

1  
2  
3  
4 POSTED ON WEBSITE  
5

6 FOR PUBLICATION  
7  
8

9 UNITED STATES BANKRUPTCY COURT  
10 EASTERN DISTRICT OF CALIFORNIA  
FRESNO DIVISION

11 In re ) Case No. 09-14146-B-13  
12 Johnnie Ray Pena and )  
13 Bertha Alicia Pena, )  
14 Debtors. )  
\_\_\_\_\_ )

15 **MEMORANDUM REGARDING APPLICATION**  
16 **FOR PAYMENT OF UNCLAIMED FUNDS**

17 Before the court is an Application for Payment of Unclaimed Funds (the  
18 “Application”) filed on behalf of Bank of America Corporation by Sierra Funds  
19 Recovery, Inc. The Application relates to money which the chapter 13 trustee  
20 deposited with the Treasurer of the United States pursuant to 11 U.S.C. § 347(a).  
21 The amount at issue is \$1,345.03 (the “Unclaimed Funds”). The Unclaimed Funds  
22 represent a distribution made by the trustee on account of a proof of claim filed by  
23 Bank of America’s predecessor in interest, BAC Home Loans Servicing, LP (Bank  
24 of America Corporation and BAC Home Loans Servicing, LP, are collectively  
25 referred to herein as the “Bank”).<sup>1</sup> When Johnnie & Bertha Pena (the “Debtors”)  
26

27 \_\_\_\_\_  
28 <sup>1</sup>The mortgage creditor was originally listed in the schedules as Countrywide Home  
Loans, Inc., and the loan documents attached to the proof of claim are in the same name.  
Countrywide Home Loans, Inc., no longer exists and has been absorbed into the Bank of  
America organization. For purposes of this memorandum, the court accepts the proposition that

1 were in bankruptcy, the Bank's claim was secured by a mortgage lien against the  
2 Debtors' residence. Because the Application does not establish that the Bank is still  
3 entitled to any money on account of the underlying secured obligation, the  
4 Application will be denied.

5 **Background.**

6 This bankruptcy was filed under chapter 13 in May 2009. Michael H. Meyer,  
7 Esq., was appointed as the chapter 13 trustee (the "Trustee"). The Bank timely filed  
8 a proof of claim in the amount of \$201,318.28, which stated that it was fully secured  
9 by a first priority mortgage lien against the Debtor's residence (the "Secured  
10 Claim"). The Secured Claim reports a prepetition arrearage in the amount of  
11 \$10,118.28. The regular monthly mortgage payments are stated to be \$916.17. The  
12 Debtors' confirmed chapter 13 plan required that both the arrearage and the  
13 postpetition mortgage payments be paid through the Trustee.

14 The case was dismissed in January 2010 based on the Debtors' failure to  
15 make their chapter 13 plan payments. The Trustee's final report and accounting  
16 shows that \$6,634.58 was distributed by check to the Bank during the case on  
17 account of the Secured Claim. Unfortunately, one or more of those checks were not  
18 cashed by the Bank. After 90 days, the Trustee stopped payment of the uncashed  
19 checks. In June 2010, the Trustee deposited the money from the uncashed checks,  
20 the Unclaimed Funds, with the clerk of the court pursuant to 11 U.S.C. § 347(a)  
21 which requires turnover of the money to the court's registry:

22 Ninety days after the final distribution . . . in a case under chapter 7, 12, or  
23 13 of this title, as the case may be, the trustee shall stop payment on any  
24 check remaining unpaid, and any remaining property of the estate shall be  
paid into the court and disposed of under chapter 129 of title 28.

25 **Procedure for Recovering Unclaimed Funds**

26 Once the clerk of the court received the Unclaimed Funds, they became  
27 \_\_\_\_\_

28 Bank of America is the proper party to file this Application.

1 subject to administration in compliance with 28 U.S.C. § 2041 which provides for  
2 recovery, with court approval, by the “the rightful owners”:

3 All moneys paid into any court of the United States, or received by the  
4 officers thereof, in any case pending or adjudicated in such court, shall be  
5 forthwith deposited with the Treasurer of the United States or a designated  
6 depositary, in the name and to the credit of such court.

7 This section shall not prevent the delivery of any such money *to the rightful*  
8 *owners* upon security, according to agreement of parties, under the direction  
9 of the court. (Emphasis added.)

