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THE ROOKER-FELDMAN DOCTRINE

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A CLE Presentation

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I. Introduction

The Rooker-Feldman Doctrine was established by two U.S. Supreme Court decisions, Rooker v. Fidelity Trust Co., 263 U.S. 413 (1923) and District of Columbia Court of Appeals v. Feldman, 460 U.S. 462 (1983). The Rooker-Feldman Doctrine stands for the basic proposition that lower federal courts do not have subject matter jurisdiction to review state court judgments. Charchenko v. City of Stillwater, 47 F.3d 981, 983 (8th Cir. 1995). Stated another way by another court: "*Rooker-Feldman*, in essence, bars 'a party losing in state court . . . from seeking what . . . would be appellate review of the state judgment in a United States district court." In re Federated Dept. Stores, Inc., 226 B.R. 191, 193 (Bkrtcy. S.D. Ohio 1998) (citing Johnson v. De Grandy, 512 U.S. 997, 1005-06 (1994)). Review of state court judgments in the federal court system lies only with the United States Supreme Court.

II. The Subtle Difference Between Rooker-Feldman and Res Judicata (claim preclusion)

The Rooker-Feldman Doctrine and the Doctrine of Res Judicata are indeed similar—they are both procedural preclusion doctrines which prevent a federal court from considering a claim already litigated in a state court; however, there are important, if somewhat subtle, distinctions between the Rooker-Feldman Doctrine and the Doctrine of Res Judicata.

One such distinction between the Rooker-Feldman Doctrine and the Doctrine of Res Judicata is the *source of law* from which they come. Res Judicata is based on the Full Faith and Credit statute, 28 U.S.C. § 1738, which requires a federal court to give a state court judgment the same effect that an appellant court of that state would give it. The Rooker-Feldman Doctrine, by contrast, is based upon 28 U.S.C. § 1257(a), which states the rule that "district courts have only *original jurisdiction*; the full appellate jurisdiction over judgments of state courts in civil cases lies in the Supreme Court of the United States." Gash Assoc. v. Village of Rosemont, Illinois, 995 F.2d 726, 728 (7th Cir. 1993) (emphasis added). It follows that courts must first decide the applicability of Rooker-Feldman, and *only then* decide the applicability of res judicata. Garry v. Geils, 82 F.3d 1362 (7th Cir. 1996).

The tautology is this: Rooker-Feldman determines if a lower federal court has subject matter jurisdiction; if the court determines that it has subject matter jurisdiction, it may proceed to address Res Judicata issues. *Id*. If the court, in addressing Rooker-Feldman subject matter jurisdiction issues, determines that it is does *not* have subject matter jurisdiction, then it may *not* proceed any further, which includes proceeding to address res judicata issues. Another distinction between the two doctrines is their reference to state law.

Under Rooker-Feldman, no reference is made to state law—it is entirely federal. By way of contrast, in applying Res judicata, the lower federal court looks to the law of the state in which the prior judgment was entered to determine whether that state would give the judgment preclusive effect. In re Ferren, 227 B.R. 279, 282 n. 7 (8th Cir. BAP 1998) (citing Pirela v. Village of North America, 935 F.2d 909, 911 (7th Cir.) (citations omitted), *cert. Denied*, 502 U.S. 983 (1991)).

The Rooker-Feldman Doctrine is further distinct from res judicata because it does not need to be pled in order to be effective--since Rooker-Feldman deals with a jurisdictional question, the court can raise the issue on its own. Moreover, "Rooker-Feldman is broader than claim and issue preclusion because it does not depend upon a final judgment of the merits." In re Goetzman, 91 F.3d 1173, 1177 (8th Cir. 1996), and it "applies even where a state court judgment may be in error." In re Audre, 216 B.R. 19, 29 (9th Cir. BAP. 1997).

