Law Vs. Siegel

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Decided On : Mar-04-2014

Appeal No. : 12-5196

Appellant : Law

Respondent : Siegel

Judgement :

Law v. Siegel

NOTE:Where it is feasible, a syllabus (headnote) will be released, as is being done in connection with this case, at the time the opinion is issued.The syllabus constitutes no part of the opinion of the Court but has been prepared by the Reporter of Decisions for the convenience of the reader.See United States v. Detroit Timber & Lumber Co.,200 U. S. 321.

SUPREME COURT OF THE UNITED STATES

SYLLABUS

LAW v. SIEGEL, CHAPTER 7 TRUSTEE

certiorari to the united states court of appeals for the ninth circuit

No. 12-5196.Argued January 13, 2014-Decided March 4, 2014

Petitioner Law filed for Chapter 7 bankruptcy. He valued his California home at $363,348, claiming that $75,000 of that value was covered by Californias homestead exemption and thus was exempt from the bankruptcy estate. See11 U. S. C. 522(b)(3)(A). He also claimed that the sum of two voluntary liens-one of which was in favor of Lins Mortgage & Associates-exceeded the homes nonexempt value, leaving no equity recoverable for his other creditors. Respondent Siegel, the bankruptcy estate trustee, challenged the Lin lien in an adversary proceeding, but protracted and expensive litigation ensued when a supposed Lili Lin in China claimed to be the beneficiary of Laws deed of trust. Ultimately, the Bankruptcy Court concluded that the loan was a fiction created by Law to preserve his equity in the house. It thus granted Siegels motion to surcharge Laws $75,000 homestead exemption, making those funds available to defray attorneys fees incurred by Siegel in overcoming Laws fraudulent misrepresentations. The Ninth Circuit Bankruptcy Appellate Panel and the Ninth Circuit affirmed.

Held: The Bankruptcy Court exceeded the limits of its authority when it ordered that the $75,000 protected by Laws homestead exemption be made available to pay Siegels attorneys fees. Pp. 5-12.

(a) A bankruptcy court may not exercise its authority to carry out the provisions of the Code,11 U. S. C. 105(a), or its inherent power . . . to sanction abusive litigation practices, Marrama v. Citizens Bank of Mass.,549 U. S. 365-376, by taking action prohibited elsewhere in the Code. Here, the Bankruptcy Courts surcharge contravened 522, which (by reference to California law) entitled Law to exempt $75,000 of equity in his home from the bankruptcy estate, 522(b)(3)(A), and which made that $75,000 not liable for payment of any administrative expense, 522(k), including attorneys fees, see 503(b)(2). The surcharge thus exceeded the limits of both the courts authority under 105(a) and its inherent powers. Pp. 5-7.

(b) Siegel argues that an equitable power to deny an exemption by surcharging exempt property in response to a debtors misconduct can coexist with 522. But insofar as that argument equates the surcharge with an outright denial of Laws homestead exemption, it founders on this cases procedural history. The Bankruptcy Appellate Panel recognized that because no one timely objected to the homestead exemption, it became final before the surcharge was imposed. And a trustee who fails to make a timely objection cannot challenge an exemption. Taylor v. Freeland & Kronz,503 U. S. 638-644. Assuming the Bankruptcy Court could have revisited Laws entitlement to the exemption, 522 specifies the criteria that render property exempt, and a court may not refuse to honor a debtors invocation of an exemption without a valid statutory basis. Federal courts may apply state law to disallow state-created exemptions, but federal law itself provides no authority for bankruptcy courts to deny an exemption on a ground not specified in the Code. Pp. 7-10.

(c) Neither the holding of Marrama v. Citizens Bank nor its dictum points toward a different result. There, the debtors bad faith kept him from converting his bankruptcy from a Chapter 7 liquidation to a Chapter 13 reorganization as permitted by 706(a). But that was because his conduct prevented him from qualifying under Chapter 13, and thus he could not satisfy 706(d), which expressly conditions conversion on the debtors ability to qualify under Chapter 13. Pp. 10-11.