10 With the Unclaimed Funds, the Trustee also provided to the clerk of the court  
11 the name and address of the entity to which the money was originally distributed.  
12 Rule 3011.<sup>2</sup> The Unclaimed Funds will remain on deposit with the Treasurer of the  
13 United States until an appropriate claim is filed for their recovery pursuant to 28  
14 U.S.C. § 2042 which requires “full proof of the right thereto”:

15 In every case in which the right to withdraw money deposited in court under  
16 section 2041 has been adjudicated or is not in dispute and such money has  
17 remained so deposited for at least five years unclaimed by the person entitled  
18 thereto, such court shall cause such money to be deposited in the Treasury in  
19 the name and to the credit of the United States. Any claimant entitled to any  
20 such money may, on petition to the court and upon notice to the United States  
21 attorney *and full proof of the right thereto*, obtain an order directing payment  
22 to him. (Emphasis added.)

23 The bankruptcy court has a duty to make sure that unclaimed funds are paid  
24 to the proper party. *In re Scott*, 346 B.R. 557, 558 (Bankr. N.D. Ga. 2006)(citation  
25 omitted). When a claimant submits an application for payment of unclaimed funds  
26 on account of a secured claim, the court must make a determination that the  
27 claimant is not only the proper party to make the claim, but that the claimant is also  
28 entitled to the funds. The burden of proving an entity’s entitlement to unclaimed  
funds rests with the applicant. *In re Acker*, 275 B.R. 143, 144 (Bankr. D.D. C.  
2002)(citation omitted).

---

29 <sup>2</sup>Fed.R.Bankr.P. 3011 provides: The trustee shall file a list of all known names and  
30 addresses of the entities and the amounts which they are entitled to be paid from remaining  
31 property of the estate that is paid into court pursuant to § 347(a) of the Code.

1 In the Eastern District of California, the procedure for recovery of unclaimed  
2 funds is prescribed in the Guidelines Pertaining to Applications for Payment of  
3 Unclaimed Funds, revised December 10, 2009 (the "Guidelines"). Pursuant to  
4 those Guidelines, the request for an order releasing unclaimed funds must be  
5 submitted in a written application. There is no requirement that the debtor(s) be  
6 given notice of the application. The application is typically reviewed by the court  
7 on an ex parte basis and it is generally approved or denied without a hearing. The  
8 application for unclaimed funds must be supported by competent evidence and it  
9 must contain, *inter alia*, the following information designed to show that the  
10 applicant is the proper entity to claim the money:

- 11 a. The exact dollar amount of the dividend check(s) issued by the trustee  
12 to the original creditor/claimant and the date that the funds were  
deposited with the court as unclaimed funds;
- 13 b. The full name, address and telephone number of the original owner of  
14 the funds;
- 15 c. A brief history of the original creditor/claimant (from filing the claim  
16 to present), which includes, if applicable, change of address, any sale,  
17 merger, consolidation, buy-out, dissolution, marriage or death of the  
original claimant together with any supporting documentation for the  
funds not being delivered at the time of the initial distribution;
- 18 d. An affirmative statement as to why the alleged owner is entitled to  
receive the requested funds;
- 19 e. The petitioner's/applicant's/movant's identity and relationship to the  
20 original claimant; and
- 21 f. If the petitioner/applicant/movant is the claimant's agent, a statement  
22 that the claimant has authorized it to collect the funds, supported by an  
original power of attorney containing the claimant's notarized  
signature and such a grant of authority;

23 The current ex parte process for recovery of unclaimed funds generally works  
24 well when the funds relate to unsecured claims. If the debtor(s) received a  
25 discharge, or if their case was dismissed for nonpayment, the court may infer that  
26 the unsecured claims never got paid. However, that inference cannot be made, and  
27 the ex parte process is inherently flawed, both substantively and procedurally, with  
28 regard to unclaimed distributions made on account of secured claims. All of the

1 information required by the court's Guidelines is relevant to establish the claimant's  
2 identity in relationship to the original proof of claim. None of the required  
3 information addresses the question, Is the claimant still entitled to receive any  
4 money on account of the underlying secured obligation?

