Discharge of Unknown Claims

A bankruptcy discharge releases the debtor from all claims that arose prior to the bankruptcy, even if those claims were not known at the time of the bankruptcy. A Maryland bankruptcy judge recently applied this principle to asbestos litigation.

RailWorks Corp. filed a Chapter 11 petition on September 20, 2001. Sixteen years after confirmation of its plan, RailWorks was sued by individuals who alleged they had sustained injuries from exposure to asbestos between 8 and 27 years prior to the filing of the bankruptcy case. RailWorks had published a notice to file claims in its case, in 2001. However, the individuals were not aware of their injuries at that time.

Because RailWorks had done all that it reasonably could to identify and provide notice to potential creditors, these previously unknown claimants were barred from suing. *L.K. Comstock & Co.. v. Reibie (In re RailWorks Corp.)*, 613 B.R. 853 (Bankr. D. Md. 2020).

Tuition as Fraudulent Transfer

In the fall of 2012, Nicole Palladino commenced her freshman year at Sacred Heart University in Connecticut. Her tuition was paid by her parents, Steven and Lori Palladino. However, Steven and Lori pleaded guilty to operating a Ponzi scheme in January 2014, and filed a Chapter 7 bankruptcy case shortly thereafter.

The Chapter 7 trustee sued Sacred Heart to recover the tuition payments as a fraudulent transfer, arguing that Steven and Lori received no benefit from the tuition. The bankruptcy judge rejected the trustee's argument, finding that "a financially self-sufficient daughter offered them an economic benefit."

The federal appellate court disagreed, because the tuition payments depleted the parents' assets and provided nothing of direct benefit to Steve and Lori's creditors. *DeGiacomo v. Sacred Heart Univ. (In re Palladino)*, 942 F.3d 55 (1st Cir. 2019).

Get It in Writing, Again

The federal bankruptcy statute does not discharge debts arising from loans, property or services which were obtained by the debtor through the use of an intentionally false statement regarding the debtor's financial condition, provided that the false statement is in writing. Last year, a Maryland bankruptcy judge ruled that the requirement of a writing was not limited to a full financial statement, but applied even to a representation about a single debt. The court concluded that the debtor's intentionally false understatement of the amount owed to his landlord could not serve as a basis to prevent discharge of a loan, because the statement was not in writing. *Crocker v. Matthews (In re Matthews)*, 599 B.R. 838 (Bankr. D. Md. 2019).

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