IN THE COURT OF APPEALS OF IOWA

No. 9-701 / 08-2009
Filed November 25, 2009

LARRY SCHAEFER and ELAINE SCHAEFER, Husband and Wife,
Plaintiffs-Appellees,

vs.

RAYMOND SCHAEFER,
Defendant-Appellant.

G.R.D. INVESTMENTS, L.L.C.,
Plaintiff-Appellant,

vs.

LARRY SCHAEFER and ELAINE SCHAEFER, Husband and Wife,
Defendants-Appellees.

Appeal from the Iowa District Court for Cerro Gordo County, Bryan H. McKinley, Judge.

In this property ownership dispute, G.R.D. Investments, L.L.C. and Raymond Schaefer appeal the district court's ruling that Larry Schaefer and Elaine Schaefer received ownership of certain real property as a result of a 2006 bankruptcy court order. **REVERSED AND REMANDED.**

Steven R. Bakke of Bakke Law Office, Forest City, for appellants.

Peter C. Riley of Tom Riley Law Firm, P.L.C., Cedar Rapids, for appellees.

Heard by Vogel, P.J., and Doyle and Mansfield, JJ.

MANSFIELD, J.

Raymond Schaefer and G.R.D. Investments, L.L.C. appeal from a district court's ruling that granted Larry and Elaine Schaefer's petition for forcible entry and detainer, and denied G.R.D.'s claim to quiet title. The district court's ruling was based on a June 7, 2006 amended order of a federal bankruptcy court. Because we have a different view from the district court concerning the effects of that order, we reverse and remand.

I. Background Facts and Prior Proceedings

These cases originate from certain asset-protection strategies employed by Larry and Elaine Schaefer to shield their farmland from a judgment creditor. Land O'Lakes, the creditor, had previously obtained a $161,749.19 judgment against Larry and Elaine for breach of a grain contract.

On January 16 and 17, 2001, the Schaefers executed ten quitclaim deeds that transferred all their farmland and other real estate in Cerro Gordo County, except for forty acres claimed as their homestead, to a newly formed entity, G.R.D. Investments, L.L.C. The Schaefers' sons, Dean and Raymond, were the sole members of G.R.D. As part of the transaction, G.R.D. agreed in writing to "employ" Larry and Elaine as managers, at a salary of $20,000 per year each. Raymond actually farmed the land in question.

The judgment creditor continued to pursue collection of its debt. In May 2003, G.R.D., Larry, Elaine, Dean, Raymond, and Land O'Lakes reached a settlement pursuant to which Larry and Elaine paid Land O'Lakes $85,000. Then, in October 2003, Larry and Elaine filed for Chapter 7 bankruptcy.

On March 30, 2004, the bankruptcy trustee filed a complaint seeking to avoid the ten 2001 quitclaim deeds as fraudulent transfers. Under 11 U.S.C. section 544(b)(1), "[A] trustee may avoid any transfer of an interest of the debtor in property . . . that is voidable under applicable law by a creditor holding an unsecured claim . . . ." Under this section, Iowa's Uniform Fraudulent Transfer Act (UFTA) codified in Iowa Code chapter 684 is the "applicable law." Using the Iowa UFTA, the trustee sought to avoid the quitclaim deeds as fraudulent transfers made with actual intent to hinder, delay, or defraud creditors and made while insolvent for less than reasonably equivalent value. *See* Iowa Code §§ 684.4(1)(a), 684.5(1) (2003).

The complaint was tried before the Honorable William L. Edmonds of the United States Bankruptcy Court for the Northern District of Iowa on May 18, 2005. On September 21, 2005, Judge Edmonds concluded that "the transfers to G.R.D. were a fraudulent arrangement between [the] Schaefers and their sons to shield non-exempt assets from the parents' creditors by converting them to 'exempt wages.'" *In re Schaefer*, 331 B.R. 401, 422 (Bankr. N.D. Iowa 2005). Therefore, the court ordered that Larry and Elaine's "transfers of real property to G.R.D. Investments, L.L.C. by quit claim deeds dated on or about January 16 and 17, 2001, are avoidable under 11 U.S.C. § 544(b)(1)." *Id.* at 424.

On March 2, 2006, the trustee filed a motion to amend the order and judgment seeking to modify the language pertaining to the quitclaim deeds from "avoidable" to "void."

