)(D). Where the Bankruptcy Code requires and the Plan provides for a specific treatment of a class of claims, that class is deemed to be unimpaired. Creditors should consult with an attorney if in doubt concerning the impairment status of a class of claims.

The vote of a class of claims binds all members of the class. Thus, if a class votes to accept the Plan (i.e., a majority in number and two-thirds of amount of those voting), the provisions of the Bankruptcy Code designed to protect rejecting classes cannot be invoked even by members of that class who voted to reject the Plan. Conversely, if a class rejects the Plan, the members of the class who voted to accept the Plan will be deprived of the benefits of the Plan if it is not confirmed.

The Bankruptcy Code does not require that every class of claims or interests votes in favor of the Plan. The Court may confirm a chapter 11 plan notwithstanding the rejection of the Plan by one or more classes of claims. The criteria under which the Court may confirm the Plan over the objections of one or more classes of claims are set forth in § 1129(b) of the Bankruptcy Code and, among other requirements, include the requirement that the Court find with respect to each non-accepting class that the Plan does not discriminate unfairly against such class, that the Plan is fair and equitable as to such class, and that the value of benefits to be distributed to the members of such class will not be less than the members of that class would receive if the Debtor were liquidated under chapter 7 of the Bankruptcy Code.

The financial information contained herein has been authorized by the Court for use in connection with the solicitation of acceptances of the Plan. **NO REPRESENTATIONS (PARTICULARLY AS TO THE VALUE OF PROPERTY, THE DEBTOR’S FUTURE BUSINESS OPERATIONS, OR THE AMOUNT OF CREDITORS’ CLAIMS) ARE AUTHORIZED BY THE COURT OR THE DEBTOR OTHER THAN AS SET FORTH HEREIN. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE WHICH IS OTHER THAN AS CONTAINED HEREIN SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION.**

To the extent that this document contains financial projections, **DEBTOR EXPRESSLY**

DISCLAIMS ANY REPRESENTATION OR WARRANTY THAT ALL INFORMATION CONTAINED HEREIN IS COMPLETELY FREE FROM ERROR. Although reasonable efforts have been made to accumulate and present accurate information, the information contained in this statement has not been subject to a certified audit, and the accuracy of the information contained herein cannot be guaranteed. Some of the information, by its nature, necessarily speculative, and contains estimates and assumptions which may not occur.

II. HISTORICAL BUSINESS & FINANCIAL INFORMATION

A. The Properties. The Debtor acquired and financed a primary residence as well as a number of income-producing residential properties in the Mid-Hudson region prior to the commencement of this case, either separately or jointly with her (now) ex-husband, Nelson R. Gonzalez (hereinafter “Nelson”). Debtor and Nelson were legally separated on September 10, 2010, and in connection with their separation and divorce, entered into a Separation Agreement signed September 10, 2010 and filed with Supreme Court in the divorce action, specifically requiring that certain of the properties they had owned jointly or individually during the marriage be transferred to one or the other of them. Those transfers, approved by the Supreme Court in the divorce proceedings, resulted in the Debtor owning fee simple title to only the following properties on the Petition Date:

- 25 Prince Street, Middletown, New York; (investment property)
- 40 John Street, Middletown, New York; (investment property) and
- 48 High Meadow Road, Campbell Hall, New York (primary residence).

A significant decline in the value of these properties following the collapse of the residential housing market within the last decade, coupled with a decline in the rents collectible during the recent severe recession, led to the Debtor’s decision to restructure the mortgage debt secured by the properties while under the protection of the Bankruptcy Court.

Debtor has retained all of these properties while in Chapter 11 proceedings.

B. Operations in Chapter 11. On March 30, 2015, the Debtor commenced this case under Chapter 11 of the Bankruptcy Code. Since the commencement of this case, the Debtor has entered into a Bankruptcy court-approved restructuring agreement with respect to 40 John Street and has by motion successfully bifurcated to the mortgage lien with respect to 25 Prince Street.

As a result of the restructuring agreement and the motion to bifurcate, the secured claims have been fixed based on the current value of the Debtor’s properties. Moreover, there has been a reduction in the interest accruing on those loans to bring them more closely in line the present low prevailing interest rates. The agreement calls for the payment of the loan over 15 years, while providing the secured creditors with a rate of interest as if the loans were being amortized over fifteen (15) years. The order to bifurcate allows this Court to provide a similar or even lower interest rate with the same fifteen (15) year repayment schedule.

