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UNITED STATES BANKRUPTCY COURT EASTERN DISTRICT OF CALIFORNIA

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA

In re Case No. 14-12107-A-7
Amado Lara Gomez, JES-3
Debtor.

_____ /

MEMORANDUM

1 The court deems Amado’s opposition, and its supporting declaration, to be a motion under Civil Rule
2 60(b). *See* Fed. R. Civ. P. 60(b), *incorporated by* Fed. R. Bankr. P. 9024.

3 **Jurisdiction**

4 This court has jurisdiction. *See* 28 U.S.C. §§ 1334, 157(a); General Order No. 182 of the U.S.
5 District Court for the Eastern District of California. This is a core proceeding in which this court may
6 enter final orders. *See* 28 U.S.C. § 157(b)(2)(B).

7 **Discussion**

8 **I. The Chapter 7 Trustee Bears the Burden of Proof**

9 As the objecting party, the trustee carries the burden of proof. Fed. R. Bankr. P. 4003(c); *In re*
10 *Carter*, 182 F.3d 1027, 1029, n.3 (9th Cir. 1999). The trustee must file the objection timely and
11 demonstrate by a preponderance of the evidence that the debtor is not entitled to the exemption claimed.
12 *In re Ford*, 492 F.3d 1148, 1155 (10th Cir. 2007); *In re Nicholson*, 435 B.R. 622, 632–33 (B.A.P. 9th
13 Cir. 2010) (citing *Ford*).

14 **II. The Law of Exemptions**

15 Individuals in chapter 7 bankruptcy may shelter assets from the estate by claiming them exempt
16 and thus place them beyond the reach of the trustee and creditors. *See* 11 U.S.C. § 522(b)(1).
17 Section 522 allows a debtor either to exempt property under the federal bankruptcy exemptions in
18 11 U.S.C. § 522(d), unless a state does not so authorize, or to exempt property under state or local law
19 and federal law other than § 522(d). *Id.* § 522(b)(2)–(3)(A), (d).

20 California has opted out of the federal exemption scheme. *See* Cal. Civ. Proc. Code § 703.130.
21 It provides resident debtors its own exemptions in bankruptcy cases. *Id.* § 703.140(a). As a
22 consequence, unless preempted by federal law, it is California state law, and not federal law, which
23 defines a debtor’s right to claim particular exemptions and the amount of those exemptions. *See Law*
24 *v. Siegel*, 134 S. Ct. 1188, 1196–97 (2014) (“It is of course true that when a debtor claims a state-
25 created exemption, the exemption’s scope is determined by state law, which may provide that certain
26 types of debtor misconduct warrant denial of the exemption.”); *In re Johnson*, 880 F.2d 78, 79 (8th Cir.
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1 1989) (applying Minnesota law); *In re Canino*, 185 B.R. 584, 590 (B.A.P. 1995) (“substantive issues
2 regarding claimed exemptions are governed by California law”).

3 California offers resident bankrupts a choice from two different, mutually exclusive exemption
4 schemes. Under California law, debtors may elect either the set of special exemptions under section
5 703.140(b) available only to debtors in bankruptcy (“special bankruptcy exemptions”) or the set of
6 regular exemptions under sections 704.010–704.995 of the California Code of Civil Procedure available
7 to judgment debtors generally outside of bankruptcy (“regular exemptions”). *See* Cal. Civ. Proc. Code
8 § 703.140(a). But they may not elect both. *See* Cal. Civ. Proc. Code § 703.140(a)(1)–(3); *Farrar v.*
9 *McKown* (*In re McKown*), 203 F.3d 1188, 1189 (9th Cir. 2000). The regular exemptions are
10 characterized by a generous homestead exemption but by austere exemptions for other assets. In
11 contrast, the special bankruptcy exemptions apply only to debtors who file for bankruptcy under Title
12 11 of the U.S. Code, *see* Cal. Civ. Proc. Code § 703.140(a), and provide a small homestead exemption
13 but offer a handsome wildcard exemption that may be used to protect any asset, *see* Cal. Civ. Proc.
14 Code § 703.140(b)(1), (5).