(d) This ruling forces Siegel to shoulder a heavy financial burden due to Laws egregious misconduct and may produce inequitable results for other trustees and creditors, but it is not for courts to alter the balance that Congress struck in crafting 522. Cf. Guidry v. Sheet Metal Workers National Pension Fund,493 U. S. 365-377. P. 11.

(e) Ample authority remains to address debtor misconduct, including denial of discharge, see 727(a)(2)-(6); sanctions for bad-faith litigation conduct under the Bankruptcy Rules, 105(a), or a bankruptcy courts inherent powers; enforcement of monetary sanctions through the normal procedures for collecting money judgments, see 727(b); or possible prosecution under18 U. S. C. 152. Pp. 11-12.

435 Fed. Appx. 697, reversed and remanded.

Scalia, J., delivered the opinion for a unanimous Court.

Law v. Siegel - 12-5196 (2014)

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SUPREME COURT OF THE UNITED STATES

No. 12-5196

STEPHEN LAW, PETITIONER v. ALFRED H. SIEGEL,chapter 7 trustee

on writ of certiorari to the united states court of appeals for the ninth circuit

[March 4, 2014]

Justice Scalia delivered the opinion of the Court.

The Bankruptcy Code provides that a debtor may exempt certain assets from the bankruptcy estate. It further provides that exempt assets generally are not liable for any expenses associated with administering the estate. In this case, we consider whether a bankruptcy court nonetheless may order that a debtors exempt assets be used to pay administrative expenses incurred as a result of the debtors misconduct.

I. Background

A

Chapter 7 of the Bankruptcy Code gives an insolvent debtor the opportunity to discharge his debts by liquidating his assets to pay his creditors. 11 U. S. C. 704(a)(1), 726, 727. The filing of a bankruptcy petition under Chapter 7 creates a bankruptcy estate generally comprising all of the debtors property. 541(a)(1). The estate is placed under the control of a trustee, who is responsible for managing liquidation of the estates assets and distribution of the proceeds. 704(a)(1). The Code authorizes the debtor to exempt, however, certain kinds of property from the estate, enabling him to retain those assets postbankruptcy. 522(b)(1). Except in particular situations specified in the Code, exempt property is not liable for the payment of any [prepetition] debt or any administrative expense. 522(c), (k).

Section 522(d) of the Code provides a number of exemptions unless they are specifically prohibited by state law. 522(b)(2), (d). One, commonly known as the homestead exemption, protects up to $22,975 in equity in the debtors residence. 522(d)(1) and note following 522; see Owen v. Owen,500 U. S. 305,310 (1991). The debtor may elect, however, to forgo the 522(d) exemptions and instead claim whatever exemptions are available under applicable state or local law. 522(b)(3)(A). Some States provide homestead exemptions that are more generous than the federal exemption; some provide less generous versions; but nearly every State provides some type of homestead exemption. See Lpez, State Homestead Exemptions and Bankruptcy Law: Is It Time for Congress To Close the Loophole? 7 Rutgers Bus. L. J. 143, 149-165 (2010) (listing state exemptions).

B

Petitioner, Stephen Law, filed for Chapter 7 bankruptcy in 2004, and respondent, Alfred H. Siegel, was appointed to serve as trustee. The estates only significant asset was Laws house in Hacienda Heights, California. On a schedule filed with the Bankruptcy Court, Law valued the house at $363,348 and claimed that $75,000 of its value was covered by Californias homestead exemption. See Cal. Civ. Proc. Code Ann. 704.730(a)(1) (West Supp. 2014). He also reported that the house was subject to two voluntary liens: a note and deed of trust for

$147,156.52 in favor of Washington Mutual Bank, and a second note and deed of trust for $156,929.04 in favor of Lins Mortgage & Associates. Law thus represented that there was no equity in the house that could be recovered for his other creditors, because the sum of the two liens exceeded the houses nonexempt value.

