

# Marital Settlement Agreements Blessed by Ninth Circuit

By [Michael G. Doan, San Diego Bankruptcy Attorney](#) on Aug 1,

On June 25, 2009, the Ninth Circuit Court of Appeals ruled that a [Chapter 7](#) Trustee could not undue a highly unbalanced property distribution arising from a dissolution proceeding where judgment was entered in State Court. Such a ruling is significant in now providing more security to debtors that seek bankruptcy after divorce, and where the property distribution in the dissolution proceeding was not equal.

In the case of [In re Bledsloe](#), the wife was involved in a divorce proceeding with her husband. Throughout the proceedings, she failed to comply with discovery and the Court eventually entered default against her. Amazingly, the Court awarded \$93,737.00 in assets to the husband and only \$788.00 to the debtor wife. When the wife filed for bankruptcy, the Trustee sued the husband for the inequitable distribution, relying upon 11 USC 544 and 11 USC 548. Nevertheless, the Bankruptcy Court ruled for the husband and against the Trustee. After appeal to the District Court, it affirmed. Then, the Ninth Circuit also affirmed, finding the distribution also proper.

The Ninth Circuit found that the \$788 to the wife and \$93,737 to the husband was proper since there was no “extrinsic fraud” and which made 544 not applicable. It likewise found that 548 was not applicable since it considered the state court judgment blessing the distribution as conclusively establishing “reasonably equivalent value” being exchanged.

So this is great news for debtors! Unless a debtor is involved in a dissolution proceeding where judgment was clearly obtained by “extrinsic fraud,” it will not be subject to being set aside by a bankruptcy trustee, despite the distribution being completely unbalanced.

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