IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
FORT WORTH DIVISION

U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
ENTERED
TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

IN RE:	§	
	§	
RANDY PHILLIP EAGLETON and	§	
LORI LYNN EAGLETON,	§	
	§	
Debtors.	§	
	§	CASE NO. 04-44085-DML-7

MEMORANDUM OPINION

Before the court is the motion of Educational Employees Credit Union (the "EECU") for relief from automatic stay (the "Motion") filed May 5, 2004, pursuant to 11 U.S.C. § 362. The EECU contends that Randy Phillip Eagleton and Lori Lynn Eagleton (individually, "Mrs. Eagleton" (collectively, "Debtors")) have defaulted in the repayment of their loan obligation to the EECU and that the EECU is entitled to foreclose upon its lien on Mrs. Eagleton's shares and deposits, and accumulated dividends and interest, maintained at the EECU. Debtors' response to the motion (the "Response") was filed May 18, 2004. On June 17, 2004, the court received evidence, heard testimony from Mrs. Eagleton and Ms. Hudgins (a representative from the EECU specializing in bankruptcies), and heard argument on the Motion. The court's record also includes the EECU's exhibits as described below. At the invitation of the court, the parties filed letter briefs following oral argument.

This matter is subject to the court's core jurisdiction. 28 U.S.C. §§ 1334(a) and 157(b)(2)(G). This Memorandum Opinion constitutes the court's findings of fact and conclusions of law. FED. R. BANKR. P. 7052 and 9014.

I. Background

Doris Hughes ("Mrs. Hughes"), Mrs. Eagleton's mother, has been a member of the EECU since September 1955 and has maintained a savings account with the EECU since that time. In 1955 Mrs. Hughes signed and created a joint ownership account, No. 0002699003 (the "Account"), with her late husband David Hughes.[1] Upon the death of her husband in 1997, Mrs. Hughes wished to add Mrs. Eagleton, her daughter, to her account as a signatory in case of emergency. Mrs. Eagleton testified that she agreed to act as a signatory but that she did not sign a joint ownership account application to place her name on the Account. However, beginning in 1997 the EECU's records and statements sent to Mrs. Hughes show Mrs. Eagleton on the Account.

On April 22, 2004, Debtors voluntarily filed in this court for chapter 7 relief. During Debtors' meeting with creditors held pursuant to section 341 of the Bankruptcy Code,[2] Mrs. Eagleton did not disclose any ownership interest in the Account. As of May 6, 2004, the Account held a balance of $43,827.25. None of the funds in the account were deposited or generated by Mrs. Eagleton.

Though she had no savings or similar account of her own with the EECU, Mrs. Eagleton was a member of the credit union. As a result of her dealings with it, the EECU holds a claim against Debtors totaling $14,139.75. The EECU's claim consists of debt incurred under a LoanLiner Advance Request Voucher (the "LoanLiner") dated December 21, 2003, in the amount of $4,492.80, and a MasterCard Agreement (the "Credit Card") dated July 13, 1992, in the amount of $9,646.95.

---

1 Movant's exhibit 10.

2 11 U.S.C. §§ 101 et seq.

Purportedly exercising its rights under a Security Agreement signed by Mrs. Eagleton in connection with the credit card (the "Security Agreement")[3], the EECU put a freeze on the Account equal to the amount owed by Debtors, $14,139.75.

The dispute between the Debtors and the EECU arises from the EECU's freeze placed on the Account. Debtors argue that the freeze was improper because Mrs. Eagleton was not a joint owner of the Account prior to her bankruptcy filing. The EECU produced monthly bank statements dating back to 1997, which listed Mrs. Eagleton as a joint owner of the Account with Mrs. Hughes. The EECU also argues that the freeze was in accordance with the Security Agreement and sections 125.404 and 125.107 of the Texas Finance Code. The Security Agreement, however, does not appear to grant the EECU any rights respecting the Account.[4]

Mrs. Eagleton testified that she did not sign an account application to create a joint account as required under both Texas law[5] and the EECU's policies.[6] The EECU was unable to produce an original or a copy of an account application signed by Mrs. Eagleton. Thus, Debtors claim there is insufficient evidence to find Mrs. Eagleton a joint owner of the Account.

---

3 The EECU introduced (EECU Ex. 1) an unsigned security agreement. However, the only security agreement before the court that either Debtor signed was that included in the credit card agreement.

4 See EECU Ex. 2. The Security Agreement grants the EECU a lien on the "collateral." The space for a description of the "collateral" is blank.

5 *See* TEX. FIN. CODE ANN. § 125.103 (Vernon 2004) (providing that subject to a policy adopted by the board, a member of a credit union by written notice to the credit union may: (1) change or cancel a multiple-party account designation; (2) change the form of the account; or (3) stop or vary payment under the terms of the account).

6 The EECU's exhibits include a "Member Services Portfolio" which explains the relevant procedures followed by the EECU when creating joint accounts.