If Laws representations had been accurate, he presumably would have been able to retain the house, since Siegel would have had no reason to pursue its sale. Instead, a few months after Laws petition was filed, Siegel initiated an adversary proceeding alleging that the lien in favor of Lins Mortgage & Associates was fraudulent. The deed of trust supporting that lien had been recorded by Law in 1999 and reflected a debt to someone named Lili Lin. Not one but two individuals claiming to be Lili Lin ultimately responded to Siegels complaint. One, Lili Lin of Artesia, California, was a former acquaintance of Laws who denied ever having loaned him money and described his repeated efforts to involve her in various sham transactions relating to the disputed deed of trust. That Lili Lin promptly entered into a stipulated judgment disclaiming any interest in the house. But that was not the end of the matter, because the second Lili Lin claimed to be the true beneficiary of the disputed deed of trust. Over the next five years, this Lili Lin managed-despite supposedly living in China and speaking no English-to engage in extensive and costly litigation, including several appeals, contesting the avoidance of the deed of trust and Siegels subsequent sale of the house.

Finally, in 2009, the Bankruptcy Court entered an order concluding that no person named Lili Lin ever made a loan to [Law] in exchange for the disputed deed of trust. In re Law, 401 B. R. 447, 453 (Bkrtcy. Ct. CD Cal.). The court found that the loan was a fiction, meant to preserve [Laws] equity in his residence beyond what he was entitled to exempt by perpetrating a fraud on his creditors and the court. Ibid. With regard to the second Lili Lin, the court declared itself unpersuaded that Lili Lin of China signed or approved any declaration or pleading purporting to come from her. Ibid. Rather, it said, the most plausible conclusion was that Law himself had authored, signed, and filed some or all of these papers. Ibid. It also found that Law had submitted false evidence in an effort to persuade the court that Lili Lin of China-rather than Lili Lin of Artesia-was the true holder of the lien on his residence. Id., at 452. The court determined that Siegel had incurred more than $500,000 in attorneys fees overcoming Laws fraudulent misrepresentations. It therefore granted Siegels motion to surcharge the entirety of Laws $75,000 homestead exemption, making those funds available to defray Siegels attorneys fees.

The Ninth Circuit Bankruptcy Appellate Panel affirmed. BAP No. CC-09-1077-PaMkH, 2009 WL 7751415 (Oct. 22, 2009) (per curiam). It held that the Bankruptcy Courts factual findings regarding Laws fraud were not clearly erroneous and that the court had not abused its discretion by surcharging Laws exempt assets. It explained that in Latman v. Burdette, 366 F. 3d 774 (2004), the Ninth Circuit had recognized a bankruptcy courts power to equitably surcharge a debtors statutory ex-emptions in exceptional circumstances, such as when a debtor engages in inequitable or fraudulent conduct. 2009 WL 7751415, *5, *7. The Bankruptcy Appellate Panel acknowledged that the Tenth Circuit had disagreed with Latman, see In re Scrivner, 535 F. 3d 1258, 1263-1265 (2008), but the panel affirmed that Latman was correct. 2009 WL 7751415, *7, n. 10. Judge Markell filed a concurring opinion agreeing with the panels application of Latman but questioning whether Latman remains good policy. 2009 WL 7751415, *10.

The Ninth Circuit affirmed. In re Law, 435 Fed. Appx. 697 (2011) (per curiam). It held that the surcharge was proper because it was calculated to compensate the estate for the actual monetary costs imposed by the debtors misconduct, and was warranted to protect the integrity of the bankruptcy process. Id., at 698. We granted certiorari. 570 U. S. ___ (2013).

II. Analysis

A

A bankruptcy court has statutory authority to issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of the Bankruptcy Code.11 U. S. C. 105(a). And it may also possess inherent power . . .

to sanction abusive litigation practices. Marrama v. Citizens Bank of Mass.,549 U. S. 365-376 (2007). But in exercising those statutory and inherent powers, a bankruptcy court may not contravene specific statutory provisions.