The Debtor’s monthly operating reports reflecting the totality of the Debtor’s financial

performance while in Chapter 11 are attached to this Disclosure Statement as **Exhibit “A.”**

III. SUMMARY OF THE PLAN OF REORGANIZATION

A. Classification and Treatment of Claims

The Plan provides for the division of creditors into eleven (11) classes (including administrative and priority claims.)

NON-VOTING CLASSES OF CLAIMS: Classes 1 and 2 are not “impaired,” as that term is understood for purposes of Bankruptcy Code § 1124, and therefore creditors in those classes are deemed to have accepted the Plan and will not be entitled to vote on the proposed confirmation of the Debtor’s Plan.

CLASS 1. Class 1 consists of administrative expenses of the estate, including Debtor’s professionals. Holders of the Class 1 administrative expense claims, following application on notice and Bankruptcy Court approval, are to be paid in full from cash on hand at the time of the Court’s confirmation of the Plan, except to the extent that payment on these postpetition liabilities may be deferred voluntarily. Class 1 administrative expense claimants are not entitled to vote on the Plan. Debtor’s attorney, Adams Law Group LLC and Debtor’s accountants, Krogslund Keating Behrens & Neenan, are the only Class 1 claimants as of the date of this Disclosure Statement.

CLASS 2. Class 2 consists of the holders of Allowed Claims who are entitled to a priority in payment under the provisions of the Bankruptcy Code § 507(a). The Class 2 Claims are divided into three (3) subclasses:

Class 2(A) consists of the holders of Allowed Claims who are entitled to a priority in payment under the provisions of the Bankruptcy Code other than (i) priority tax claims of the Internal Revenue Service and (ii) claims for security deposit refunds by current tenants. Holders of Class 2(A) Allowed Claims are to be paid in full from cash-on-hand at the time of the Court’s confirmation of the Plan, except to the extent that the payment on these postpetition liabilities may be deferred voluntarily.

Class 2(B) consists of the Priority Claims of the Internal Revenue Service. Holders of the Class 2(B) priority tax claims, following application on notice and Bankruptcy Court approval, are to be paid in full from cash on hand at the time of the Court’s confirmation of the Plan.

Class 2(C) consists of the holders of rental security deposit claims. Claims for the return of security deposits by current tenants will be paid in full and in cash upon the end of a tenant’s rental in the absence of a default in the payment of rent, provided that the rented premises are timely vacated and are then in good condition, normal wear and tear excepted.

VOTING CLASSES OF CLAIMS: Claims within Classes 3 through 11 are “impaired,” as that term is understood for purposes of Bankruptcy Code § 1124, and therefore creditors in those classes are entitled to vote on the proposed confirmation of the Debtor’s Plan, and (following Bankruptcy Court approval of this Disclosure Statement, as it may be amended hereafter) the Debtor solicits your votes in favor of the Plan.

CLASS 3. Class 3 consists of Secured Creditors who had their claims discharged or modified pursuant to the bankruptcy case of Nelson Gonzalez (In Re Nelson Gonzalez 13-37023-cgm) (hereinafter the “Nelson Bankruptcy”) with respect to the real property located at 125 Academy Avenue, Middletown, NY. This class includes Secured Claim of PHH Mortgage, Inc., as servicing agent for HSBC Bank USA, N.A. (“HSBC”), with respect to a note and mortgage on the real property located at 125 Academy Avenue, Middletown, New York. Debtor does not claim any ownership or any other rights to said property.

CLASS 4. Class 4 consists of Secured Creditors who had their claims discharged or modified pursuant to the Nelson Bankruptcy with respect to the real property located at 62 Linden Avenue, Middletown, New York. This class includes the Mortgage held by Seterus, with respect to a note and mortgage on improved real property located at 62 Linden Avenue, Middletown, New York. This note and mortgage have been modified pursuant the Nelson Bankruptcy. Debtor does not claim and ownership or any rights to the property.

CLASS 5. Class 5 consists of Secured Creditors who had their claims discharged or modified pursuant to the Nelson Bankruptcy with respect to the real property located at 16-18 Edgewood Place, South Fallsburg, New York. This class includes the Mortgage held by Ocwen as servicer, with respect to a note and mortgage on improved real property located at 16-18 Edgewood Place, South Fallsburg, NY. Debtor does not claim and ownership or any rights to either property. By Stipulation and Order entered 08/02/2016, Creditor has been relieved from the automatic stay.

