

CASE LAW UPDATE

Judge Hopkins

In re Inner City Properties LLC, Chapter 11 Case No. 13-11552 decided March 25th, 2016

Holding: Linda Hines's Proof of Claim (Claim 11-3) upheld in the amount of \$240,000.00 and disallowed in the amount of \$1,088,488.62

Factual Background:

Hines is the mother of James Hines who is the sole owner of Inner City Properties LLC. Hines filed a proof of claim for \$1,331,244.80 for “money loaned for purchase of rental properties and expenses” based on 15 payments written by Hines to Inner City. Debtor's Counsel objected to validity of claims based on (1) nine checks predate formation of Inner City; (2) 14 of 15 proof of payments do not show that Hines was source of funds; (3) 11 of the checks were purchased by James Hines or his ex-wife; (4) 1 of the checks was payable to Inner City; (5) 7 of the checks were payable to James; (6) several of the checks reference James Hines's personal real estate assets; (7) the amount claims in inconsistent with Inner City's records; and (8) the claim does not include any loan documentation.

Legal Analysis:

Hines is an insider of Inner City under 11 USC 101(31)(B)(vi) and 11 USC 101(45). She bears the heavy burden of proof to show her claim is valid and her claim must be heavily scrutinized.

In reviewing her claims, Hines failed to meet her burden of proof to support the majority of the money owed based on a lack of documentation as to whether the loans were loans to James Hines or loans to ICP. The Court relied on answering the initial question: who first controlled the funds after Hines? In the majority of the loans, Hines had a lending agreement

with James not Inner City. The Court also focused on the fact that when the loans were made, Hines had ample knowledge that James Hines bought and sold real estate in his personal capacity.