It is hornbook law that 105(a) does not allow the bankruptcy court to override explicit mandates of other sections of the Bankruptcy Code. 2 Collier on Bankruptcy 105.01[2], p. 105-6 (16th ed. 2013). Section 105(a) confers authority to carry out the provisions of the Code, but it is quite impossible to do that by taking action that the Code prohibits. That is simply an application of the axiom that a statutes general permission to take actions of a certain type must yield to a specific prohibition found elsewhere. See Morton v. Mancari,417 U. S. 535-551 (1974); D. Ginsberg & Sons, Inc. v. Popkin,285 U. S. 204-208 (1932).[1] Courts inherent sanctioning powers are likewise subordinate to valid statutory directives and prohibitions. Degen v. United States,517 U. S. 820,823 (1996); Chambers v. NASCO, Inc.,501 U. S. 32,47 (1991). We have long held that whatever equitable powers remain in the bankruptcy courts must and can only be exercised within the confines of the Bankruptcy Code. Norwest Bank Worthington v. Ahlers,485 U. S. 197,206 (1988); see, e.g., Raleigh v. Illinois Dept. of Revenue,530 U. S. 15-25 (2000); United States v. Noland,517 U. S. 535,543 (1996); SEC v. United States Realty & Improvement Co.,310 U. S. 434,455 (1940).

Thus, the Bankruptcy Courts surcharge was unauthorized if it contravened a specific provision of the Code. We conclude that it did. Section 522 (by reference to California law) entitled Law to exempt $75,000 of equity in his home from the bankruptcy estate. 522(b)(3)(A). And it made that $75,000 not liable for payment of any administrative expense. 522(k).[2] The reasonable attorneys fees Siegel incurred defeating the Lili Lin lien were indubitably an administrative expense, as a short march through a few statutory cross-references makes plain: Section 503(b)(2) provides that administrative expenses include compensation . . . awarded under 330(a); 330(a)(1) authorizes reasonable compensation for actual, necessary services rendered by a professional person employed under 327; and 327(a) authorizes the trustee to employ one or more attorneys . . . to represent or assist the trustee in carrying out the trustees duties under this title. Siegel argues that even though attorneys fees incurred responding to a debtors fraud qualify as administrative expenses for purposes of determining the trustees right to reimbursement under 503(b), they do not so qualify for purposes of 522(k); but he gives us no reason to depart from the normal rule of statutory construction that words repeated in different parts of the same statute generally have the same meaning. See Department of Revenue of Ore. v. ACF Industries, Inc.,510 U. S. 332,342 (1994) (quoting Sorenson v. Secretary of Treasury,475 U. S. 851,860 (1986)).

The Bankruptcy Court thus violated 522s express terms when it ordered that the $75,000 protected by Laws homestead exemption be made available to pay Siegels attorneys fees, an administrative expense. In doing so, the court exceeded the limits of its authority under 105(a) and its inherent powers.

B

Siegel does not dispute the premise that a bankruptcy courts 105(a) and inherent powers may not be exercised in contravention of the Code. Instead, his main argument is that the Bankruptcy Courts surcharge did not contravene 522. That statute, Siegel contends, establish[es] the procedure by which a debtor may seek to claim exemptions but contains no directive requiring [courts] to allow [an exemption] regardless of the circumstances. Brief for Respondent 35. Thus, he says, recognition of an equitable power in the Bankruptcy Court to deny an exemption by surcharging the exempt property in response to the debtors misconduct can coexist comfortably with 522. The United States, appearing in support of Siegel, agrees, arguing that 522 neither gives debtors an absolute right to retain exempt property nor limits a courts authority to impose an equitable surcharge on such property. Brief for United States as Amicus Curiae 23.

Insofar as Siegel and the United States equate the Bankruptcy Courts surcharge with an outright denial of Laws homestead exemption, their arguments founder upon this cases procedural history. The Bankruptcy Appellate Panel stated that because no one timely oppose[d] [Law]s homestead exemption claim, the exemption became final before the Bankruptcy Court imposed the surcharge.

2009 WL 7751415, at *2. We have held that a trustees failure to make a timely objection prevents him from challenging an exemption. Taylor v. Freeland & Kronz,503 U. S. 638-644 (1992).