III. The Rooker-Feldman Test

Application of the Rooker-Feldman Doctrine will answer the question; Do lower federal courts (such as district courts or bankruptcy courts) have the subject matter jurisdiction regarding a challenge to a state court decision? As noted above, any party (even the judge sua sponte) may raise Rooker-Feldman issues. "As a rule, the lower federal courts do not have the authority to review state court judgments, even where a federal question is presented." In re Federated Dept. Stores, Inc., 226 B.R.

191, 193 (Bkrtcy. S.D. Ohio 1998). Since application of the Rooker-Feldman Doctrine can prevent a federal district court from reviewing a state court's decision for lack of subject matter jurisdiction, the key issue is to decide if the district court is reviewing a state court decision at all: "one must ask whether the injury alleged by the federal plaintiff resulted from the state court judgment itself or whether it is distinct from that judgment." Matter of Pope, 209 B.R. 1015, 1021 n.9 (N.D. Ga. 1997).

To determine if the lower federal court is reviewing a state court determination, the courts generally ask whether the claim now argued in federal court is different from the claim argued and decided in the previous state court judgment. Courts often ask whether the claim now being argued in federal court is "inextricably intertwined" with the claim argued in the previous state court action. Wright v. Tackett, 39 F.3d 155, 157 (7th Cir. 1994). In other words, "is the federal plaintiff seeking to set aside a state judgment, or does he present some independent claim albeit it one that denies a legal conclusion that a state court has reached in a case to which he was a party?" Gash, 995 F.2d at 728.

The claim at the federal court must be *independent*. The meaning of "inextricably intertwined" has been addressed by a number of courts. A federal claim is "inextricably intertwined" with a state court decision if:

> [t]he federal claim succeeds only to the extent that the state court wrongly decided the issue before it. Where federal relief can only be predicated upon a conviction that the state court was wrong, it is difficult to conceive the federal proceeding as, in substance, anything other than a prohibited appeal of the state court judgment. Pennzoil Co. v. Texaco Inc., 481 U.S. 1, 25 (1987) (Marshall, J., concurring).

Further, the "Rooker-Feldman precludes a federal action if the relief requested in the federal action would effectively reverse the state court's decision or void its ruling." Charchenko, 47 F.3d at 983, if so, then "the issues are inextricably intertwined and the district court has no subject matter jurisdiction to hear the suit." Id. Courts have generally concluded the claims are inextricably intertwined when the district court must scrutinize both the challenged rule and the state court's application of that rule. Dubinka v. Judges of Superior Court, 23 F.3d 218, 222 (9th Cir. 1994). Rooker-Feldman also applies even where there is no final judgment on the merits.

In In re Federated Dept. Stores, Inc., 226 B.R. 191 (Bkrtcy. S.D. Ohio 1998), Chapter 11 debtors, Federated Department Stores (Federated), moved for the entry of an order to enforce a bankruptcy discharge injunction against a creditor who asserted a personal injury claim against the debtors in New York state court. In New York state court, Federated moved for summary judgment claiming that the plaintiff's personal injury claim was barred by the debtor's bankruptcy discharge because she failed to file a proof of claim in the bankruptcy case. The state court denied the summary judgment motion, so federated went to bankruptcy court to try and enforce their discharge injunction against the state court plaintiffs. Unfortunately for Federated, the bankruptcy court denied their motion to enforce the discharge injunction because the court said Rooker-Feldman prevented the court from obtaining subject matted jurisdiction. Specifically, the bankruptcy court stated that Federated's claim was "inextricably intertwined" with the New York state court's decision to deny Federated's summary judgment motion, even though, the court pointed out, that decision was not a final judgment on the merits: "'[*R*]*ooker-Feldman* is broader than claim and issue preclusion because it does not depend on a final judgment on the merits.'" Federated (citing Charenko v. City of Stillwater, 47 F.3d 981, 983 n.1 (8th Cir. 1995)).

