UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

In the Matter of Alden D. Holford, Debtor. Alden D. Holford v. Melvin Lane Powers A/K/A Mel Powers and Mel Powers D/B/A Mel Powers Investment Builder

In the Matter of Alden D. Holford, Debtor. Alden D. Holford v. Melvin Lane Powers A/K/A Mel Powers and Mel Powers D/B/A Mel Powers Investment Builder, 58 USLW 2618 (5th Cir. 1990) · No. 89-2714 · Decided March 16, 1990

SUMMARY

The Fifth Circuit held that a debtor's withholding of rent payments to recoup fraud damages arising from the same lease transaction constituted recoupment, not setoff, and therefore was not subject to the automatic stay under 11 U.S.C. § 362(a). The court reversed contempt penalties, distinguishing recoupment (same transaction) from setoff (different transaction) and emphasizing that recoupment is an equitable doctrine that survives bankruptcy and is not stayed. Key topics: bankruptcy, automatic stay, recoupment vs. setoff, contempt, equitable doctrine.

CASE DETAILS

COURT	United States Court of Appeals for the Fifth Circuit
WRITING FOR THE COURT	GARZA; GEE; DAVIS
JURISDICTION	Federal
DECIDED	March 16, 1990
DOCKET	89-2714
DISPOSITION	reversed
PROCEDURAL POSTURE	Appeal from the United States District Court for the Southern District of Texas. The bankruptcy court found Holford in contempt for violating the automatic stay by setoff, and the district court affirmed. Holford appeals.
PRECEDENTIAL VALUE	Published
PARTIES	Alden D. Holford v. Melvin Lane Powers a/k/a Mel Powers and Mel Powers d/b/a Mel Powers Investment Builder

TOPICS

bankruptcy · civil procedure · appellate procedure · contempt

PRACTICE AREAS

Bankruptcy Civil Procedure Appellate Practice

QUESTIONS PRESENTED

1. Whether Holford's withholding of rent to offset fraud damages constituted a recoupment or a setoff
2. Whether a recoupment is subject to the automatic stay under 11 U.S.C. § 362(a)

HOLDINGS

1. Holford's actions constituted a recoupment because the fraud damages and the rental payments arose out of the same transaction (the lease).
2. A recoupment is not subject to the automatic stay because the trustee takes property subject to rights of recoupment, and to the extent the damages equal or exceed the funds withheld, the debtor has no interest in the funds.

KEY QUOTATIONS

> *"Recoupment allows a defendant to reduce the amount of a plaintiff's claim by asserting a claim against the plaintiff which arose out of the same transaction to arrive at a just and proper liability on the plaintiff's claim."* (at 6)

> *"application of the 'equitable doctrine [of recoupment] should not depend on whether the parties expressly anticipated the problem'"* (at 8)

> *"the trustee of a bankruptcy estate 'takes the property subject to rights of recoupment'"* (at 12)

> *"to the extent the damages equal or exceed the funds withheld, the debtor has no interest in the funds and, therefore, the stay has not been violated."* (at 12)

FACTUAL BACKGROUND

Holford leased office space from Powers in March 1982 at $1,326 per month, with an additional $600 for extra space that Powers' vice-president assured could be sublet. The extra space was never sublet. Holford raised fraud in January 1983 and began offsetting rent with fraud damages from February 1983, stopping rent payments entirely after learning of Powers' bankruptcy in January 1984. Powers sued for non-payment of rent, and Holford counterclaimed for fraud. The lease terminated in April 1985.

PROCEDURAL HISTORY

The bankruptcy court held that Holford's filing of a counterclaim was proper but his setoff of rents against fraud damages violated the automatic stay. The district court affirmed the contempt finding and award of attorneys' fees. This appeal followed.

DISPOSITION

reversed

CASES CITED

- In re Clowards, Inc., 42 B.R. 627 (Bankr.D. Idaho 1984)
- In re B & L Oil Co., 782 F.2d 155 (10th Cir. 1986)
- In re Career Consultants, Inc., 84 B.R. 419 (Bankr.E.D.Va. 1988)

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