But even assuming the Bankruptcy Court could have revisited Laws entitlement to the exemption, 522 does not give courts discretion to grant or withhold exemptions based on whatever considerations they deem appropriate. Rather, the statute exhaustively specifies the criteria that will render property exempt. See 522(b), (d). Siegel insists that because 522(b) says that the debtor may exempt certain property, rather than that he shall be entitled to do so, the court retains discretion to grant or deny exemptions even when the statutory criteria are met. But the subject of may exempt in 522(b) is the debtor, not the court, so it is the debtor in whom the statute vests discretion. A debtor need not invoke an exemption to which the statute entitles him; but if he does, the court may not refuse to honor the exemption absent a valid statutory basis for doing so.

Moreover, 522 sets forth a number of carefully calibrated exceptions and limitations, some of which relate to the debtors misconduct. For example, 522(c) makes exempt property liable for certain kinds of prepetition debts, including debts arising from tax fraud, fraud in connection with student loans, and other specified types of wrongdoing. Section 522(o) prevents a debtor from claiming a homestead exemption to the extent he acquired the homestead with nonexempt property in the previous 10 years with the intent to hinder, delay, or defraud a creditor. And 522(q) caps a debtors homestead exemption at approximately $150,000 (but does not eliminate it en-tirely) where the debtor has been convicted of a felony that shows that the filing of the case was an abuse of the provisions of the Code, or where the debtor owes a debt arising from specified wrongful acts-such as securities fraud, civil violations of the Racketeer Influenced and Corrupt Organizations Act, or any criminal act, intentional tort, or willful or reckless misconduct that caused serious physical injury or death to another individualin the preceding 5 years. 522(q) and note following522. The Codes meticulous-not to say mind-numbingly detailed-enumeration of exemptions and exceptions to those exemptions confirms that courts are not authorized to create additional exceptions.

See Hillman v. Maretta, 569 U. S. ___, ___ (2013) (slip op., at 12); TRW Inc. v. Andrews,534 U. S. 19-29 (2001).

Siegel points out that a handful of courts have claimed authority to disallow an exemption (or to bar a debtor from amending his schedules to claim an exemption, which is much the same thing) based on the debtors fraudulent concealment of the asset alleged to be exempt. See, e.g., In re Yonikus, 996 F. 2d 866, 872-873 (CA7 1993); In re Doan, 672 F. 2d 831, 833 (CA11 1982) (per curiam); Stewart v. Ganey, 116 F. 2d 1010, 1011 (CA5 1940). He suggests that those decisions reflect a general, equitable power in bankruptcy courts to deny exemptions based on a debtors bad-faith conduct. For the reasons we have given, the Bankruptcy Code admits no such power. It is of course true that when a debtor claims a state-created exemption, the exemptions scope is determined by state law, which may provide that certain types of debtor misconduct warrant denial of the exemption. E.g., In re Sholdan, 217 F. 3d 1006, 1008 (CA8 2000); see 4 Collier on Bankruptcy 522.08[1]-[2], at 522-45 to 522-47. Some of the early decisions on which Siegel relies, and which the Fifth Circuit cited in Stewart, are instances in which federal courts applied state law to disallow state-created exemptions. See In re Denson, 195 F. 857, 858 (ND Ala. 1912); Cowan v. Burchfield, 180 F. 614, 619 (ND Ala. 1910); In re Ansley Bros., 153 F. 983, 984 (EDNC 1907). But federal law provides no authority for bankruptcy courts to deny an exemption on a ground not specified in the Code.

C

Our decision in Marrama v. Citizens Bank, on which Siegel and the United States heavily rely, does not point toward a different result. The question there was whether a debtors bad-faith conduct was a valid basis for a bankruptcy court to refuse to convert the debtors bankruptcy from a liquidation under Chapter 7 to a reorganization under Chapter 13. Although 706(a) of the Code gave the debtor a right to convert the case, 706(d) expressly conditioned that right on the debtors ability to qualify as a debtor under Chapter 13. 549 U. S., at 372. And 1307(c) provided that a proceeding under Chapter 13 could be dismissed or converted to a Chapter 7 proceeding for cause, which the Court interpreted to authorize dismissal or conversion for bad-faith conduct. In light of 1307(c), the Court held that the debtors bad faith could stop him from qualifying as a debtor under Chapter 13, thus preventing him from satisfying 706(d)s express condition on conversion. Id., at 372-373. That holding has no relevance here, since no one suggests that Law failed to satisfy any express statutory condition on his claiming of the homestead exemption.