5 **The Bank's Application Does Not Show That the Bank is Entitled to Any**  
6 **Further Payment on Account of the Secured Claim.**

7 The analysis here focuses on the terms "rightful owner" and "right thereto"  
8 as stated in 28 U.S.C. §§ 2041 & 2042. A secured creditor in chapter 13 is not  
9 automatically entitled to recover unclaimed funds representing payments it was  
10 owed under a chapter 13 plan by simply establishing its relationship to the original  
11 proof of claim. The fact that funds were distributed to the claimant through a  
12 chapter 13 plan does not, standing alone, support a finding that any money is still  
13 owed to the claimant on account of the underlying obligation after the case is  
14 closed. *Acker*, 275 B.R. at 144 (citation omitted). The claimant must establish that  
15 it still has the right to payment on account of the original contract. The claimant  
16 does not have a "present entitlement" to unclaimed funds if the original secured  
17 claim has been brought current or satisfied, either through payment or foreclosure.  
18 *Scott*, 346 B.R. at 559.

19 In support of the Application, the Bank submitted the documents required by  
20 the court's Guidelines. However, the Bank's claim was provided for in the Debtors'  
21 plan as fully secured. Since the Bank never received the Unclaimed Funds, then it  
22 follows that the Debtors never got credit for making those payments against the  
23 underlying mortgage obligation. As a fully secured creditor, the Bank has always  
24 had recourse against its collateral, the Debtors' residence. Logic dictates that the  
25 Bank is not entitled to any further payment on account of the mortgage unless some  
26 money is still due and owing. The Bank has that burden of proof.

27 More than one year has passed since this bankruptcy case was dismissed.  
28 Upon dismissal, the Bank had a right to demand payment according to the terms of

1 its loan and security agreements or foreclose upon its collateral. Based on the  
2 passage of time, the court can infer that either the Debtors are still paying the  
3 mortgage, or the collateral has been sold at a foreclosure sale in compliance with  
4 state law. Under either scenario, the Bank is no longer entitled to collect additional  
5 payments unless the Debtors are in default of the mortgage or it has an enforceable  
6 deficiency. The Bank must account for how the Unclaimed Funds would be applied  
7 to the mortgage. In the absence of such a showing, it appears that the Unclaimed  
8 Funds should be returned to the Debtors.

9 When a secured creditor seeks to recover unclaimed funds from the court's  
10 registry, the debtor(s) are entitled, at a minimum, to receive notice of the creditor's  
11 application. Alternatively, if the debtor(s) can show that the underlying secured  
12 obligation has been satisfied, either through payment, cure of the default, or  
13 foreclosure, then the debtor(s) may submit their own application for release of the  
14 unclaimed funds on notice to the affected creditor. If there is any objection to either  
15 application, then the matter should be resolved at a noticed hearing.

16 Here, neither the Debtors nor their counsel received any notice that some of  
17 their chapter 13 payments were unclaimed by the Bank and that the Trustee was  
18 sending the Unclaimed Funds to the clerk of the court. The Bank's Application was  
19 not served on the Debtors or their counsel. The Application reveals nothing about  
20 the current status of the Bank's collateral and the Debtors have not had an  
21 opportunity to oppose the Application or respond with evidence to show whether  
22 any money is still owed to the Bank.<sup>3</sup>

23 ///

---

24  
25 <sup>3</sup>The record does show that the Debtors and their attorney received a copy of the Trustee's  
26 final report and account showing monies paid to BAC on account of the Secured Claim, but there  
27 is nothing in the system that required the Trustee to give notice that some of the checks were  
28 uncashed by BAC, or that the Trustee had deposited the Unclaimed Funds with the clerk of the  
court. The Debtors would have to initiate a search of the court's registry for each of their  
scheduled creditors to determine if there are any unclaimed funds which may be recoverable.

1     **Conclusion.**

2             Based on the foregoing, the Bank has not sustained its burden of proof to  
3     show that it is still entitled to receive the Unclaimed Funds. Accordingly, the  
4     Application for Unclaimed Funds filed on behalf of Bank of America Corporation  
5     by Sierra Funds Recovery, Inc., will be denied without prejudice. The Bank and/or  
6     the Debtors may file a motion(s) on notice to the other party for an order directing  
7     release of the Unclaimed Funds supported by evidence consistent with this  
8     memorandum.

9             Dated: September 9, 2011

10                             /s/ W. Richard Lee  
11                             \_\_\_\_\_  
12                             W. Richard Lee  
13                             United States Bankruptcy Judge  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28