

FOR PUBLICATION



UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA

In re

RUDY A. LOPEZ,

Debtor.

Case No. SA 06-10420 TA

Chapter 13

**MEMORANDUM OF DECISION
OVERRULING CHAPTER 13
TRUSTEE'S OBJECTION TO
CONFIRMATION OF PLAN**

Date: September 26, 2006
Time: 2:00 p.m.
Courtroom: 5B

The Trustee filed his objection to confirmation of the Debtor's Chapter 13 plan ("plan"). The sole basis for the objection was the Trustee's legal argument that the plan could not, after amendments under BAPCPA* and under pre-BAPCPA authority, appoint the Debtor as disbursing agent under the plan for current payments due under the Debtor's home mortgage. The plan also provides that arrearages due on the mortgage, along with other claims, will be paid through the Trustee. The matter was first heard August 22, 2006 but was continued to September 26, 2006 to allow both sides an opportunity to submit further briefs. The Court issued tentative rulings before each of the hearings. Those

* The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.

1 tentative rulings are set forth below and are hereby adopted as the Court's conclusions of
2 law and its statement of decision.

3 For the reasons stated, the Court OVERRULES the Trustee's objection and, by
4 separate order, confirms the plan.

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6 **A. Statement of Decision - August 22, 2006**

7 This is the Chapter 13 Trustee's ("the Trustee's") objection to confirmation of the
8 Debtor's plan. The Trustee argues that changes to the law under BAPCPA have made
9 even clearer that debtors cannot avoid paying the trustee's fee in Chapter 13 by paying
10 claims directly, instead of through the trustee. The Trustee's position is, of course,
11 contrary to well-established convention in the Central District and in many other districts,
12 as confirmed in the case law. *Matter of Mendoza*, 111 F.3d 1264, 1269 (5th Cir. 1997); *In*
13 *re Bettger*, 105 B.R. 607, 609 (Bankr. D. Or. 1989); *In re Burkhart*, 94 B.R. 724, 725
14 (Bankr. N.D. Fla. 1988). As counsel for the Debtors argues, it has been routine for at
15 least the last twenty years that Debtors will pay their mortgages, and sometimes other
16 claims, directly to the creditor, bypassing the trustee altogether. Indeed, the option is
17 actually made a part of the standard Chapter 13 plan in the Central District.
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20 The question is twofold: (1) whether the convention has always been incorrect
21 and it has now fallen to this Court to correct the practice in order to conform to law and/or
22 (2) whether or not the convention before was incorrect, changes in BAPCPA have now
23 made it clear that provisions such as the provision in the plan at bar are unlawful and
24 unconfirmable. The plan at bar provides that, except for arrearages already owed to the
25 Class Two creditors (which are creditors secured by the Debtor's residence), all future
26 mortgage payments will be made according to contract terms directly to the respective
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1 creditors. Further, it is noted in the plan that the term of these loans is longer than the
2 36-month term of the plan.

