

Alexander L. Paskay Memorial Bankruptcy Seminar

Consumer

Treatment of Personal Property During Bankruptcy

Ryan E. Davis

Winderweedle, Haines, Ward & Woodman, P.A. | Orlando

David W. Fineman

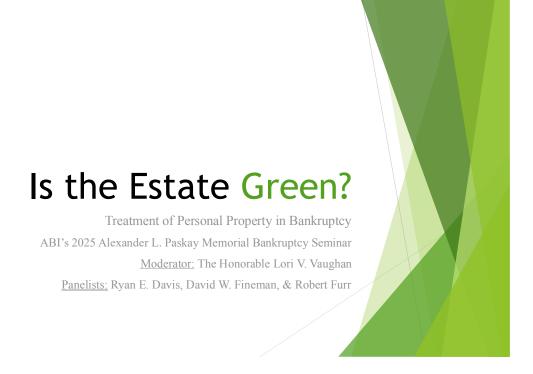
F&L Law Group, P.A. | Fort Myers

Robert C. Furr

Furr Cohen | Boca Raton

Hon. Lori V. Vaughan

U.S. Bankruptcy Court (M.D. Fla.) | Orlando



Headmistress and owner of Shiz University with her husband, the Great Wizard, Madame Morrible was dancing through life for decades before her secret was uncovered: she personally trained the Wicked Witch of the West. Once the Ozians discovered that Madame Morrible trained the wicked witch in the ways of sorcery, enrollment at Shiz University plummeted, reducing her income substantially. It was just a matter of time before the Bank of Oz sued Madame Morrible on her note, obtained a judgment forcing her to file bankruptcy. Following judgment, the Bank of Oz garnished Madame Morrible's Joint bank account and served Shiz University with a continuing writ of garnishment, to garnish her wages as headmistress. Additionally, the Bank of Oz obtained a writ of execution and had the sheriff of Oz execute upon Morrible's assets. The sheriff of Oz and a Bank of Oz representative located Morrible shopping at Publix and seized her sleek, but damaged, green 2024 convertible BMW and magic wand, while Bank of Oz's representative shouted, "You'll never go home. You'll never go home."

Although no longer popular, Madame Morrible initially filed a Subchapter V, believing everybody deserves the chance to fly. Shiz University's campus is by chance located on top of a lot of rare earth minerals making the property quite valuable. After the bankruptcy filing, Madame Morrible's attorney immediately demanded that the Bank of Oz dissolve the writs as a violation of the stay. Refusing to reverse this spell, the Bank contended that it waved its magic wand pre-petition. Loathing the Bank, Madame Morrible's attorney moved for sanctions against Bank of Oz for violations of the automatic stay.

QUESTIONS

- ▶ Did Bank of Oz have an affirmative duty to release the garnishments against the bank account?
- ▶ Must Bank of Oz release the continuing writ of garnishment?
- ► Is a motion for sanctions the appropriate method to force Bank of Oz to release the continuing writ?
- ▶ How about the writ of execution on the BMW?



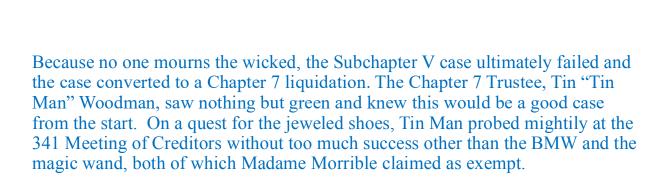
Garnishment – "No One Mourns the Wicked"

- Section 362(a)(3)
- ► City of Chicago v. Fulton, 592 U.S. 154 (2021)
 - ► Impounded vehicle
 - ▶ No stay violation for maintaining status quo
 - Limited to (a)(3)
- In re Namen, 649 B.R. 603 (Bankr M.D. Fla. 2023)
 - Court ordered creditor to release prepetition garnishment
 - Creditor refused
 - Court found willful violation of automatic stay
- ▶ Rule 7001(1)
 - Should a stay violation be brought by motion or adversary proceeding?
 - ▶ How about contempt of discharge injunction?
 - ► *In re McLean*, 794 F.3d 1313, 1326 (11th Cir. 2015).



"They're Just Shoes, Elphie, Get Over It"

- ▶ Rule 7001 The following are adversary proceedings:
- ▶ (a) a proceeding to recover money or property--except a proceeding to compel the debtor to deliver property to the trustee, a proceeding by an individual debtor to recover tangible personal property under § 542(a), or a proceeding under § 554(b), § 725, Rule 2017, or Rule 6002;
- ▶ In *Fulton*, Justice Sotomayor said formal adversary proceedings can be too time consuming in forcing turnover
- ▶ How strictly is this list in FRBP 7001 enforced?
- ► In re McLean, 794 F.3d 1313, 1326 (11th Cir. 2015)
 - ▶ Contempt for violation of discharge injunction



QUESTIONS

- ▶ What is the appropriate methodology for valuing the vehicle?
 - ▶ Is it the same as valuing a secured claim?
- ▶ Is any part of the motor vehicle exempt?
- ▶ What exemptions might apply to the magic wand?



