

District Courts Have Original, But Not Exclusive, Jurisdiction Over Bankruptcy Issues

15 Jul 2015

The decision in *Houck v. Substitute Trustee Services, Inc.* concerned a foreclosure sale that occurred after a bankruptcy petition had been filed and the automatic stay under 11 USC sec. 362(k) was in effect, but the panel opinion by Judge Niemeyer contains several important rulings that all litigators should take heed of. The first wrinkle is that Houck brought her claim that the automatic stay had been violated before the district court instead of the bankruptcy court. The district court dismissed her claims as against the trustee who handled the foreclosure sale under Rule 12(b)(6) because she had not alleged that the trustee had any notice of her bankruptcy, and that her claim was not plausible because “a lawful alternative explanation appears a more likely cause of the complained of behavior.” The district court then dismissed her claims as against another defendant for lack of subject matter jurisdiction on the assumption that 362(k) claims had to be brought in the bankruptcy court. Houck appealed, but the Fourth Circuit rejected that appeal because her claims against a third defendant had not yet been disposed of. The district court, however, ruled that a final judgment had been entered after all. On reconsideration, the Fourth Circuit agreed with the district court, holding that under the doctrine of cumulative finality the district court’s dismissal for lack of subject matter jurisdiction operated to dismiss the case as to all remaining defendants. The Court then ruled that the district court did have subject matter jurisdiction over 362(k) claims, noting amendments to the bankruptcy code that vested the district courts with “original but not exclusive jurisdiction” over Title 11 matters, although the district court could choose to refer such matters to the bankruptcy court. Finally, the Court held that the district court’s plausibility standard was incorrect—that there might be an alternative lawful explanation for the defendant’s actions has no bearing on the analysis—and that the facts pled by Houck did meet the requirements of Rule 12(b)(6). [A link to the opinion is here.](#)

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