3 The Trustee relies heavily upon a 9th Circuit case interpreting Chapter 12, *In re*
4 *Fulkrod*, 126 B.R. 584 (9th Cir. BAP 1991), aff'd 973 F. 2d 801 (9th Cir. 1992). It is true
5 as the Trustee argues that there are many acknowledged similarities between Chapters
6 12 and 13, and Chapter 12 was apparently patterned after Chapter 13. The *Fulkrod*
7 court focused on the need to provide payment for Chapter 12 trustees as they play such
8 a significant role in the administration of Chapter 12 cases. *Id.* at 802. The *Fulkrod*
9 court found it incongruous and therefore not permitted that a Chapter 12 debtor should
10 be able to direct payments to creditors impaired under a plan and bypass thereby the
11 obligation to pay a fee to the trustee. The *Fulkrod* court noted that the effect of such
12 diversion would be to impose some of the overall costs of the trustee program either on
13 other cases or on the public purse. *Id.* at 803. The Circuit court in *Fulkrod* held that:
14 “Chapter 12...does not authorize a debtor to make payments directly to creditors with
15 claims modified by a plan of reorganization in order to avoid paying the bankruptcy
16 trustee the statutory fee under 28 U.S.C. 586....” *Id.* at 803. In so doing, the Circuit
17 court in *Fulkrod* (973 F.2d at 803) disregarded as dicta the opinion of the BAP panel that
18 acknowledged that impaired claims could in some circumstances be paid directly under a
19 plan “because the code contemplates flexibility.” *Fulkrod*, 126 B.R. at 588. However,
20 upon closer analysis, there is much about the *Fulkrod* opinion which causes this Court to
21 question its strength as binding or even as persuasive precedent in this matter.
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26 First, the provision which governs compensation for both Chapters 12 and 13 is
27 found at 28 U.S.C. 586(e)(2), which provides that the percentage trustee fee is collected
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1 from “all payments **received** by such individual under plans in the cases under chapter
2 12 or 13...” (emphasis added). As was noted in *In re Wagner*, 36 F. 3d 723 (8th Cir.
3 1994), another case analyzing Chapter 12 fees by analogy to Chapter 13, the
4 predecessor statute governing fees before the enactment of Chapter 12 was 11 U.S.C.
5 1302(e)**, which had provided that the trustee’s fees should be collected “from all
6 payments under the [Chapter 13] plan.” 11 U.S.C. 1302(e)(1982). This provision had
7 prompted many disputes about whether payments made directly by debtors were in fact
8 “payments under the plan.” *Id.* at 727, citing, *Foster v. Heitkamp (In re Foster)*, 670 F.
9 2d 478, 490-91 (5th Cir 1982). Although the original version of Chapter 12 had mirrored
10 section 1302(e), it was “almost immediately replaced with 586(e)(2)...[which] in light of
11 the frequency with which disputes over trustee’s fees under Chapter 13 were litigated
12 prior to 1986 [meant] the revision is significant.” *Wagner*, 36 F. 3d at 727-728. The
13 *Wagner* court concluded that the *Fulkrod* court had wrongly inferred that because
14 Congress requires the trustees to be financed by a percentage fee rather than from
15 taxpayer funds, Congress must have meant to make it impossible (or at least difficult) to
16 avoid paying a trustee’s fee in a case. However, the *Wagner* court felt that a more
17 appropriate way to divine Congressional intent was by a careful reading of the statutory
18 language actually used rather than interpretation of broad policy concerns. *Id.* at 726.

19 Moreover, there are other reasons not to rely quite so heavily upon *Fulkrod* for
20 guidance here whether or not it was correctly decided. It is rather clear that there are
21 some circumstances where a debtor may make payments directly to a creditor, or
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27 ** All statutory citations are to Title 11, U.S. Code unless otherwise indicated.
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1 “outside the plan.” Section 1326(c) contemplates that the plan may “otherwise provide”
2 for a claim, that is, other than by payment through a trustee. Further, 11 U.S.C. §
3 1322(b)(2) provides that a Chapter 13 plan may not “modify” a claim secured by the
4 debtor’s principal residence, and that payments on these claims typically go well beyond
5 the term of the plan. “It would serve little purpose to require the Debtors to disburse their
6 mortgage payments through the Trustee (and to pay the trustee’s statutory commission
7 thereon) during the Plan, only to have to arrange to make direct mortgage payments
8 upon the termination of the Plan.” *In re Aberegg*, 961 F. 2d 1307,1310 (7th Cir. 1992).
9 Even the *Fulkrod* court confined its ruling to payment of a fee only on those claims
10 “modified by a plan.” *Fulkrod*, 973 F. 2d at 803. Since the Class Two mortgage claims
11 at issue here are not and cannot be modified by the plan under section 1322(b)(2),
12 *Fulkrod* simply does not apply even under its own terms.

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15 Next we must discuss whether there is anything enacted under BAPCPA that
16 would compel a shift toward requiring all payments to go through the Trustee. The
17 Trustee argues that section 1326 was significantly amended, i.e., from “(a)(1) Unless the
18 court orders otherwise, the debtor shall commence making the payments proposed by a
19 plan within 30 days after the plan...” to now read “(a)(1) Unless the court orders
20 otherwise, the debtor shall commence making payments not later than 30 days after the
21 date of the filing of the plan or the order for relief, whichever is earlier, in the amount -

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23 (A) *proposed by the plan to the trustee...*” (emphasis added).

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25 The Trustee reinforces his argument by noting that an exception is made under the
26 amendment in new subsection (C) only for purchase money claims secured by personal
27 property. The Trustee argues that the failure to except claims secured by real property

1 (or any other kinds of claims) should be read as significant and read as Congressional
2 intent to force all other payments through the trustee.

