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7th Circuit (Wood, C.J.) Examines Federal Interpleader & Application of the *Rooker-Feldman* Doctrine

A few weeks ago we opted to discuss the Indiana Court of Appeals case *Metropolitan School District of Martinsville v. Jackson*, in which the court discussed application of discretionary function immunity under the Indiana Tort Claims Act to a middle school shooting. Nevertheless, we noted a couple other decisions from that week also merit a post. Consequently, this week we are doubling back to *Arnold v. KJD Real Estate, LLC* from Seventh Circuit Chief Judge Diane P. Wood.

It is not that there were no decisions this week that merited discussion. One particular decision comes to mind: *Robinson v. Erie Insurance Exchange*, in which the Indiana Supreme Court overruled the Indiana Court of Appeals in determining that an insurance policy did not cover damage to a driver's vehicle after a hit-and-run collision where the policy defined "uninsured motor vehicle" to mean:

1. a "motor vehicle" for which there is no liability bond or insurance at the time of the accident in the amounts required by the financial responsibility law where the "auto we insure" is principally garaged;
2. a "motor vehicle" for which the insuring company denies coverage or is or becomes insolvent; or

3. a hit-and-run “motor vehicle.” The vehicle must cause bodily injury to “you” by hitting “you,” an “auto we insure” or a vehicle “you” are “occupying.” The identity of the driver and owner of the hit-and-run vehicle must be unknown. . . .

Writing on behalf of the unanimous court, Chief Justice Brent E. Dickson, who announced earlier this week his intention to relinquish the position of chief justice before the end of the year, determined that neither the first nor third definition—requiring the hit-and-run vehicle to “cause bodily injury”—applied and therefore there was no coverage. It is simply that there is much to discuss from *Arnold*, including both the *Rooker-Feldman* doctrine and rule interpleader; neither of which have been discussed before on the Hoosier Litigation Blog.

Consequently, despite a slight diversion into *Robinson v. Erie Insurance Exchange*, let us now embark on today’s discussion of *Arnold v. KJD Real Estate, LLC*. The case stems from an Illinois state court order for “Arnold to deliver certain corporate stock to Geissler Roofing and D & D Property Management[.]” Prior to the order, Arnold had already sold the stock to KJD Real Estate. Arnold then filed an interpleader action in federal court under Federal Rule 22.

Before we continue discussing the *Arnold* case, a word on interpleader is in order. Interpleader is a unique form of case. Generally, a case is filed to either compel a defendant to pay monetary damages or to not undertake some action—that is, injunctive relief. Interpleader cases stem from a person that holds an item of property but seeks the court’s guidance on who the property belongs to. In this case, Arnold had the stock but wanted the court to tell him whether to deliver it to KJD or to Geissler and D&D. Another quirk in federal interpleader cases is that there are two distinct ways to bring an interpleader case: rule interpleader or statutory interpleader. The court discussed this briefly:

As we have noted, Arnold relied on Rule 22 for his interpleader action. Rule 22 provides that “[p]ersons with claims that may expose a plaintiff to double or multiple liability may be joined as defendants and required to interplead.” Unlike statutory interpleader actions under 28 U.S.C. § 1335, “[i]nterpleader actions under Rule 22 . . . must be based upon the general jurisdiction statutes applicable to civil actions in the federal courts.” A plaintiff such as Arnold, who is relying on the general diversity statute, 28 U.S.C. § 1332, must demonstrate complete diversity between the plaintiff-stakeholder and the claimant-defendants. An interpleader plaintiff need not show that each

competing claimant has a winning claim; a reasonable fear of double liability is enough.

In this case, the contest between the defendant-claimants, both of which are citizens of Illinois, involves only a question of Illinois law. Nevertheless, diversity jurisdiction is proper because complete diversity is assessed by looking at the plaintiff-stakeholder and the defendant-claimants. Arnold, a Florida citizen, is diverse from all parties claiming an interest in the stock, and Arnold's complaint asks the court to relieve him of potential double liability to these claimants. As our account of the facts already has shown, the amount in controversy exceeds \$75,000. Jurisdiction is therefore proper under 28 U.S.C. § 1332(a).

The biggest distinction between rule and statutory interpleader is the diversity requirement.

We've discussed diversity before at great length before—*Federal Diversity Jurisdiction and the “Gaping Hole Problem”* and *Can I Make a Federal Case Out of it?*. There are two forms diversity: complete and minimal—sometimes called partial—diversity. Complete diversity requires that no plaintiff reside in the same state as any defendant. Minimal diversity simply requires that at least one plaintiff reside in a separate state from a defendant. The interpleader diversity analysis is slightly different. Because jurisdiction is not conferred by rules of civil procedure, rule interpleader finds jurisdiction under the general diversity jurisdiction statute of § 1332. This means that for jurisdictional purposes, the case is no different than any other diversity jurisdiction claim: the parties must be diverse. But, because there is no plaintiff-defendant relationship, it isn't just that no plaintiff should overlap with a defendant, rather it is that no two parties claiming adverse interest in the property can overlap with each other or with the party holding the property. Statutory interpleader is a bit different. Because it is an independent basis for jurisdiction, the statute only requires that “[t]wo or more adverse claimants” be diverse. Thus, an example of statutory interpleader being met is a property holder who is from Indiana and parties claiming ownership from Indiana and Illinois. However, statutory interpleader is not met if the property-holder is from Indiana but the two parties claiming ownership are both from Illinois. Compare that to rule interpleader where even the first example would not be sufficient, because both the property holder and a claimant are from the same state.