True, the Court in Marrama also opined that the Bankruptcy Courts refusal to convert the case was authorized under 105(a) and might have been authorized under the courts inherent powers. Id., at 375-376. But even that dictum does not support Siegels position. In Marrama, the Court reasoned that if the case had been converted to Chapter 13, 1307(c) would have required it to be either dismissed or reconverted to Chapter 7 in light of the debtors bad faith. Therefore, the Court suggested, even if the Bankruptcy Courts refusal to convert the case had not been expressly authorized by 706(d), that action could have been justified as a way of providing a prompt, rather than a delayed, ruling on [the debtors] unmeritorious at-tempt to qualify under 1307(c). Id., at 376. At most, Marramas dictum suggests that in some circumstances a bankruptcy court may be authorized to dispense with futile procedural niceties in order to reach more expeditiously an end result required by the Code. Marrama most certainly did not endorse, even in dictum, the view that equitable considerations permit a bankruptcy court to contravene express provisions of the Code.

D

We acknowledge that our ruling forces Siegel to shoulder a heavy financial burden resulting from Laws egregious misconduct, and that it may produce inequitable results for trustees and creditors in other cases. We have recognized, however, that in crafting the provisions of 522, Congress balanced the difficult choices that exemption limits impose on debtors with the economic harm that exemptions visit on creditors. Schwab v. Reilly,560 U. S. 770,791 (2010). The same can be said of the limits imposed on recovery of administrative expenses by trustees. For the reasons we have explained, it is not for courts to alter the balance struck by the statute. Cf. Guidry v. Sheet Metal Workers Nat. Pension

Fund,493 U. S. 365-377 (1990).

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Our decision today does not denude bankruptcy courts of the essential authority to respond to debtor misconduct with meaningful sanctions. Brief for United States as Amicus Curiae 17. There is ample authority to deny the dishonest debtor a discharge. See 727(a)(2)-(6). (That sanction lacks bite here, since by reason of a postpetition settlement between Siegel and Laws major creditor, Law has no debts left to discharge; but that will not often be the case.) In addition, Federal Rule of Bankruptcy Pro-cedure 9011-bankruptcys analogue to Civil Rule 11-authorizes the court to impose sanctions for bad-faith litigation conduct, which may include an order directing payment. . . of some or all of the reasonable attorneys fees and other expenses incurred as a direct result of the violation. Fed. Rule Bkrtcy. Proc. 9011(c)(2). The court may also possess further sanctioning authority under either 105(a) or its inherent powers. Cf. Chambers, 501 U. S., at 45-49. And because it arises postpetition, a bankruptcy courts monetary sanction survives the bankruptcy case and is thereafter enforceable through the normal procedures for collecting money judgments. See 727(b). Fraudulent conduct in a bankruptcy case may also subject a debtor to criminal prosecution under18 U. S. C. 152, which carries a maximum penalty of five years imprisonment.

But whatever other sanctions a bankruptcy court may impose on a dishonest debtor, it may not contravene express provisions of the Bankruptcy Code by ordering that the debtors exempt property be used to pay debts and expenses for which that property is not liable under the Code.

The judgment of the Court of Appeals is reversed, and the case is remanded for further proceedings consistent with this opinion.

It is so ordered.

Notes

1 The second sentence of 105(a) adds little to the analysis. It states: No provision of this title providing for the raising of an issue by a party in interest shall be

construed to preclude the court from, sua sponte, taking any action or making any determination necessary or appropriate to enforce or implement court orders or rules, or to prevent an abuse of process. Even if the abuse of process language were deemed to confer additional authority beyond that conferred by the first sentence (which is doubtful), that general authority would also be limited by more specific provisions of the Code.

2 The statutes general rule that exempt assets are not liable foradministrative expenses is subject to two narrow exceptions, both per-taining to the use of exempt assets to pay expenses associated with the avoidance of certain voidable transfers of exempt property. 522(k)(1)-(2). Neither of those exceptions is relevant here.