

The ‘Snapshot Rule’ Locks in the Homestead Exemption at the Time of Filing

By Craig D. Robins

Suppose a typical consumer who owns a home seeks Chapter 7 bankruptcy relief but wants to sell the home immediately after filing. Can the trustee argue that the debtor is no longer entitled to utilize the homestead exemption because the debtor does not intend to keep the home? This was the issue in a First Circuit case that was just decided July 30, 2020. *Rockwell v. Hull (In re Rockwell)*, 2020 WL 4556046 (1st Cir.).

We can easily envision this scenario popping up here on Long Island due to a confluence of two Covid-19 consequences — a heightened real estate market caused by city dwellers moving to the suburbs, combined with a number of homeowners here who have lost their jobs and can no longer afford to keep their homes.

In the *Rockwell* case, Mr. Rockwell, a debtor in Maine, filed for Chapter 13 relief. Like New York, Maine has a homestead exemption. About a year after filing, the debtor decided he no longer wanted to retain the house and he sought the Bankruptcy Court’s permission to sell the property and

keep \$47,500, being the amount of Maine’s homestead exemption. He proposed to apply any additional proceeds to the Chapter 13 plan. The court granted his request.

After another year passed, the debtor converted his Chapter 13 case to one under Chapter 7. During the following month he moved and he spent a good part of the money from his homestead exemption on improvements to the property he moved into.

A few months later, Mr. Hull, the Chapter 7 trustee, objected to the debtor’s use of the homestead exemption. The trustee argued that the debtor was no longer using his exemption to protect his interest in a homestead because he had not reinvested the proceeds of the sale as required by Maine law. According to the trustee, any remaining funds that the debtor had should be turned over to the trustee.

The debtor argued that the Bankruptcy Court should apply the “complete snapshot” rule, meaning that the court evaluates the debtor’s affairs on the day he files for bankruptcy relief without considering any developments after that date (as if someone took a



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snapshot of the situation, leaving it frozen in time) to determine if assets are properly exempted from the bankruptcy estate. The Bankruptcy Court ruled in favor of the debtor agreeing that the “snapshot rule” applied. The trustee appealed to the District Court, which affirmed the Bankruptcy Court’s decision. The trustee then appealed to

the First Circuit, which also affirmed, holding that exemptions are analyzed on the date the debtor files for bankruptcy and that the complete “snapshot rule” applies.

The Circuit Court first pointed out that exemptions are determined at the time the debtor files for bankruptcy, which maxim is called the “snapshot rule.” When the snapshot rule applies to an asset and the snapshot is “complete,” the asset will retain whatever status (i.e., exempt or part of the estate) it had when the debtor filed for bankruptcy and cannot be altered by circumstances that change later.

The court observed that there was no dispute that the debtor was entitled to his homestead exemption at the time he filed for bank-

ruptcy, nor was there any dispute that the homestead exemption proceeds of \$47,500 were protected immediately after selling the home. The sole dispute was whether these proceeds lost its protection when the debtor failed to reinvest it in another homestead within six months as Maine law requires.

The court noted that the bankruptcy estate does not begin anew when a debtor converts from Chapter 13 to Chapter 7, and that the homestead exemption was properly in place on the date of filing. This led the court to then conclude that the snapshot rule applied without exception. This result lines up with the Bankruptcy Code’s priority of providing a “fresh start” for debtors, the court stated.

The trustee argued that the snapshot rule should not apply because the debtor converted chapters. However, the court found that argument unavailing. The court stated, “As one bankruptcy court aptly put it: ‘a debtor is not required to maintain exempt property in its exempt state indefinitely after filing in order to avoid a retroactive loss of the exemption.’”

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Although this First Circuit decision is not binding to us here in the Second Circuit, it will nevertheless likely have significant weight in any local controversy involving this issue.

The significance of this case and the “complete snapshot rule” upon which it re-

lies is that debtors are entitled to exempt their homes and other assets and the court will not strip away the exemptions just because a debtor seeks to sell an exempt asset after filing. Considering that some Chapter 7 cases are kept open for years because trustee are administering other assets of the

estate, debtors will have less to worry about if they then want to sell an expensive asset like their home.

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