To prove that Mrs. Eagleton placed her name on the Account as joint owner, the EECU relies heavily on Ms. Hudgins' testimony and the EECU's computer records which list Mrs. Eagleton as joint owner of the Account. Ms. Hudgins testified that in a conversation with her Mrs. Eagleton admitted that she knew she was listed as joint owner on the Account. Ms. Hudgins also explained the EECU's policies concerning joint ownership accounts, as outlined in the EECU's exhibits, and opined that the signed account application may have been lost during an off site document imaging project. During the off site document imaging project the EECU's hardcopy documents were shipped to a contractor to be scanned into a computer database. Ms. Hudgins testified that some documents were lost during the process. However, Ms. Hudgins did not witness Mrs. Eagleton signing an account application and never saw an application signed by her. Consequently she could not be certain that Mrs. Eagleton had signed an agreement. Rather, the gist of Ms. Hudgins' testimony was that the account application must have existed for Mrs. Eagleton to be shown by EECU as a joint owner.

Mrs. Eagleton, testified that she never said to Ms. Hudgins that she knew she was listed as a joint owner prior to the freezing of the Account. She testified that she accompanied her mother to the EECU's downtown office in an attempt to lift the freeze on the Account and to explain to the EECU that the Account was not hers but her mother's. Mrs. Eagleton stated that she spoke via telephone to Ms. Hudgins while at the EECU's downtown office at which time she explained that even if her name were on the Account, it was not hers but her mother's. Mrs. Eagleton also testified that, even if she were listed as a joint owner, she did not sign an Account Application, never received any bank statements regarding the Account, and never deposited, withdrew, or spent any of

the funds in the Account. Rather, Mrs. Eagleton testified she understood she was a signatory on the Account only as a matter of convenience and for emergencies.

Though Mrs. Hughes might have clarified the record, she did not testify. Citing FED. R. BANKR. P. 7026, the EECU objected to Mrs. Hughes as a witness because Debtors did not notify them in advance that Mrs. Hughes would be called as a witness. Debtors withdrew Mrs. Hughes as a witness.[7]

II. Issue Statement

There are two issues presented by the Motion. The first issue is whether the EECU proved by a preponderance of the evidence that Mrs. Eagleton is a joint owner of the Account. The second issue is whether Mrs. Hughes could have given ownership rights in the Account to Mrs. Eagleton, if Mrs. Hughes did not realize she was doing so and intended not to do so.

III. Discussion

A. Did the EECU Show That Mrs. Eagleton Is a Joint Owner of the Account?

Both Texas law and EECU policies require a signed document by all joint owners when creating a joint ownership account.[8] The EECU asks the court to find that the account application existed based on computer records showing Mrs. Eagleton as joint owner of the Account. The EECU contends that, pursuant to the EECU's policies, Mrs. Eagleton could not have appeared as a joint owner of the Account if she had not signed an account application or provided the EECU with some form of written and signed document evidencing that she and Mrs. Hughes desired Mrs. Eagleton to be a joint owner. The EECU was unable to produce a signed account application or a witness who

---

[7] Debtors made no effort to overcome the EECU's objection to Mrs. Hughes as a witness.

[8] *See supra* n.5.

was present at the signing of saw an account application by Mrs. Eagleton. The EECU instead argued that the account application was probably lost.

Mrs. Eagleton testified that she did not recall signing an account application seeking joint ownership rights to the Account. She did, however, testify that she agreed to act as a signatory on the Account, but only to accommodate her mother's needs. No evidence was presented showing that Mrs. Eagleton had a role in maintaining the Account or even that she was aware that her name was on the Account. All bank statements were sent to Mrs. Hughes' residence and not to Mrs. Eagleton's residence.

The burden is on the EECU to prove its right to apply the Account to Debtors' debts. The court, after considering all the evidence before it, finds that the EECU has not shown by a preponderance of the evidence that Mrs. Eagleton signed an account application creating joint ownership of the Account. The EECU therefore, on the evidence before the court, cannot apply the Account to Debtors' indebtedness to the EECU.

B. Could Ownership Rights in the Account Have Been Transferred to Mrs. Eagleton?

Even assuming, arguendo, that the court did or should infer from the evidence that Mrs. Eagleton did execute joint account papers, the issue remains whether, without intending to do so, her mother could have given her an interest in the Account which the EECU cold reach to pay Debtors' debts. The court concludes the answer to this question is "no." The EECU addresses whether the ownership rights in the Account were transferred to Mrs. Eagleton as a contractual issue, arguing that the parties are assumed to have read and understood every aspect of the document they signed and,

therefore, are bound by the four corners of the document. The EECU contends that Mrs. Hughes' intent to transfer ownership of the Account to Mrs. Eagleton is irrelevant.

The law, however, is not as simple as presented by the EECU. Certainly the EECU has offered no authority that supports the proposition that the mere addition of Mrs. Eagleton's name to the Account, absent any showing of an intent to alter ownership, could create sufficient rights in Mrs. Eagleton for the EECU to gain rights to the Account through its dealings with Mrs. Eagleton.