3 The Court does not construe the addition of the words “to the trustee” quite so
4 broadly as the Trustee urges. First, it is a rather slender basis upon which to contend
5 that all of the well-established law and procedure of the last 25+ years should be swept
6 aside in favor of an absolutist approach. More likely the new exception language in
7 section 1326(a)(1)(C) represents a specific addition for the narrow interests of the auto
8 finance lobby which requires direct payment of post-petition amounts to the creditor
9 irrespective of what the plan might otherwise provide. Second, the Court notes that
10 section 1326(c) remains unchanged. It still provides: “Except as otherwise provided *in*
11 *the plan* or in the order confirming the plan, the trustee shall make payments to creditors
12 under the plan.” (emphasis added). Under the Trustee’s view, the introductory language
13 “except as otherwise provided...” would cease to have any meaning. The Trustee
14 acknowledges at page 5 of his papers that the Court retains discretion to “otherwise
15 provide” but the Trustee would ignore the language of the statute which clearly states
16 that the plan may also “otherwise provide.” An equally plausible reading of the new
17 language of section 1326(a)(1)(A) is that those payments proposed by the plan to be
18 made to the trustee must commence within thirty days of the petition, not that all
19 payments to be made under a plan must go through the trustee. Two courts have
20 considered the argument raised by the Trustee and both have rejected it; the fact that
21 section 1326(c) remained unchanged was held by each as significant. *In re Clay*, 339
22 B.R. 784, 787-788 (Bankr. Utah 2006); *In re Vigil*, 334 B.R. 624, 629 (Bankr. N.M.2006).

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27 In sum, the Court does not believe either that pre-BAPCPA convention was
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1 incorrect because of the holding in *Fulkrod* , nor that it has been rendered unlawful by
2 the BAPCPA amendments to section 1326(a)(1). The Court does retain discretion under
3 both sections 1326(a)(1) and (c) to “order otherwise” but the Trustee has offered no
4 compelling reason in this case to order that payments be made through the Trustee.
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6 *Overrule objection.*

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8 **B. Statement of Decision After Further Briefing - September 26, 2006**

9 This is a continued hearing on the Chapter 13 Trustee’s objection to confirmation
10 of the plan. The matter was continued to allow both sides the opportunity to further brief
11 the issues. The following ruling incorporates by reference the earlier remarks found in
12 the tentative opinion made before the August 22, 2006 hearing.
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14 The Trustee argues that by reason of the BAPCPA amendments, notably section
15 1326(a)(1), debtors are no longer able to act as disbursing agents but instead **all** plan
16 payments must be made through the trustee. For the reasons already stated, the Court is
17 not persuaded that this is the case. Significantly, Congress did not change section
18 1326(c) which still provides: “**Except as otherwise provided in the plan** or in the order
19 confirming the plan, the trustee shall make payments to creditors under the plan.”
20 (Emphasis added). Unless the language emphasized from above has ceased to have
21 any meaning, it must still be the case that under certain circumstances a plan can provide
22 for payments to be made by the debtor as disbursing agent under the plan. Moreover,
23 the courts that have considered this issue since the effective date of the BAPCPA
24 amendments have uniformly concluded that the debtor’s ability to make direct payments
25 under a plan persists under BAPCPA, at least in some circumstances. *In re Clay*, 339
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1 B.R. 784, 787-88 (Bankr.Utah 2006); *In re Vigil*, 344 B.R. 624, 629 (Bankr. N.M. 2006).

