

Sloan Vs. Lewis

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Court : US Supreme Court

Decided On : 1874

Appeal No. : 89 U.S. 150

Appellant : Sloan

Respondent : Lewis

Judgement :

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Sloan v. Lewis

89 U.S. (22 Wall.) 150

ERROR TO THE SUPREME COURT

OF NORTH CAROLINA

SYLLABUS

1. Under the thirty-ninth section of the Bankrupt Act, enacting that a person may, in certain events, be decreed a bankrupt against his will "on the petition of one or more of his creditors the aggregate of whose debts provable under this act

amounts to at least \$250," it is not necessary that the principal of the debt should amount to \$250. If, with interest plainly due on it, according to what appears on the face of the petition, it amounts to at least \$250, that authorizes the decree.

2. In a case where the decree is thus authorized -- in other words, where jurisdiction exists in the district court of the United States to decree a person a bankrupt and the person has been decreed a bankrupt accordingly, a party against whom the assignee in bankruptcy brings suit in another court, not appellate, to recover assets of the bankrupt's estate cannot show that payments made on account had reduced the petitioning creditor's debt so low as that the bankrupt did not owe as much as the petitioning creditor in his petition alleged. The finding of the district

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court of the existence of a debt to the amount of \$250 due from the party proceeded against to the petitioning creditor is conclusive, in a collateral action, of the fact that a debt of that amount was due.

The Bankrupt Act [[Footnote 1](#)] enacts that any person owing debts and committing certain acts,

"Shall be adjudged a bankrupt on the petition of one or more of his creditors, the aggregate of whose debts provable under this act *amounts to at least \$250.* "

This enactment being in force, Bell filed a petition in the District Court of the United States of North Carolina, praying that a certain Rhyne might be decreed a bankrupt. The petition alleged,

"That your petitioner's demands against the said Rhyne exceed the sum of \$250, and that the nature of them is as follows."

It then set forth three sealed notes amounting in the aggregate to \$249.35, and on comparing the dates of the three notes with the date when the petition in bankruptcy was filed, it appeared that several years' interest was due on them.

The "debt" therefore, using the word "debt" in its strict common law parlance, was less than \$250, though, with the interest added, it much exceeded that sum.

The debtor was, on this petition, decreed, against his will a bankrupt, and one Lewis was appointed his assignee.

Lewis now sued one Sloan in a state court of North Carolina to set aside certain conveyances made by the bankrupt in fraud, as was alleged, of the Bankrupt Law, and one of the defenses in the action was that the adjudication of bankruptcy was void because the record showed that the debt owing to the petitioning creditor was less than \$250, and consequently that the court had no jurisdiction in the premises.

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The state court in which the suit was brought considered that the district court of the United States which made the adjudication in bankruptcy had, in fixing the amount of the debt, properly added the interest to the principal of the debt. In addition it refused to allow the defendant to show that the debt of \$249.35 had been reduced by a credit of \$64 which the creditor petitioning in bankruptcy had not allowed -- a reduction, it may be noted, which was not alleged in the pleadings. Its view was that

"the petition of Bell in the bankrupt court had been passed on by that court and the matter presented by it there adjudicated, and that other courts, not appellate, could not go behind the record."

And fraud on the Bankrupt Act being found in the conveyances made by the bankrupt, it set them aside. This decree being affirmed by the supreme court of the state, the case was now brought here by Sloan, claiming under the conveyances.

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THE CHIEF JUSTICE delivered the opinion of the Court.

The Bankrupt Act [[Footnote 2](#)] provides for an adjudication of involuntary bankruptcy upon the petition of one or more creditors the aggregate of whose debts provable under the act amounts to at least \$250. It becomes necessary, therefore, to ascertain what constitutes a debt that may be proved. The plaintiff in error contends that it is limited to the principal of a sum of money owing, while the assignee claims that it includes the principal and all accrued interest.

To determine this question. we must look in the first place to the act itself. If the intention of Congress is manifest from what there appears, we need not go further. Section nineteen provides

"That all debts due and payable from the bankrupt at the time of the adjudication of bankruptcy, and all debts then existing but not payable until a future day, a rebate of interest being made when no interest is payable by the terms of the contract, may be proved against the estate of the bankrupt."

And again,

"All demands against

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the bankrupt, for or on account of any goods or chattels wrongfully taken or withheld by him, may be proved and allowed as debts to the amount of the value of the property so taken or withheld, with interest."

There is certainly nothing here which in express terms excludes interest from the provable debt. On the contrary there is the strongest implication in favor of including it.

The object is to ascertain the total amount of the indebtedness of the bankrupt at the time of the commencement of the proceedings, and also the amount of this indebtedness owing to each one of the separate creditors. Accrued interest is as much a part of this indebtedness as the principal. It participates in dividends, when declared, precisely the same as the principal. One has no preference over the other, and for all the purposes of the settlement of the estate, the bankrupt owes

one as much as he does the other. Creditors prove their debts in order that they may participate in the management and distribution of the estate. Their influence in the management and their share on the distribution depend upon the amount of their several debts which have been proven. Hence, in order to fix the equitable representative value of a debt not due, provision is made for a rebate of interest. But if interest is to be rebated on debts not due, why not upon the same principle add it to such as are past due?

The provision for adding interest to the value of goods wrongfully taken and converted is equally significant. Certainly no good reason can be given for withholding interest in cases arising upon contract and allowing it in cases of tort, and because it is expressly given in the last and no provision is made for it in the first, the conclusion is irresistible that it was expected to follow the contract as a part of the obligation.

We are all, therefore, clearly of the opinion that accrued interest constitutes part of a debt provable against the estate of the bankrupt, and if it does it is necessarily part of a debt which may be used to uphold involuntary proceedings. It is only necessary, upon this point of jurisdiction, that the

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petitioning creditors should have owing to them from the debtor they wish to pursue, debts provable under the act to the required amount. The English cases referred to in the argument, in our opinion, have no application here. They are founded upon the English statutes and the established practice under them. Our statute is different in its provisions and requires, as we think, a different practice.

This is conclusive of the case. The petition filed in the bankrupt proceedings distinctly averred that the debts due the petitioner exceeded the sum of \$250, and if interest is added, the particular indebtedness specified amounts to more than that sum. The court found this allegation true. That finding is conclusive in a collateral action. We have so decided in *Michaels v. Post*, [[Footnote 3](#)] at the present term. Where the record shows jurisdiction, an adjudication of bankruptcy

can only be assailed by a direct proceeding in a competent court. Evidence, therefore, to show that payments had been made which reduced the indebtedness below the required amount was inadmissible under any form of pleading in an action like this, but it was especially so in this case, because there is no averment in the pleadings contradicting the record. The sole objection is that, upon the face of the record, the error is apparent. A record cannot be impeached without previous notice by proper form of pleading.

Judgment affirmed.

[[Footnote 1](#)]

Section 39.

[[Footnote 2](#)]

Section 39.

[[Footnote 3](#)]

[88 U. S. 21](#) Wall. 398.