To sum up: when a case comes to a lower federal court that has some history in state court, the court or any party may raise the question of subject matter jurisdiction. The Rooker-Feldman Doctrine will ask whether the claims now presented are "inextricably intertwined" with the state court action. If a claim is "inextricably intertwined" with a state court judgment, then that claim must be dismissed for lack of subject matter jurisdiction. If that claim is independent, i.e., it is *not* "inextricably intertwined" with previous state court matters, then the federal court has subject matter jurisdiction to hear the claim.

Recent Seventh Circuit cases have tried to draw a distinction between federal plaintiffs who were defendants in the state court action they seek to appeal in federal court and those who were plaintiffs to the

state court action they seek to appeal in federal court. See Garry, GASH, and Morton Nesses v. Randall T. Shepard, No. 93-9328 (7th Cir. App. 1995). The difference is this: if the federal plaintiff was the *plaintiff* in state court action, then we know that party is coming to the lower federal court to try again (because he or she lost in state court). We know also that in this case the law of preclusion (res judicata) would apply because the plaintiff is merely seeking to ignore the state court judgment. While on the other hand, if the federal plaintiff was a *defendant* in state court, we know that party is coming to federal court complaining of a state court action and that that party must necessarily be asserting injury at the hands of the *court*, not injury at the hands of his or her *adversary*. That person seeks collateral review of the state court decision, and will not get it because the court lacks subject matter jurisdiction (Rooker-Feldman applies):

> [a] plaintiff who loses and tries again encounters the law of preclusion. The second complaint shows that the plaintiff wants to ignore rather than upset the judgment of the state tribunal. A defendant who has lost in state court and sues in federal court does not assert injury at the hands of his adversary; he asserts injury at the hands of the court, and the second suit therefore is an effort to obtain collateral review. It must be dismissed not on the basis of preclusion but for lack of jurisdiction. Garry.

IV. The Rooker-Feldman Doctrine & Bankruptcy

a. In general

The Rooker-Feldman Doctrine applies to Federal Bankruptcy/District Courts: "as to civil proceedings arising under, arising in, or related to bankruptcy cases, the district court's subject matter jurisdiction is not exclusive. Therefore, state courts can have subject matter jurisdiction over civil proceedings arising under, arising in, and related to the bankruptcy case." In re Beardslee, 209 B.R. at 1001. As a matter of policy, "[t]he Bankruptcy Code was not intended to give litigants a second chance to challenge a state court judgment nor did it intend to for a bankruptcy court to serve as an appellant court for a divorce decree." In re G&R Mfg. Co., Inc., 91 Bankr. 991, 994 (Bankr. M.D. Fla. 1998). One particular bankruptcy issue has some interesting Rooker-Feldman Doctrine implications: the automatic stay under 11 U.S.C. § 362.

b. The Automatic Stay and Rooker-Feldman

The issue of whether state courts have concurrent jurisdiction with bankruptcy courts to decide the scope of the automatic stay under 11 U.S.C. § 362 has received much attention lately because there are two recent, irreconcilable Federal Courts Appeal decisions on that issue. In Gruntz v. County of Los Angeles (In re Gruntz), 166 F.3d 1020 (9th Cir. 1999), the Ninth Circuit Court of Appeals held that state courts do not have the subject matter jurisdiction to decide the scope of an automatic stay. *In stark contrast*, the Sixth Circuit Bankruptcy Appellate Panel in Singleton v. Fifth Third Bank (In re Singleton), 230 B.R. 533 (Bankr. 6th Cir. 1999) held that state courts *do* have subject matter jurisdiction to decide the scope of the automatic stay (i.e., whether a particular action is governed by the stay).

