



## Questions and Case Problems

**12-1. Mechanic's Lien.** Grant is the owner of a relatively old home valued at \$45,000. He notices that the bathtubs and fixtures in both bathrooms are leaking and need to be replaced. He contracts with Jane's Plumbing to replace the bathtubs and fixtures. Jane replaces them, and on June 1 she submits her bill of \$4,000 to Grant. Because of financial difficulties, Grant does not pay the bill. Grant's only asset is his home, but his state's homestead exemption is \$40,000. Discuss fully Jane's remedies in this situation.

**12-2. Voluntary versus Involuntary Bankruptcy.** Burke has been a rancher all her life, raising cattle and crops. Her ranch is valued at \$500,000, almost all of which is exempt under state law. Burke has eight creditors and a total indebtedness of \$70,000. Two of her largest creditors are Oman (\$30,000 owed) and Sneed (\$25,000 owed). The other six creditors have claims of less than \$5,000 each. A drought has ruined all of Burke's crops and forced her to sell many of her cattle at a loss. She cannot pay off her creditors.

- Under the Bankruptcy Code, can Burke, with a \$500,000 ranch, voluntarily petition herself into bankruptcy? Explain.
- Could either Oman or Sneed force Burke into involuntary bankruptcy? Explain.

**12-3. Preferences.** Peaslee is not known for his business sense. He started a greenhouse and nursery business two years ago, and because of his lack of experience, he soon was in debt to a number of creditors. On February 1, Peaslee borrowed \$5,000 from his father to pay some of these creditors. On May 1, Peaslee paid back the \$5,000, depleting his entire working capital. One creditor, the Cool Springs Nursery Supply Corp., extended credit to Peaslee on numerous purchases. Cool Springs pressured Peaslee for payment, and on July 1, Peaslee paid Cool Springs half the amount owed. On September 1, Peaslee voluntarily petitioned himself into bankruptcy. The trustee in bankruptcy claimed that both Peaslee's father and Cool Springs must turn over to the debtor's estate the amounts Peaslee paid to them. Discuss fully the trustee's claims.

**12-4. Bankruptcy.** Cathy Coleman took out loans to complete her college education. After graduation, Coleman was irregularly employed as a teacher before filing a petition in a federal bankruptcy court under Chapter 13. The court confirmed a five-year plan under which Coleman was required to commit all of her disposable income to paying the student loans. Less than a year later, she was laid off. Still owing more than \$100,000 to Educational Credit Management Corp., Coleman asked the court to discharge the debt on the ground that it would be undue hardship for her to pay it. Under Chapter 13, when is a debtor normally entitled to a discharge? Are student loans dischargeable? If not, is "undue hardship" a legitimate ground for an exception? With respect to a debtor, what is the goal of

bankruptcy? With these facts and principles in mind, what argument could be made in support of Coleman's request? [*In re Coleman*, 560 F.3d 1000 (9th Cir. 2009)]

**12-5. Discharge in Bankruptcy.** Caroline McAfee loaned \$400,000 to Carter Oaks Crossing. Joseph Harman, president of Carter Oaks Crossing, signed a promissory note providing that the company would repay the amount with interest in installments beginning in 1999 and ending by 2006. Harman signed a personal guaranty for the note. Carter Oaks Crossing defaulted on the note, so McAfee sued Harman for payment under the guaranty. Harman moved for summary judgment on the ground that McAfee's claim against him had been discharged in his Chapter 7 bankruptcy case, filed after 1999 but before the default on the note. The guaranty was not listed among Harman's debts in the bankruptcy filing. Would the obligation under the guaranty have been discharged in bankruptcy, as Harman claimed? Why or why not? [*Harman v. McAfee*, 302 Ga.App. 698, 691 S.E.2d 586 (2010)]

**12-6. Liens.** Autolign Manufacturing Group, Inc., was a plastic injection molder that made parts for the auto industry. Because of a fire at its plant, Autolign subcontracted its work to several other companies to produce parts for its customers. Autolign provided the subcontractors with molds it owned so that they could produce the exact parts needed. After the subcontractors produced the parts, Autolign sold them to automakers. Shortly afterward, Autolign ceased operations. The subcontractors sued Autolign for breach of contract, claiming that they were never paid for the parts that they had produced for Autolign. The subcontractors asserted a statutory "molder's lien" on the molds in their possession. A molder's lien is similar to an artisan's lien in that it is possessory, but it was established by a Michigan statute rather than common law. One of Autolign's creditors, Wamco 34, Ltd., argued that the molds were its property because the molds were used to secure repayment of a debt that Autolign owed to Wamco. The trial court held that Wamco was a secured creditor and that its interest had priority over the plaintiffs' lien in the molds. The subcontractors appealed. Which party had the superior claim? Explain your answer. [*Delta Engineered Plastics, LLC v. Autolign Manufacturing Group, Inc.*, 286 Mich.App. 115, 777 N.W.2d 502 (2010)]

**12-7. Case Problem with Sample Answer. Protection for Debtors.** Bill and Betty Ma owned one-half of a two-unit residential building in San Francisco, California. Betty and her mother lived in one of the units, and Bill lived in China. Mei-Fang Zhang (and others) obtained a judgment in a federal district court against Bill Ma (and others, including Wei-Man Raymond Tse) based on a claim that they had been the victims of a foreign currency trading scam operated by Bill Ma and others. The judgment was



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