Valuation of Personal Property - "Defying Gravity [if only...]"



- ► Section 522
 - ► FMV on the date of filing of the petition or
 - Date property becomes property of the estate
- ▶ Does § 522 apply to state exemptions?
 - ► See In re Summerell, 194 B.R. 818, 824-25 (Bankr. E.D. TN 1996)

Exemptions – "There's no place like home, [especially if home is Florida]"

- Florida is an "Opt-Out" state. 11
 U.S.C. § 522(b); Fla. Stat. 222.20
 (2024).
 - ► As of July 1, 2024, exemption for single motor vehicle is \$5,000
- ▶ But see Fla. Stat. 222.201 (2024)
 - ► Property listed in 11 U.S.C. § 522(d)(10)
 - ➤ Social security benefit, unemployment compensation, veteran's benefits, etc.



Tin Man knew it was time to trust his instincts and served 2004 subpoenas on Madame Morrible, Shiz University, the Great Wizard and her banks. Bank of Emerald City produced a statement of an undisclosed account, reflecting a balance of \$50,000. Madame Morrible responded by claiming the account to be exempt as tenancy by the entirety property and muttering, "you can't pull me down." During his investigation, Tin Man reviewed the signature card, which expressly indicated that the account was held in tenancy by the entireties with Madame's husband the Great Wizard. Learning that the signature card was executed when the Great Wizard added the wife to the account, Tin Man objected to the exemption, exclaiming "you're not as powerful as you think."

QUESTIONS

- ▶ Is the Emerald City bank account exempt as tenancy by the entireties?
- ▶ If a bank account lacks a designation, can it still be deemed as exempt as tenancy by the entireties?



TBE Bank Accounts used to be Popular until...

- ▶ In Beal Bank, the Court held that:
 - A presumption that a joint spousal account is owned as TBE arises when the account is in the name of husband and wife and the six unities are present, unless there is a statement on the signature card expressly disclaiming TBE;
 - An express designation on a signature card that the account is held as TBE ends the inquiry as to the form of ownership;
 - 3. If a signature card does not expressly disclaim a tenancy by the entireties form of ownership, and the account is not expressly designated as a TBE account, then a rebuttable presumption arises that a TBE account exists provided that all other unities are present.
 - No presumption of TBE arises when the signature card expressly states that the account is not owned as TBE and expressly designates a different type of ownership.
 - An express disclaimer of TBE on the signature card ends the inquiry as to whether a TBE account was intended.

Beal Bank v. Almand & Assocs., 780 So. 2d 45 (Fla. 2001).



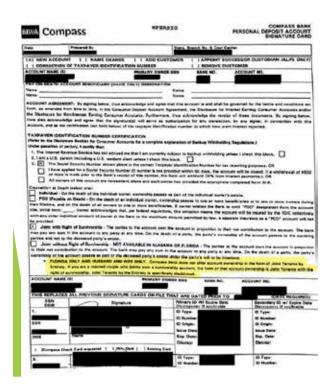
Fla. Stat. 655.79(1) and *Storey Mt., LLC*

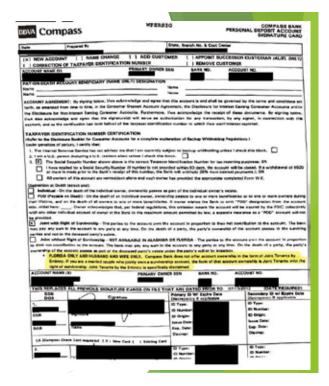
- ▶ 2008 amendment to Fla. Stat. 655.79(1):
 - ▶ Unless otherwise expressly provided in a contract, agreement, or signature card executed in connection with the opening or maintenance of an account...shall be presumed to have been intended by such persons to provide that, upon the death of any one of them, all rights...vest in the surviving person or persons. Any deposit or account made in the name of two persons who are husband and wife shall be considered a tenancy by the entirety unless otherwise specified in writing.
- Storey Mt., LLC v. George, 357 So. 3d 709 (Fla. Dist. Ct. App. 2023).
 - ▶ A spousal account was not owned as TBE where
 - No express designation as to the type of account ownership on the signature card
 - PNC's standard checking agreement provided that PNC "reserve[s] the right to refuse to allow you to hold the Account as tenants by the entireties, in our discretion."