The Rooker-Feldman implications from these two decisions concern the ability of a debtor to seek relief in bankruptcy court from a state court decision on the scope of an automatic stay. The logic is this: if a state court does have subject matter to determine the scope of an automatic stay, hands down a judgment on the scope of a particular stay, which the debtor (obviously the defendant in such a state court proceeding) is not pleased with, then the debtor cannot complain to the bankruptcy court, because the bankruptcy court will not have the power (subject matter jurisdiction) to overrule that state court's decision.[1]

Conversely, if a state court does *not* have subject matter to determine the scope of an automatic stay, but hands down a judgment on the scope of a particular stay anyway, which the debtor (obviously the defendant in such a state court proceeding) is not pleased with (or even is pleased with), then the debtor *can* complain to the bankruptcy court. The bankruptcy court *does* have the power (subject matter jurisdiction) in this instance to overrule that state court's decision that is void ab initio—the state court

[1] Of course, the bankruptcy court would also likely have to address re judicata issues in this instance as well.

should not have decided the case in the first place because the state court in fact did not have subject matter jurisdiction to hear that issue.

The automatic stay under 11 U.S.C. § 362 is one of the cornerstones of the Bankruptcy Code, and one of the debtor's most powerful weapons. The automatic stay in 11 U.S.C. § 362 provides a halt to a number of actions, including "the enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title," (§362(a)(2)), "any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate," (§ 362(a)(3)), and "any act to collect, assess, or recover a claim against the debtor that arose before the commencement of the case under this title" (§ 362(a)(6)). However, there are certain exceptions from the automatic stay.

These exceptions from the automatic stay include (among others) "the commencement or continuation of a criminal action or proceeding against the debtor," (§362(b)(1)), "the commencement or continuation of an action or proceeding for . . . the establishment or modification of an order for alimony, maintenance, or support," (§362(b)(2)(ii)), and "the collection of alimony, maintenance, or support from property that is not property of the estate" (§362(b)(2)(B)). The question becomes, which courts have subject matter jurisdiction to decide whether an action brought against a debtor who has obtained an automatic stay fits within the exceptions to the stay; put simply, which courts can interpret the scope of the stay?

The Sixth Circuit Bankruptcy Court and the Ninth Circuit Court of Appeals recently took opposite opinions on answering this question. In Gruntz v. County of Los Angeles (In re Gruntz), 166 F.3d 1020 (9th Cir. 1999), the Ninth Circuit Court of Appeals held that state courts do not have the subject matter jurisdiction to decide the scope of an automatic stay. In Gruntz, the debtor, Robert Gruntz, had a child support payment provision under his Chapter 13 plan. However, when his Chapter 13 case was converted to a Chapter 11 case, the administration costs ate up the available money held by the Chapter 13 trustee and the child support payments were stopped. Not pleased with this, Gruntz's ex-wife sought recourse through the Los Angeles County D.A.

The D.A. filed a complaint in state court against Gruntz charging him with failure to make his child support payments. The case went to trial, and a jury decided against Gruntz, who was precluded from presenting a defense based on his payment of child support to the bankruptcy trustee. Before sentencing, Gruntz filed an adversary complaint against the County in bankruptcy court seeking a temporary restraining order to prevent the County from proceeding with the sentencing.

The bankruptcy court dismissed the complaint on a motion from the County on the basis of collateral estoppel, and the district court affirmed on the basis of Rooker-Feldman. However, on appeal, the Ninth Circuit Court of Appeals reversed and remanded holding that neither preclusion nor Rooker-Feldman applied. The court remanded on the issue of whether the purpose of the criminal prosecution was a debt collection device or a legitimate prosecution.[2] If the purpose was debt collection, then the prosecution was void ab initio as a violation of the stay. And the bankruptcy court, through Rooker-Feldman, can presumably overturn the judgment of the state court because that state court should not have had jurisdiction in the first place. If the purpose of the prosecution was anything but debt collection, it can stand. Under those facts, the bankruptcy court cannot touch the state court conviction under Rooker-Feldman.

The Gruntz court stated that the California State Court did have subject matter jurisdiction to decide whether a matter pending before it is stayed by a party's bankruptcy filing. In other words, the Gruntz court reasoned that a state court has jurisdiction to determine whether it has jurisdiction[3].