On May 9, 2006, a hearing was held on the trustee's motion to amend. G.R.D., Larry, and Elaine resisted the motion, arguing that they would be

"prejudiced because a settlement agreement they entered into with the trustee was premised on the judgment which ordered that the real estate transfers from Schaefers to GRD were 'avoidable' not 'void.'" They further argued that the trustee's remedy was to enforce the settlement agreement, not the judgment.

On June 7, 2006, the bankruptcy court stated that its intention in its September 21, 2005 ruling was "to avoid the transfers as fraudulent," but that it had "inadvertently omitted from the order and judgment the specific phrase that the transfers were void." Therefore, the court corrected its order to state that Larry and Elaine's "transfers of real property to G.R.D. Investments, L.L.C. by quit claim deeds dated on or about January 16 and 17, 2001, are void under 11 U.S.C. § 544(b)(1). . . ." The bankruptcy court further stated the trustee was entitled to correct the court's inadvertent error because "the Schaefers and GRD have defaulted in performing the settlement."

To prevent the trustee from selling these properties, money was borrowed and Larry and Elaine's creditors, the trustee, and the trustee's attorney were paid off. The settlement was consummated. As Larry testified, "[E]verybody got satisfied." The land remained in G.R.D.'s name. The trustee's final report, as to which the parties agreed we could take judicial notice, confirms that all allowed claims were paid and that approximately $5445.39 in cash was left over to be paid to the debtors. There is no indication in the trustee's final report, however, that the debtors received the ten properties. In fact, the final report does not mention them at all.

The trustee apparently signed a "Judgment Satisfaction." The satisfaction states that the bankruptcy court's order of September 21, 2005, "*as amended*,

has been paid and satisfied and should be released." (Emphasis added.) The satisfaction is dated March 22, 2006, i.e., before the date of the June 7, 2006 amended order, but was not actually filed with the bankruptcy court until early 2007.[1]

Following the bankruptcy proceedings, the family's relationship began to deteriorate. Larry and Elaine had a falling out with their son, Raymond. On August 24, 2007, a notice of "Termination of Farm Tenancy" was sent to Raymond by Larry and Elaine. In March 2008, G.R.D. terminated Larry and Elaine's employment as managers. Nonetheless, on April 3, 2008, Larry and Elaine, purporting to act as managers for G.R.D., executed warranty deeds transferring all of the land originally transferred by the quitclaim deeds to G.R.D. back to Larry.

On May 6, 2008, Larry and Elaine filed a forcible entry and detainer action against Raymond, seeking to remove him from the property. In response, G.R.D. filed a quiet title action claiming it was the absolute owner of the property. The actions were consolidated for hearing on June 5, 2008.

In its first ruling, on August 13, 2008, the district court found that G.R.D. owned the properties. The court reasoned that while the transfers by quitclaim deeds were voided under federal bankruptcy law, "the use of the word 'void' within the context of the bankruptcy law does not impact upon the relative property title rights between the original grantor and grantee." The district court went on to conclude that since the judgment was satisfied without the trustee

[1] Larry and Elaine, whose current counsel was not involved in the prior bankruptcy litigation, appear to have assumed that the "Judgment Satisfaction" was filed on March 22, 2006, although the public bankruptcy file indicates otherwise.

having taken the property, the deeds conveying the property to G.R.D. were still valid. Thus, G.R.D. remained the absolute owner in fee of the real estate. Further, since Larry and Elaine were no longer managers of G.R.D., they had no authority to transfer the parcels in April 2008, and those deeds were invalid and set aside.

Larry and Elaine filed a timely motion for enlargement of findings. On October 7, 2008, the district court reversed its previous ruling. It found that "the bankruptcy laws which were relied upon in Judge Edmonds' Ruling are controlling in that the trustee acquired all of the subject real estate by operation of law which was subsequently returned to Larry Schaefer and Elaine Schaefer."[2] The court further stated that Judge Edmonds' ruling entered June 7, 2006 was self-executing, and that the deeds executed in April 2008 were of no consequence since they reflected what was already the true ownership of the property.

Raymond Schaefer and G.R.D. appeal.

II. Standard of Review

The forcible entry and detainer and quiet title actions were tried to the district court in equity. *See* Iowa Code §§ 648.5, 649.6 (2007). Thus, our review is de novo. Iowa R. App. P. 6.4. We give weight to the factual findings of the district court, but are not bound by them. Iowa R. App. P. 6.14(6)(g).