15
16 Like unmarried debtors, married debtors may not use exemptions from the two alternative
17 exemption schemes at the same time. *See id.* § 703.140(a); *Flinn v. Morris* (*In re Steward*), 227 B.R.
18 895, 899 (B.A.P. 9th Cir. 1998). This rule applies regardless of whether the married debtors are joined
19 in the petition. *See* Cal. Civ. Proc. Code § 703.140(a)(1)–(2); *see also* Cal. Civ. Proc. Code
20 § 703.110(a). A married debtor who files a bankruptcy petition that is not joined by the debtor’s spouse
21 is deemed to elect the regular exemptions applicable by default. Such a debtor may not claim the
22 special bankruptcy exemptions of section 703.140(b) unless both spouses effectively waive in writing
23 the right to claim, during the pendency of the debtor’s bankruptcy case, the regular exemptions in any
24 bankruptcy case involving either of them. *Id.* § 703.140(a)(2). The text of this statutory provision is as
25 follows:
26

27 If the petition is filed individually, and not jointly, for a husband or a wife, the [regular]
28 exemptions . . . are applicable, except that, if both the husband and the wife effectively
waive in writing the right to claim, during the period the case commenced by filing the

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petition is pending, the [regular] exemptions . . . in any case commenced by filing a petition for either of them under Title 11 of the United States Code, then they may elect to instead utilize the [special bankruptcy exemptions].

Cal. Civ. Proc. Code § 703.140(a)(2).

III. The Paradox of Un-Waiver: Reconciling the Right to Amend Exemptions with the Effect of a Waiver

This case presents the question of the effect of a written waiver of one of two alternative exemption schemes available in California, a state that has opted out of the federal exemptions under the authority of federal law, when the waiver is in accordance with a California exemption statute. Federal Rule of Bankruptcy Procedure 1009(a) permits debtors to amend their claims of exemptions “as a matter of course at any time before the case is closed.” The problem this case poses lies in reconciling federal law’s liberal policy of allowing amendments to a claim of exemptions in bankruptcy with the effect of a valid spousal waiver, executed as a statutory prerequisite for a debtor’s choosing the special bankruptcy exemptions, that purports to bind the waiving debtor and such debtor’s spouse to the special bankruptcy exemptions during the period the debtor’s case is pending and to relinquish their use of the regular bankruptcy exemptions during the same period. Cal. Civ. Proc. Code § 703.140(a)(2).

Though not without limits, an opt-out state’s ability to define the nature and extent of bankruptcy exemptions is broad. *Owen v. Owen*, 500 U.S. 305, 308 (1991) (“Nothing in subsection (b) [of section 522 of the Bankruptcy Code] (or elsewhere in the Code) limits a State’s power to restrict the scope of its exemptions; indeed, it could theoretically accord no exemptions at all.”); *Granger v. Watson*, 754 F.2d 1490 (9th Cir. 1985) (the state’s power to opt out of the federal exemption scheme includes the right to offer single debtors different exemptions than those offered to two or more debtors in the same household). But opt-out states may not (1) adopt exemptions that contradict specific provisions of the Bankruptcy Code, *Patriot Portfolio, LLC v. Weinstein (In re Weinstein)*, 164 F.3d 677 (1st Cir. 1999), *cert. denied*, 527 U.S. 1036 (1999); (2) regulate procedure for the assertion of those exemptions in bankruptcy, *Cisneros v. Kim (In re Kim)*, 257 B.R. 680, 687 (B.A.P. 9th Cir. 2000).