"Dancing Through Life" with more TBE exemptions

- Real property
 - Conveyance to husband and wife creates TBE absent express language showing contrary intent. *Beal Bank*, 780 So. 2d at 54.
- Car titles
 - Creation of TBE
 - Intention to create an estate by the entireties
 - Registration in the names of husband and wife
 - Mand" vs. "Or"
 - In re Daniels, 309 B.R. 54 (Bankr. M.D. Fla. 2004)
- ▶ Joint ownership of LLCs
 - As long as the requisite unities are present, it is likely that a married couple can own an interest in an LLC as TBE.
 - Se Prop. Holdings, LLC v. McElheney, No. 5:12cv164-MW/EMT, 2016 U.S. Dist. LEXIS 193479, at *11-14 (N.D. Fla. May 7, 2016).



The subpoenas also revealed paperwork showing Madame Morrible's daughter had a 50% ownership interest in Shiz University. Assuming this was just a sham, Tin Man, with his seemingly unlimited power, followed the yellow brick road and moved to turn over the daughter's interest in the university to the bankruptcy estate. In response, Madame Morrible argued that her daughter always had the 50% interest and contended that the Tin Man has no real power. Trying to defy gravity, Tin Man argued that the daughter was merely a nominee for Madame Morrible and that the 50% interest was subject to turnover. The other 50% of Shiz is owned by an LLC purportedly owned by both Madama and the Great Wizard, though no one can find any documentation of ownership.

After flying off the handle in open Court, Madame Morrible shouted, "I hope you're happy in the end." Disgustified by it all, the Court declared, "I am Oz, the great and powerful" and these shenanigans must end!

QUESTIONS

- ► Is the daughter's interest in Shiz University subject to turnover?
- ▶ What factors do courts consider in declaring someone a nominee?



QUESTIONS

- ➤ Should the Tin Man bring a fraudulent transfer action instead of a turnover motion?
- ▶ What is the benefit in bringing a turnover motion versus fraudulent transfer?
- ► How would Madam Morrible prove she and her husband own 50% of Shiz as tenants by the entireties?

Joint Ownership of LLC's

- ▶ There are many distinct ways that a married couple can own an LLC or own an interest in an LLC as TBE. *Se Prop. Holdings, LLC v. McElheney*, No. 5:12cv164-MW/EMT, 2016 U.S. Dist. LEXIS 193479, at *11-14 (N.D. Fla. May 7, 2016). "[E]ach half of the couple need not individually be a member of the LLC—the couple can itself, as a unit, be a member, or one spouse can be a member and can hold that membership interest as tenants by the entireties with his or her spouse." *Id.*
- Under Florida law, a membership in an LLC includes (by default) a transferrable property "right to receive distributions in accordance with the operating agreement, whether the person remains a member or continues to own a part of the right." Fla. Stat. 605.0102.; Fla. Stat. 605.0501; Fla. Stat. 605.0502.
- ▶ This means that membership and the right to distributions are separate interests. Se Prop. Holdings, LLC, at *12.
- As long as the requisite unities are present, it is likely that a married couple can own an interest in an LLC as TBE. See generally, Id. at *21-22.



Joint Ownership of LLC's (Continued)

- ▶ It is worth noting that the remedy for a judgment against a multiple member LLC is a charging order against the transferrable interest of the member or transferee. Fla. Stat. 605.0503 (1).
- ▶ In cases involving single member LLCs, a judgment creditor can also obtain a charging order; however, the creditor may move the court to compel a foreclosure sale if the creditor can prove that the charging order will not be timely satisfied. Fla. Stat. 605.0503(4).
- ▶ Further, chapter 605 of the Florida Statutes does not deprive a member or transferee of the benefit of any exemption law applicable to the transferrable interest of the member or transferee. 605.0503(2).



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Example: Operating Agreement Signature Page and Attachment | Common | Comm

Ownership of LLCs and Reporting Requirements

- ► Florida Statutes impose reporting requirements for LLCs, including a current list of the full names and last known business, residence, or mailing addresses of each member and manager. Fla. Stat. 605.0410.
- ► Certain types of LLCs are required to report information about their beneficial owners (people who ultimately own or control the company) to the Department of the Treasury's Financial Crimes Enforcement Network.