CLASS 6. Class 6 consists of the Allowed Secured Claim of Freedom Mortgage Corporation (“Freedom”), with respect to a note and mortgage on improved real property located at 40 John Street, Middletown, New York 10940. By Stipulation and Order dated 12/14/2015 and entered 03/16/2016, this is an Allowed Secured Claim for \$91,000.00, bearing interest at five (5%) percent over fifteen (15) years, commencing on 02/01/2016 and maturing on 01/01/2031, with equal monthly payments thereon of \$719.62 until maturity.

CLASS 7. Class 7 consists of the Allowed Secured Claim of US Bank NA by Select Portfolio Servicing, Inc., as Servicer (“SPS”) with respect to a note and mortgage on improved real property located at 25 Prince Street, Middletown, New York 10940. This is an Allowed Secured Claim for \$65,000.00, bearing interest at a rate of 5%, with final interest rate to be determined by the Court, and is to be paid over fifteen (15) years, with equal monthly payments of \$514.02 commencing on 09/01/2016 and ending on 08/01/2031.

CLASS 8. Class 8 consists of the Allowed Secured Claims with respect to a note and mortgage in the amount of \$439,200.00 in first position on improved real property located at 48

High Meadow Road, Campbell Hall, New York which serves as debtor's primary residence. This includes the Allowed Secured Claim of HSBC which holds the first mortgage on the residence. The approximate amount owed on the mortgage is \$660,000.00. Debtor will surrender the property.

CLASS 9. Class 9 consists of the Allowed Secured Claims with respect to a note and mortgage in the amount of \$109,000.00 in second position on the real property located at 48 High Meadow Road, Campbell Hall, New York which serves as debtor's primary residence. This includes the Allowed Secured Claim JPMorgan Chase which holds a second mortgage on the residence. Debtor will surrender the property.

CLASS 10. Class 10 consists of consists of Allowed Unsecured Claims held by non-insiders against the Debtor that are not entitled to a priority in payment under Bankruptcy Code §507. The holder of each of the Class 10 Claims will be paid ten (10%) percent of their allowed claims without interest in equal quarterly payments over five (5) years from the Effective Date. The first payment on the Class 6 Allowed Unsecured Claims will be made on the Effective Date of the Plan, and subsequent payments will be made at the last day of each calendar quarter thereafter, until 20 equal quarterly payments have been made.

CLASS 11. Class 11 consists of Allowed Unsecured Claims held by insiders against the Debtor. Class 11 Claimants, if any, will not receive payments on their claims. The Debtor believes that this is an empty class.

B. Estimated and Actual Claim Amounts and Plan Payments.

The following is a listing and/or estimate by the Debtor of the number and size of claims against the estate, set out under the classifications employed in the Plan and described above, and description of Plan payments on those claims. The Debtor retains the right to file objections to any of the following claims if, after further review, it appears that such claim(s) are incorrect in amount or are improperly classified in the Debtor's schedules or by the claimant in a timely filed proof of claim.

Class 1. The Class 1 claims consist of the costs of administration of this estate. The Debtor estimates that these costs will be approximately \$30,000.00, consisting of professional fees and reimbursement of expenses to be awarded by order of the Bankruptcy Court to the Debtor's professionals after notice and a hearing.

Class 2(A). This Class 2 consists solely of tenant security deposits as of the date hereof in the amount of \$4,230.00. *See also* Art. III (A), Class 2, above.

Class 3. Class 3 consists of HSBC which had its claims discharged or modified pursuant to the Nelson Bankruptcy with respect to the real property located at 125 Academy Avenue, Middletown, New York. The amount of the claim is approximately \$120,000.00. No payment is made to this class. *See also* Art. III (A), Class 3, above.

Class 4. Class 4 consists of Seterus which had its claims discharged or modified pursuant to the Nelson Bankruptcy with respect to the real property located at 62 Linden Avenue, Middletown, New York. The amount of the claim is approximately \$67,500. No payment is made to this class. *See also* Art. III (A), Class 4, above.

Class 5. Class 5 consists of Ocwen, which had its claims discharged or modified pursuant to the Nelson Bankruptcy with respect to the real property located at 16-18 Edgewood Place, South Fallsburg, New York. The amount of the claim is approximately \$75,000. No payment is made to this class. *See also* Art. III (A), Class 5, above.