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[2] Under bankruptcy law, the property of the Chapter 7 estate includes any interest in property that the trustee recovers under his/her avoiding powers. 11 U.S.C. § 541(a)(3). However, at the conclusion of the Chapter 7 proceeding, anything remaining in the estate after payment of all claims and debts is distributed to the debtor. *See* 11 U.S.C. § 726(a)(6). Larry and Elaine argue that because all creditors were paid off, they in effect received the ten properties at the conclusion of the bankruptcy.

III. Analysis

This case requires us to determine the scope and effect of the bankruptcy court's June 7, 2006 order. This is not an easy question, and the district court in this case came to two different conclusions. Initially, the district court concluded that the June 7, 2006 order did not affect the relative property rights of Larry/Elaine and G.R.D., because there was a supervening settlement. Subsequently, however, the district court concluded that the June 7, 2006 order was self-executing and thus had the effect of automatically transferring the real estate to the trustee "by operation of law," from which it was ultimately restored to Larry and Elaine at the conclusion of their bankruptcy when all claims were paid. Upon our review, we ultimately conclude that the district court's initial conclusion was correct, and accordingly reverse and remand.

Raymond and G.R.D. raise three specific points on appeal, only one of which we believe to be meritorious. In the argument we find to be persuasive, Raymond and G.R.D. maintain that the bankruptcy court's amended June 7, 2006 order did not by itself transfer title to the properties to the trustee and/or that the satisfaction of judgment had the effect of releasing that order. After reviewing the record, and matters of which the parties agree we can take judicial notice, we agree.

At the outset, we note that we are limited to interpreting what took place in the bankruptcy court. We may not entertain a collateral attack on the bankruptcy court's order. *See Gail v. Western Convenience Stores*, 434 N.W.2d 862, 863 (Iowa 1989) (holding that an error of law can only be corrected on direct review, not by a collateral attack).

From our vantage point, it appears that the June 7, 2006 order was not fully self-executing. Although the transfers were declared "void under 11 U.S.C. § 544(b)(1)," the trustee still needed to obtain title to the properties. He never did. Instead, he filed a satisfaction of judgment wherein he expressly released that order. See 47 Am. Jur. 2d *Judgments* § 807, 384-85 (2006) (noting that "[a]n unconditional satisfaction and release of judgment operates as a total relinquishment of all rights of the judgment creditor in the judgment" and that "a satisfaction of judgment on the record extinguishes the claim and ends the controversy"). His final report listing the assets of the estate mentions the money he received in the fraudulent conveyance settlement, but not the properties themselves. According to that final report, the only property he delivered to the debtor at the conclusion of the case was leftover cash of $5445.39. There is no indication that he held, or delivered to the debtors, the properties.[3]

Furthermore, it would have been improper for the trustee to recover both the properties themselves and the cash settlement. Section 550(d) of the Bankruptcy Code provides that a trustee is only entitled to a "single satisfaction." We note this point not because we are entitled to reexamine the bankruptcy court's interpretations of bankruptcy law but because we should not presume, absent a clear indication to the contrary, that the bankruptcy court did not follow that law.

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[3] Although the amended order declared the transfers "void under 11 U.S.C. § 544(b)(1)," that terminology to some extent begs the question. The critical distinction in the law is between transactions that are "void ab initio" and those that are merely "voidable." A fraudulent transfer clearly falls in the second category. *See* Iowa Code § 684.8 (using the term "voidable"); 11 U.S.C. § 544(a) (stating that the trustee "may avoid" a transfer). Thus, we interpret the amended order as avoiding the transfers for the benefit of the trustee, in contrast to the original order that merely stated they were "avoidable." The amended order did not award the properties to Larry and Elaine.

Larry and Elaine argue that this case is controlled by Estate of Mack, 373 N.W.2d 97 (Iowa 1985). There the supreme court found that a Missouri divorce decree awarding one ex-spouse certain real property in Iowa conclusively determined the parties' rights to that property, even though there was no specific conveyance language therein. Mack, 373 N.W.2d at 100. We have no quarrel with the legal proposition set forth in Mack, but it does not dictate the result here. If the June 7, 2006 order had not been released and satisfied, it would have finally adjudicated the trustee's rights to the ten properties vis-à-vis G.R.D. The trustee could then have obtained title to those properties, liquidated them as needed, and distributed the remaining properties or proceeds to the debtors at the conclusion of the bankruptcy. None of these events took place.

For the foregoing reasons, we conclude the district court's original ruling of August 13, 2008 was correct. We reverse and remand for further proceedings consistent herewith.

REVERSED AND REMANDED.