Faculty

Ryan E. Davis is a shareholder with Winderweedle, Haines, Ward & Woodman, P.A. in Winter Park, Fla., and chairs the firm's Bankruptcy and Creditor's Rights Department. He is Board Certified in Business Bankruptcy Law by the American Board of Certification. He also is a Florida Supreme Court Certified Circuit Mediator. Mr. Davis concentrates his practice around chapter 11 reorganizations and complex chapter 7 liquidations. As lead counsel, he has represented national and regional lenders, commercial landlords, corporate debtors, fiduciaries, trustees, trade creditors, asset-purchasers, and other interested parties in bankruptcy cases throughout the State of Florida. Mr. Davis also has experience representing defendants in complex avoidance actions. In addition to his bankruptcy practice, he handles commercial litigation matters, typically involving creditors' rights, including commercial foreclosures, real estate disputes, construction lien foreclosures and contract disputes. Mr. Davis was awarded *The Best Lawyers in America* Litigation-Bankruptcy "Lawyer of the Year" for Orlando, Florida, in 2023. He has also been recognized by Florida Trend magazine as "Florida's Legal Elite," by Florida Super Lawyers, by Orlando Magazine as one of "Orlando's Best Lawyers," and by Orlando Home & Leisure as one of "Orlando's Top Lawyers." He is rated AV-Preeminent by Martindale-Hubbell. Mr. Davis received his undergraduate degree from Tulane University and his J.D. with honors from the University of Florida.

David W. Fineman is an attorney with F&L Law Group, P.A. in Fort Myers Fla. He is licensed to practice in all state and federal courts in the state of Florida and the federal Eleventh Circuit Court of Appeals, where he successfully argued several landmark cases for consumers and debtors in Florida. Board Certified in Consumer Bankruptcy Law by the American Board of Certification, Mr. Fineman began practicing law in Punta Gorda, Fla., in 2007. He has worked in various areas of the law, including criminal law, personal injury, land use, construction law, real estate law, landlord/tenant law, judgment enforcement, estate-planning and association law. Mr. Fineman focused his practice on consumer protection, handling thousands of cases between foreclosure and debt defense cases, personal bankruptcy cases, and abusive debt collection and improper credit-reporting. He has since added estate-planning, probate and business organization assistance to his practice areas. Prior to practicing law, Mr. Fineman served as a deputy for the Charlotte County Sheriff's Office and a police officer for the Punta Gorda Police Department. He received his J.D. from Barry University School of Law.

Robert C. Furr is a partner with Furr & Cohen, P.A. in Boca Raton, Fla., and leads the firm's bank-ruptcy practice. He has more than 35 years of experience representing individuals and businesses in complex chapter 7 and 11 proceedings. Mr. Furr is Board Certified in both Consumer and Business Bankruptcy by the American Board of Certification. He serves as a panel trustee for the U.S. Trustee Program for the Southern District of Florida, and he regularly acts as a trustee in chapter 7, 11 and 12 cases throughout the region. He also has served in many multimillion-dollar bankruptcies. Mr. Furr is trained in bankruptcy mediation to serve in mediating adversary proceedings, contested matters and plans expertise with complex cases. His cases encompass both state court civil litigation and complex commercial litigation in addition to bankruptcy. Mr. Furr has handled numerous complex cases in a broad range of business and industries, including retail, manufacturing, medical and other professional practices, restaurant chains, IP companies, real estate and nonprofit. He is a Fellow of the American

College of Bankruptcy, and he is a past president of the National Association of Bankruptcy Trustees. Mr. Furr has testified twice before Congress on bankruptcy matters and the legislative process. He is a past-editor and chief of *Nabtalk*, the journal of the National Association of Bankruptcy Trustees, and serves as president of the Bankruptcy Trustee Association of Southern Florida. A frequent lecturer, Mr. Furr has spoken to various professional groups and authored numerous articles on insolvency and bankruptcy. He received his J.D. from Emory University in 1975.

Hon. Lori V. Vaughan is a U.S. Bankruptcy Judge for the Middle District of Florida in Orlando, sworn in on Feb. 25, 2020. She started her career as a law clerk to Hon. Karen S. Jennemann. Judge Vaughan then practiced bankruptcy law for 21 years at two law firms, representing debtors, creditors and trustees in jurisdictions across the country. Most recently, she was a shareholder at Trenam Law in Tampa, Fla., and before that, she practiced at Foley & Lardner, the last year of which she spent practicing out of its New York office. Judge Vaughan previously served as president of the Tampa Bay Bankruptcy Bar Association, chair of the Bankruptcy/UCC Committee of the Florida Bar's Business Law Section, and board member for the International Women's Insolvency & Restructuring Confederation. She has also sat on the boards of the USF Financing Corp. and USF Property Corp. Before taking the bench, Judge Vaughan was recognized by *Florida Super Lawyers* as being among the top 100 Lawyers in Florida, the top 50 Lawyers in Tampa Bay and the top 50 Women Lawyers in Florida. She also has been recognized by *Chambers USA* and *The Best Lawyers in America*. Judge Vaughan received her B.A. with high honors from Eckerd College in 1995 and her J.D. with honors from the University of Florida, College of Law in 1998.