1 California's spousal waiver is more aptly characterized as substantive than procedural.
2 Procedural rules prescribe "the manner in which exemptions are to be claimed, set apart, and awarded."
3 *Tyner v. Nicholson*, 435 B.R. 622, 633 (B.A.P. 9th Cir. 2010); *see also In re Moffat*, 107 B.R. 255, 258
4 (Bankr. C.D. Cal. 1989) ("[T]he Bankruptcy Rules set forth the procedural framework for filing both a
5 list of property claimed exempt and objections to claimed exemptions."). The provision for waiver in
6 section 703.140(a)(2) is not an inappropriate attempt to regulate procedure in bankruptcy. Instead, this
7 waiver provision ensures that a debtor and his non-filing spouse *together* elect between two alternative
8 exemption schemes when the debtor seeks to use the special bankruptcy exemptions. It precludes the
9 debtor and his non-filing spouse from choosing different exemption schemes in separate cases during
10 the pendency of the debtor's case. The waiver provision regulates the nature and scope of exemptions
11 available to a married debtor and his non-filing spouse. Therefore, it is substantive.
12

13 There is no actual conflict, moreover, between the bankruptcy policy allowing liberal
14 amendment to the schedule of exemptions and the binding effect of a spousal waiver executed in
15 accordance with a California statute. While federal law authorizes a debtor to amend his claim of
16 exemptions, it does not guarantee a debtor a homestead exemption or, for that matter, any exemption
17 rights. *Owen*, 500 U.S. at 308. Whether an amendment to the schedule of exemptions is a wholesale
18 exchange of exemption schemes, trading the regular exemptions for the special bankruptcy exemptions
19 or vice versa, or whether it is a mere reallocation or modification of the exemptions within the same
20 exemption scheme already selected, the debtor's right to claim the exemptions in the amendment
21 depends on whether California law recognizes such right.
22

23 In short, federal law authorizes amending the exemptions in this case; state law defines the
24 scope and nature of the amended exemptions allowed. The court holds that any conflict between
25 Federal Rule of Bankruptcy Procedure 1009(a) and the spousal waiver provision under section
26 703.140(a)(2) of the California Code of Civil Procedure is apparent and not actual. Thus, no
27 preemption problem exists and California's exemption law controls the outcome of the question
28

1 whether Amado can amend his schedule of exemptions to claim the regular exemptions after he and
2 Maria waived the right to claim such exemptions under section 703.140(a)(2).

3 **IV. Was the Waiver Effective?**

4 A waiver under section 703.140(a)(2) has three elements: (1) both the bankruptcy debtor and
5 the non-filing spouse must waive the right to claim the regular exemptions; (2) each waiver must be
6 effective; and (3) the waiver must arise from a written instrument. *In re Geisenheimer*, No. 14-14706-
7 A-7, — B.R. — (Bankr. E.D. Cal. May 5, 2015). Here, no one disputes that the waiver satisfies each
8 element.

9 **V. When, if Ever, Does California Law Allow a Debtor to Retract a Spousal Waiver?**

10 No known case has considered whether a spousal waiver may be withdrawn and, if so, under
11 what circumstances. Applying California's law of waiver, this court finds that absent relief for mistake
12 (of fact or otherwise), inadvertence, surprise, or excusable neglect, or similar showing, a properly
13 executed spousal waiver may not be withdrawn. California courts have long held that an effective
14 waiver binds. *See* Cal. Civ. Code § 3513; *People v. Ventura Refining Co.*, 204 Cal. 286 (1928); *Faye v.*
15 *Feldman*, 128 Cal. App. 2d 319 (1954); *Cynthia C. v. Super. Ct.*, 72 Cal. App. 4th 1196 (1999). And
16 ordinarily the waiving party may not retreat from it. *Id.* But California law does offer two avenues to
17 escape improvident waivers: (1) waivers given under mistake of fact, *Verdugo Canon Water Co. v.*
18 *Verdugo*, 152 Cal. 655 (1908); and (2) in the case of exemptions, waivers that are the product of
19 mistake, inadvertence, surprise, or excusable neglect, *see* Cal. Civ. Proc. Code § 473, *incorporated by*
20 *Cal. Civ. Code § 703.030(c)*. In deciding whether to afford relief in cases of mistake, inadvertence,
21 surprise, or excusable neglect, Cal. Civ. Proc. Code § 703.030(c), California courts may properly
22 consider prejudice to the opposing parties occasioned by the requested relief. *Aldrich v. San Fernando*
23 *Valley Lumber Co., Inc.*, 170 Cal. App. 3d 725, 740 (1985).