2 Even the Trustee's cited case, *In re Perez*, 339 B.R. 385, 408-09 (Bankr. S.D. Tex.
3 2006) specifically acknowledges that the power of the debtor to act as disbursing agent
4 persists after BAPCPA. Indeed, the *Perez* court merely decided that its local rule [S.D.
5 Rule 3015(b)] that required mortgage payments to all go through the chapter 13 trustees
6 was appropriate for policy reasons [*Id.* at 415-16] and that it did not amount to an
7 impermissible modification of the rights of secured creditors. *Id.* at 402. The *Perez* court
8 made it clear that henceforth payments on mortgages directly by debtors would be the
9 exception, not the rule in Chapter 13. *Id.* at 417. However, it has never been seriously
10 disputed that the Court in all cases reserves the power to "order otherwise" despite what
11 the plan may provide regarding disbursing agents. 11 U.S.C. 1326(a)(1). Moreover, the
12 right to make payments directly is a privilege, not a right. See, *In re Slaughter*, 188 B.R.
13 29, 31 (Bankr. N.D. 1995); *In re King*, 116 B.R. 413, 414 (D. N.J. 1990). Courts have
14 developed a number of factors to consider when reviewing a debtor's request to act as
15 disbursing agent under a plan. *Perez*, 339 B.R. at 409. However, insofar as the Trustee
16 argues that *Perez* stands for anything other than that the Court has the *discretion* to deny
17 confirmation of such a plan, the argument fails.
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21 The Trustee also cites the Chapter 12 case, *In re Fulkrod*, 126 B.R. 584 (9th Cir
22 1991), *aff'd* 973 F. 2d 801 (9th Cir. 1992) for the proposition that plans should not be
23 confirmed that provide for direct payment by debtors because this would impermissibly
24 undercut the fee structure of Chapter 12 [and, by logical extension, Chapter 13]. For the
25 reasons already articulated, however, the Court is not persuaded that *Fulkrod* can be
26 read this far. Indeed, the Court previously noted that even *Fulkrod* specifically confines
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1 its ruling to plans providing “payments directly to creditors with *claims modified* by a plan
2 of reorganization ...” (emphasis added). *Id.* at 803. In response, the Trustee has argued
3 that, indeed, mortgages with payments in arrears that are paid under the plan *are*
4 *modified*, in that such a plan modifies the mortgagee’s right to accelerate and foreclose
5 on account of the arrearage. *See, Rake v. Wade*, 508 U.S. 464, 473 n. 9, 113 S. Ct.
6 2187, 2193 n. 9 (1993). However, the Trustee overlooks the fact that mortgages secured
7 by the debtor’s residence are in a special statutory category in Chapter 13. Section
8 1322(b)(2) provides that a plan may modify the rights of secured creditors “other than a
9 claim secured only by a security interest in real property that is the debtor’s principal
10 residence..” and that subsection (5) further provides “notwithstanding paragraph (2) of
11 this subsection, [the plan may] provide for the curing of any default within a reasonable
12 time...on any...secured claim on which the last payment is due after the date on which
13 the final payment under the plan is due...” The *Perez* court acknowledged that this
14 language, in substance, meant that there was a kind of “permissible modification,” or a
15 modification allowed notwithstanding the general prohibition, in respect of home
16 mortgages for arrearages. *Perez*, 339 B.R. at 404. Significantly, the *Perez* court did not
17 count such a curing of arrearages on home mortgages when determining “whether the
18 debtor’s proposed plan modifies debt” which courts consider among many factors when
19 deciding whether the plan can provide that the debtor should act as disbursing agent. *Id.*
20 at 409, n. 25. Other courts have distinguished *Fulkrod* on the grounds that curing of
21 arrearages does not amount to a “modification” of the claim by analogy to the Chapter 11
22 cases that hold that plans that reinstate and cure arrearages on secured claims do not
23 thereby “impair” such claims. *In re Barocio*, 2003 Bankr. LEXIS 2032, n. 8 (Bankr. D.
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1 Alaska 2003), *citing*, *In re Entz-White Lumber & Supply, Inc*, 850 F. 2d 1338, 1341 (9th
2 Cir. 1988). Other cases have simply held that Chapter 13 plans that cure arrearages on
3 home mortgages do not thereby “modify” the secured claims. *Downey Savings and Loan*
4 *Ass’n v. Metz (In re Metz,)* 820 F. 2d 1495, 1497 (9th Cir. 1987).

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6 Moreover, in *In re Clay*, *supra*, that court analyzed the cases such as *In re Case*,
7 11 B.R. 843, 846-47 (Bankr. D. Utah 1981) and *In re Albergg*, 961 F. 2d 1307 (7th Cir.
8 1992) which pre-BAPCPA had generally permitted plans to utilize the debtor as
9 disbursing agent on secured claims where the debtor was not seeking to “modify” the
10 debt under the plan. *Clay*, 339 B.R. at 786. *Clay* was a case, like the one at bar, where
11 the plan provided for curing of arrearages on a home mortgage through the trustee [*Id.* at
12 785], yet the *Clay* court apparently concluded that such treatment did not mean that the
13 plan was “modifying” the secured claim in any sense that would have prevented the
14 appointment of the debtor as disbursing agent on the regular mortgage payments not in
15 arrears. *Id.* at 786