Now let us turn to the bread and butter of the *Arnold* case: the *Rooker-Feldman* doctrine. As Chief Judge Wood aptly noted: “The *Rooker-Feldman* doctrine

rests on the fact that only the Supreme Court of the United States has appellate jurisdiction over state court decisions (and its authority extends only to federal questions, *see* 28 U.S.C. § 1257).” Thus, the *Rooker-Feldman* issue in this case stems from the state court order for Arnold to convey the stock to Geissler and D&D. Where the *Rooker-Feldman* doctrine applies, it acts to deprive the federal court of jurisdiction over the case; meaning that the case must be dismissed because the court lacks the authority to hear it. Chief Judge Wood began the analysis by reciting the history of the doctrine.

The *Rooker-Feldman* doctrine derives from two Supreme Court cases in which plaintiffs “litigated and lost in state court . . . [then] essentially invited federal courts of first instance to review and reverse [the] unfavorable state court judgments.” Because Congress empowered only the Supreme Court to exercise appellate authority to reverse and modify state court judgments, such suits were declared “out of bounds, *i.e.*, properly dismissed for want of subject-matter jurisdiction.” The doctrine is narrowly confined to “cases brought by state-court losers complaining of injuries caused by state-court judgments rendered before the district court proceedings commenced and inviting district court review and rejection of those judgments.”

Thus, “cases requiring dismissal under *Rooker-Feldman* involve plaintiffs who are ‘attacking the judgment itself’ or the procedures used in obtaining that judgment.” The court further counseled that, “*Rooker-Feldman* thus comes into play only when the federal court assesses the propriety of a state court judgment. ‘If a federal plaintiff presents some independent claim, albeit one that denies a legal conclusion that a state court has reached,’ then *Rooker-Feldman* does not bar the court’s jurisdiction.”

The court had “no trouble” applying the doctrine to the *Arnold* case. The premise of Arnold’s interpleader action is “that the state court’s adjudication of the rights between himself and [Geissler and D&D] was a valid and binding judgment. But it was a judgment that bound only [Arnold]; KJD was not a party to the suit.” Citing to remarks by Judge Frank H. Easterbrook in a dissenting, the court noted, “[T]he *Rooker-Feldman* doctrine does not affect suits by or against persons who were not parties to the initial case.” Consequently, because the issue of whether KJD had a superior claim to the stock was not an issue decided by the state court, it was open for determination in federal court, and thus not barred by *Rooker-Feldman*.

One lingering issue that the court of appeals passed on deciding was whether Arnold could obtain a decision that he is not liable to either party. The court recognized that such a decision might improvidently tread upon the state court's decision, but that to decide the issue at this stage is premature "since anything [the court] might say would be based on speculation about the outcome of the interpleader dispute. In addition, as [the court] now point[s] out, the interpleader court might wish to abstain on some or all of these issues."

There was one last argument by Geissler and D&D that needed to be dealt with. They argued that even if *Rooker-Feldman* did not apply, the federal court should abstain, utilizing *Wilton-Brillhart* abstention. "*Wilton-Brillhart* abstention applies when 'a federal court [is called upon] to proceed in a declaratory judgment suit where another suit is pending in state court presenting the same issues, not governed by federal law, between the same parties.'" The court further explained:

In such a case, "the question for [the] district court . . . is 'whether the questions in controversy between the parties to the federal suit . . . can better be settled in the proceeding pending in the state court.'" A concern for comity underlies this doctrine. As the Court put it in *Wilton*, "where another suit involving the same parties and presenting opportunity for ventilation of the same state law issues is pending in state court, a district court might be indulging in gratuitous interference if it permitted the federal declaratory action to proceed."

Wilton-Brillhart abstention is possible because of the federal court's "unique and substantial discretion in deciding whether to declare the rights of litigants." The Declaratory Judgment Act is "an enabling Act, which confers a discretion upon the courts rather than an absolute right upon the litigant." "[T]he propriety of declaratory relief in a particular case will depend upon a circumspect sense of its fitness informed by the teachings and experience concerning the functions and extent of federal judicial power." In contrast to most other actions, "there is nothing automatic or obligatory about the assumption of jurisdiction by a federal court to hear a declaratory judgment action."

In applying *Wilton-Brillhart*, a district court has a tremendous amount of discretion and is guided by factors, "including 'the scope of the pending state court proceeding' and 'whether the claims of all parties in interest can satisfactorily be adjudicated in that proceeding.'" Nevertheless, because the district court had only briefly considered abstention before the appeal, the court of appeals advised that reconsideration should be given to the issue on remand: "The underlying dispute

concerns a matter of Illinois law entirely between Illinois parties. That dispute is currently pending in the stayed state court lawsuit, which involves all the interested parties. This is a question that the district court should address anew.”

One last interesting note: The *Rooker* in *Rooker-Feldman* was an Indiana Supreme Court case that then was refilled in federal court.

Join us again next time for further discussion of developments in the law.

Sources

- *Arnold v. KJD Real Estate, LLC*, ---F.3d---, Nos. 12-1715 & 12-1894, 2014 WL 2069477 (7th Cir. May 20, 2014) (Wood, C.J.).
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- *Rooker v. Fid. Trust Co.*, 191 Ind. 141, 131 N.E. 769, 775 (1921).
- Federal Rule of Civil Procedure 22.
- Statutory Interpleader, codified at 28 U.S.C. § 1335.
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- Supreme Court jurisdiction over state court decisions, codified at 28 U.S.C. § 1257.
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