24 Moreover, binding the debtor to the spousal waiver is wholly consistent with California's long-
25 standing use of the doctrines of equity to preclude debtors from asserting inconsistent exemption claims
26 over time when doing so will prejudice the opposing party. *See Borland v. O'Neal*, 22 Cal. 504 (1863)

1 (waiver); *Sunkler v. McKenzie*, 127 Cal. 554 (1900) (res judicata bars assertion of homestead); *Pickens*
2 *v. Coffey*, 136 Cal. App. 105 (1933) (election of remedies); *Krier v. Krier*, 28 Cal. 2d 841 (1946) (res
3 judicata bars assertion of homestead exemption); *In re Estate of Cecala*, 104 Cal. App. 2d 526 (1951)
4 (estoppel applied to claim of homestead exemption); *Amin v. Khazindar*, 112 Cal. App. 4th 582, 590–91
5 (2004) (res judicata precludes homestead claim). Finding well-settled precedent on the binding nature
6 of statutory waivers and on the application of equitable doctrines to a debtor’s inconsistent positions on
7 exemptions, the court holds that Amado and Maria’s valid waiver under section 703.140(a)(2) of the
8 California Code of Civil Procedure binds Amado to the special bankruptcy exemptions in the absence
9 of relief for mistake, inadvertence, surprise, or excusable neglect.

10
11 Unlike the substantive nature of the statutory waiver provision under section 703.140(a)(2), the
12 method of requesting relief from a waiver executed pursuant to that provision is procedural, *see*
13 *Cisneros*, 257 B.R. at 687, and is governed by federal law. Federal Rule of Civil Procedure 60(b)
14 provides that “[o]n motion and just terms, the court may relieve a party or its legal representative from a
15 final judgment, order, or *proceeding* for . . . mistake, inadvertence, surprise, or excusable neglect”
16 Fed. R. Civ. P. 60(b), *incorporated by* Fed. R. Bankr. P. 9024 (emphasis added). In deciding whether to
17 grant such relief, the court considers prejudice to the opposing party as it does when considering relief
18 under section 473 of the California Code of Civil Procedure. *Pioneer Inv. Servs. Co. v. Brunswick*
19 *Assocs. Ltd. P’ship*, 507 U.S. 380, 395 (1993). In some instances, an attorney’s error is grounds for
20 relief under Civil Rule 60(b). *In re Sheehan*, 253 F.3d 507, 514 (9th Cir. 2001); *Cnty. Dental Servs. v.*
21 *Tani*, 282 F.3d 1164, 1169 (9th Cir. 2002).

22
23 Here, Amado has made alternative attempts to retreat from the waiver. First, Amado filed a
24 document attempting to withdraw voluntarily from the waiver of his right to claim the regular
25 exemptions. This *ipse dixit* effort is insufficient as a matter of law. Second, the debtor moves under
26 Civil Rule 60(b) for relief, citing his attorney’s error. Amado’s counsel admits error in filing the
27 spousal waiver for Amado. Salven articulates no specific prejudice to the estate by allowing Amado to
28 swap exemption schemes at this point in Amado’s bankruptcy case.

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Conclusion

For each of these reasons, the court will overrule Salven’s objection. A separate order will issue.

Dated: May 5, 2015

Fredrick E. Clement
United States Bankruptcy Judge