[2] Gruntz alleges that the D.A. offered him a choice: pay back the child support directly (i.e., avoiding the bankruptcy plan), or be prosecuted. The court noted: "[t]hese allegations, if proved, would tend to support a finding that Gruntz's criminal prosecution for failure to support his children was intended as a debt collection action."

[3] A state court's basis for jurisdiction would be predicated on the fact that the action before it is outside the scope of the stay.

However, if the state court mistakenly determines that the issue before it is outside the protection of the stay, a bankruptcy court may subsequently determine that the state court's decision is void ab initio. The Ninth Circuit's reasoning is indeed a little circular: a state court may decide the scope of a stay, but if it decides wrongly, the bankruptcy court may rule the decision void ab initio.

In stark contrast, the Sixth Circuit Bankruptcy Appellate Panel in Singleton v. Fifth Third Bank (In re Singleton), 230 B.R. 533 (Bankr. 6th Cir. 1999) held that state courts *do* have subject matter jurisdiction to decide the scope of the automatic stay (i.e., whether a particular action is governed by the stay). In Singleton, Fifth Third Bank obtained a judgment against the debtor's company, Porta-Wash (of which debtor was the sole shareholder), founded on a note and the court ordered the property sold. The debtor then filed individual Chapter 13 two days before the property was to be sold, and on the same day filed a request for a stay in state court. Fifth Third opposed the request for a stay, claiming the property was Porta-Wash property, and not subject to the debtor's individual bankruptcy. The court agreed and denied the debtor's request for a stay. The debtor then proceeded to bankruptcy court and filed an adversary proceeding against Fifth-Third claiming violation of the stay. Fifth Third filed a motion to dismiss for failure to state a claim and the bankruptcy court granted the motion. The debtor then appealed to the Sixth Circuit Bankruptcy Appellate Panel, which affirmed the dismissal of debtor's complaint on the alternative ground that the bankruptcy court lacked subject matter jurisdiction under the Rooker-Feldman Doctrine.

The court stated that the bankruptcy court did not have subject matter jurisdiction to hear the debtor's complaint because the matter had already been decided by the Ohio Court, and under a Rooker-Feldman analysis, the claim was "inextricably intertwined" with the state court decision.

c. Where will the Rooker-Feldman ride go next?

First, a review; Rooker-Feldman precludes a bankruptcy court from tampering with a state court's determination of the scope of the automatic stay under 11 U.S.C. § 362 because the bankruptcy courts do not have the power (subject matter jurisdiction) to sit in appeal of a state court judgment. However, Gruntz calls this rule into question (at least in the Ninth Circuit) by holding that if a state court decides the scope of the stay issue *incorrectly*, then the bankruptcy court *can* tamper with the state court judgment.

As far as policy is concerned, maybe the Ninth Circuit is on the right track. Under its holding, state courts cannot interpret the scope of the stay in their own ways, creating numerous potential standards; rather, the Ninth Circuit's holding maintains federal uniformity of the issue. The Sixth Circuit Bankruptcy Appellate Panel, on the other hand, feels states have the power to interpret the scope of the stay, and policy wise such a decision avoids the Ninth Circuit's problem of having incorrect state court determination's of the scope of the stay void ab initio.

In light of the current pro-state's rights shift on the U.S. Supreme Court[4], it might be a safe bet to assume the Sixth Circuit's, rather than the Ninth Circuit's, decision will stand the test of time, as the Sixth Circuit's decision favors giving state courts more power.

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[4] See Florida Prepaid Postsecondary Education Expense B'd v. College Savings Bank, No. 98-531, 1999; see also, College Savings Bank v. Florida Prepaid Postsecondary Education Expense B'd, No. 98-149, 1999; Seminole Tribe of Florida v. Florida, No. 94-12, 1996; and Alden v. Maine, No.98-436, 1999.