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17 Further, we must remember that *Fulkrod* was a Chapter 12 case. The prohibition
18 of the modification of home mortgages found at section 1322(b)(2) **is not found in the**
19 **analogue section, 1222(b)(2)**, and so there is no corresponding exception in section
20 1222(b)(5) introduced by the word “notwithstanding” as found in section 1322(b)(5).
21 Therefore, the Court understands there to be a special exception for the curing of home
22 mortgage arrearages which, when contained in a Chapter 13 plan, may indeed mean the
23 plan “modifies” the secured claim but in a permissible way specifically acknowledged in
24 the statute. *Rake*, 508 U.S. at 473 n. 9, 113 S.Ct. at 2193 n. 9; *Perez*, 339 B.R. at 404.
25 Since there is no corresponding analogue in Chapter 12, curing of a home mortgage
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1 cannot have been the kind of “modification” of claim that the *Fulkrod* court was speaking
2 of in its opinion. For this reason, among others already discussed, this Court does not
3 find *Fulkrod* persuasive authority for the Trustee’s case.

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5 Lastly, the Trustee cites *In re Glasper*, 28 B.R. 6 (9th Cir. BAP 1983) as supposed
6 authority for the proposition that a Chapter 13 plan may not permit the debtor to act as
7 disbursing agent on a mortgage while curing the arrearages through the plan. The Court
8 does not agree. *Glasper* merely holds that a Plan cannot **omit to provide** for current
9 payments at all on a mortgage where the arrearages on same are cured in the plan. In
10 other words, to “provide” for a claim under sections 1322(b)(5) and 1325, **all** treatment of
11 the mortgage, both current and arrearages, must be identified under the plan. *Id.* at 7-8.
12 The *Glasper* court specifically declined to take up the issue of debtor disbursement of the
13 payments [as discussed in *Matter of Foster*, 670 F. 2d 478 (5th Cir.1982) and similar
14 authority], as not before them. *Glasper*, 28 B.R. at 7-8. The concurring opinion in
15 *Glasper*, however, goes further and clears up some of the confusion over what is
16 “provided for” by a plan compared to what is “outside” the plan. Judge Hughes in his
17 concurring opinion specifically rejected the argument that payments could only be made
18 by and through the trustee but rather explains that a plan can “provide” for a claim even if
19 it is the debtor that is designated as the disbursing agent, and such a plan can be
20 confirmed. *Glasper*, 28 B.R. at 9, *citing*, *In Matter of Foster*, 670 F. 2d at 487. The plan
21 in the case at bar is not like the one in *Glasper* in that it specifically provides for treatment
22 of the current portions of the home mortgage under Class Two.
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26 In sum, the Court does not believe that anything under BAPCPA has changed the
27 preexisting law. Preexisting law had permitted the debtor to designate himself as
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1 disbursing agent on current mortgage payments even where arrearages are paid through
2 the Trustee. *Fulkrod* was decided under Chapter 12 which, unlike Chapter 13, contains
3 neither the prohibition of modification of claims secured by the debtor's residence nor the
4 specific exception to this prohibition for curing of arrearages. Therefore, *Fulkrod's* broad
5 pronouncement that "modified" claims can only be paid through the trustee is of dubious
6 applicability in Chapter 13, particularly in this context. While it is true that designation of
7 the debtor as disbursing agent is addressed to the Court's discretion, and must be viewed
8 as a privilege and not a right, the Trustee here has given no particular reason why this
9 debtor cannot serve as disbursing agent for the current portions of his mortgage.
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11 *Overrule objection.*
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14 DATED:

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16 _____
17 HONORABLE THEODOR C. ALBERT
18 United States Bankruptcy Judge
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1 NOTICE OF ENTRY OF JUDGMENT OR ORDER
2 AND CERTIFICATE OF MAILING
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4 TO ALL PARTIES IN INTEREST LISTED BELOW:
5

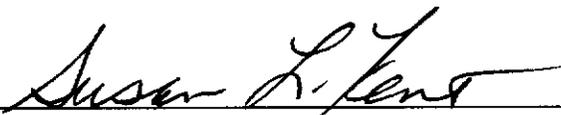
6 You are hereby notified that a judgment or order entitled Memorandum of Decision
7 Overruling Chapter 13 Trustee's Objection to Confirmation of Plan: was entered on
8 OCT 4 2006.

9 I hereby certify that I mailed a true copy of the order or judgment to the persons
10 and entities listed below on OCT 4 2006.

11
12 Bruce David White
13 White & Roseman
14 1201 Dove Street, Suite 480
15 Newport Beach, CA 92660

16 Amrane Cohen
17 Chapter 13 Trustee
18 770 The City Drive South
19 Suite 3300
20 Orange, CA 92868

21 DATED OCT 4 2006

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By 
Clerk