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SIXTH CIRCUIT CASE SUMMARIES
CBA BANKRUPTCY COMMITTEE MEETING
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In re: City of Detroit, Michigan, 838 F.3d 792 (October 3, 2016).

The Appellants, City of Detroit pensioners, appealed the confirmation of the City's 8th Amended Chapter 9 Plan, arguing that they should not receive a reduction in their pension benefits and fringe benefits as provided for in the City's plan despite the fact that 73% of their fellow pensioners voted in favor of the Plan. The City responded by arguing that the appeal should be dismissed as equitably moot because the Plan had been substantially consummated.

The Sixth Circuit agreed with the City. The Court articulated a three-part analysis in deciding whether an appeal is equitably moot: (1) whether a stay has been obtained; (2) whether the plan has been "substantially consummated"; and (3) whether the relief requested would significantly and irrevocably disrupt the implementation of the plan or disproportionately harm the reliance interests of other parties not before the court.

In this case, the pensioners did not obtain a stay of the order confirming the Plan. As a result, the City took action to comply with the confirmed plan by issuing bonds, transferring art assets to a trust, transferring other property, implementing a two-year budget, etc. Many of those acts were irreversible. Plus, the relief requested by the pensioners would have rescinded the "Grand Bargain" struck between the City and all interested parties such that the entire plan would have unraveled thereby affecting all parties and the entire City of Detroit. The Court found that unraveling this plan would be so harmful to the City, its employees, stakeholders, and others as to outweigh any harm to the pensioners.

In re: Holley, Case no.: 16-1081, 2016 WL 6211975 (October 25, 2016).

Debtors owned their home as tenants by the entireties under Michigan law. When they filed a chapter 7, the trustee sought to sell it. After several amendments and much litigation over the exemptions claimed by the debtors, the debtors were able to convince the court to order that their home be sold to a third party that would lease the home back to them. The sale to the third party was for far less than market value. The trustee received net proceeds of $101,486.65 and sought expenses of administration amounting to $97,734.32.

The debtors objected to the trustee's final report arguing that the proceeds were exempt under Michigan's tenants by the entireties law. The lower courts overruled the debtor's objection on the basis that the debtors had essentially received a reduction in the purchase price of the home in an amount that was roughly equivalent to their exemption. The Sixth Circuit disagreed,

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citing the plain language of the Michigan exemption statute and 11 USC §522(k) which protects "Property-sale proceeds, minus the payouts to satisfy joint creditors' claims, from invasion by the Trustee to pay administrative expenses."