Class 6. The Class 6 Allowed Secured Claim is \$91,000.00, payable at five (5%) percent over fifteen (15) years. *See also* Art. III (A), Class 6, above.

Class 7. The Class 7 Allowed Secured Claim is \$65,000.00, payable at five (5%) percent over fifteen (15) years. *See also* Art. III (A), Class 7, above.

Class 8. The Class 8 Secured Claim is a mortgage in the amount of \$439,200.00 secured by the property located at 48 High Meadow Road, Campbell Hall, New York will not be paid and the property is to be surrendered. *See also* Art. III (A), Class 8, above.

Class 9. The Class 9 Secured Claim is a mortgage in the amount of \$109,000.00 secured by the property located at 48 High Meadow Road, Campbell Hall, New York will not be paid and the property is to be surrendered. *See also* Art. III (A), Class 9, above.

Class 10. The Class 10 Allowed Unsecured Claims are estimated to total \$25,166.20, with quarterly payments aggregating 10% thereof over five (5) years being approximately \$125.83.

Class 11. The Class 11 Claims are estimated to be \$0.00. Debtor believes that Class 11 is an empty class.

C. Funding and Administration of the Plan

Plan funding will come from the Debtor's business operations and salary.

The Effective Date of the Plan will be the fifteenth (15th) day following the Confirmation Date. The Confirmation Date is the date on which the Bankruptcy Court enters an Order confirming the Plan. Certain plan distributions will be made by the Debtor starting on the Effective Date. For more specific details on distribution dates, holders of claims are advised to refer to the Plan.

Pursuant to 28 U.S.C. §1930, any unpaid balances due the United States Trustee will be paid on or before the Effective Date of the Plan, and fees payable under §1930 will continue to be paid until such time as the case is converted, dismissed or closed by court order.

IV. FINANCIAL INFORMATION RESPECTING THE REORGANIZED DEBTOR

The business and financial prospects for the reorganized Debtor are positive. A projection of post-confirmation cash flow for the reorganized debtor is annexed as **Exhibit "B."** A projected post-confirmation balance sheet is annexed as **Exhibit "C."**

A. Pending Litigation. There are no pending cases against the Debtor in the Supreme Court for Orange County, New York.

B. Possible Future Litigation. From time-to-time, the Debtor anticipates having to bring eviction actions against tenants of the Property who fall behind in their rents.

V. TAX CONSEQUENCES

The Plan does not call for the cancellation of indebtedness, nor does it involve the issuance of securities in exchange for debt. The Debtor believes that the Plan is tax-neutral, i.e., that the tax consequences of the Plan, if any, are not the result of the interaction of the bankruptcy laws with tax law. **HOWEVER, THE PROPONENT ASSUMES NO RESPONSIBILITY FOR THE TAX EFFECT THAT CONSUMMATION OF THE PLAN WILL HAVE ON ANY GIVEN HOLDER OF A CLAIM OR INTEREST. HOLDERS OF CLAIMS OR INTERESTS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISERS CONCERNING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PLAN TO THEIR INDIVIDUAL SITUATION.**

VI. COMPARISON WITH LIQUIDATION

One of the conditions for confirmation of a Chapter 11 plan of reorganization is that the distributions under the Plan must not be less than the distributions that creditors would receive in a hypothetical Chapter 7 liquidation as of the effective date of the Plan. This is known as the "liquidation analysis." If the assets of the Debtor were liquidated in a case under Chapter 7 of the Bankruptcy Code, the Chapter 7 trustee would abandon the Debtor's interest in her real estate. In the absence of this reorganization and the resulting reduction in amount of the claims secured by those properties, the amounts owed on all of the properties exceed the value of those properties. The lack of equity in Debtor's real estate would preclude the trustee from selling them for the benefit of other creditors.

The Debtor's Plan provides for a ten (10%) percent dividend to each of the unsecured creditors, rather than paying them nothing in the event of a liquidation. Distributions of the Plan are necessarily greater than the zero percent (0%) distributions that creditors would receive in a hypothetical liquidation of the Debtor's assets.

VII. SOLICITATION OF AFFIRMATIVE VOTES

The Debtor respectfully solicits ballots ACCEPTING the Plan from all creditors holding

claims in Classes 3 through 11.

Dated: August 22, 2016
Montvale, New Jersey

By: /s/ Gracy Gonzalez

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