To determine whether or not the EECU justifiably froze the Account, the court will look to cases involving garnishment and cases involving property held separately by husbands and wives. Garnishment cases sometimes present the issue of whether a joint bank account should be distributed to a creditor where the account is in the name of the debtor and a nondebtor. Creditors often attempt to seize all of the property held in the joint account irrespective of whether the debtor or the non-debtor contributed the property. Here, there is no dispute as to the origin of money maintained in the Account. Mrs. Eagleton neither contributed nor spent any funds maintained in the Account.

When dealing with garnishment cases where title or ownership is in dispute, the court will determine true ownership.[9] Texas and federal law distinguish between equitable title and bare legal title when questions of account ownership arise.[10] "In

---

[9] *See Bank One, Tex. v. Sunbelt Savings, F.S.B.*, 824 S.W.2d 557, 558 (Tex. 1992) (finding that when there is a challenge to the title of funds being garnished the court is responsible for determining true ownership of the funds).

[10] *See RepublicBank Dallas v. Nat'l Bank of Daingerfield*, 705 S.W.2d 310, 311 (Tex. App.—Texarkana 1986, no writ) (finding that Texas follows the law of most jurisdictions which hold that, joint bank accounts are vulnerable to seizure by the creditor of any of the depositors, but the creditor's right to seize the funds is limited to the funds in the account that are equitably owned by – as opposed to merely being legally titled in – the debtor and does not extend to funds equitably owned by other parties).

garnishment cases, equitable title to the property sought to be reached prevails over bare legal title to the property."[11] According to BLACK'S LAW DICTIONARY "equitable title" is defined to mean "[a] title that indicates a beneficial interest in property and that gives the holder the right to acquire formal legal title."[12] "Legal title" is defined as "[a] title that evidences apparent ownership but does not necessarily signify full and complete title or a beneficial interest."[13] Following the distinction between equitable and legal title, courts have held that "the creditor's right to seize the funds is limited to the funds in the account that are equitably owned by the debtor and does not extend to funds equitably owned by other parties."[14] The court will look to extrinsic evidence to determine equitable ownership of the account and the intent of the joint owners.[15]

Courts follow similar logic when determining whether a trustee can seize the non-bankrupt spouse's personal property to satisfy the bankrupt spouse's debts. COLLIER ON BANKRUPTCY, speaking of property that came into the estate under the former Bankruptcy Act, states, "It is obvious that a wife's separate estate, where clearly established, does not

pass to her husband's trustee under § 70(a)(5)."[16]

Under section 541 of the Code, this result remains true. A spouse's property

---

11 *Id.*

12 BLACK'S LAW DICTIONARY 1493 (7th ed. 1999).

13 *Id.*

14 *RepublicBank Dallas*, 816 S.W.2d at 311 *see also Ackley State Bank v. Thielke*, 920 F.2d 521, 524 (8th Cir. 1990) TEXAS PROB. CODE ANN. § 438(a) (Vernon 2004) ("A joint account belongs, during the lifetime of all parties, to the parties in proportion to the net contributions by each to the sums on deposit, unless there is clear and convincing evidence of a different intent.").

15 *See Ackley State Bank*, 920 F.2d at 524.

16 4A COLLIER ON BANKRUPTCY ¶ 70.30 (14th ed. 1978).

becomes part of a debtor's estate only to the extent of the debtor's beneficial ownership of the property. Section 541(d) (cf. section 541(a)(2)). If property equitably – beneficially – owned by a debtor's spouse does not become property of the estate (except to the extent the debtor has rights to it by virtue of legal title),[17] it is hardly likely that Congress intended property of a third party to which a debtor has bare legal title to be included in that debtor's estate. If the property – here the Account – is not property of Debtor's estate, then the EECU cannot be a secured creditor as to that property (section 506(a) of the Code provides a claim is a "secured claim to the extent of the value of [the] creditor's interest in the estate's interest" in the purported collateral). In the case at bar Mrs. Eagleton's interest in the Account has a value of zero. Thus the EECU's secured claim is a creditor of Debtors against the Account is zero.

Simply put, even if Mrs. Eagleton were proven to have signed an account agreement, the EECU would not have the right to apply the Account to Debtors' indebtedness. Mrs. Eagleton testified that, according to the EECU's records, her name first appeared on the Account shortly after Mr. Hughes passed away. Mrs. Eagleton also testified that her mother had health problems at the time and that Mrs. Hughes had mentioned adding Mrs. Eagleton's name to the Account as a signatory for emergency purposes. There was no mention that Mrs. Hughes *intended* to add Mrs. Eagleton as a

---

[17] The following cases provide examples of courts protecting a non-bankrupt spouse's individual and separate property from the bankrupt spouse's estate, thus supporting this court's decision to separate and protect Mrs. Hughes' property held in the Account from Mrs. Eagleton's estate. *See In re Robertson*, 203 F.3d 855, 862 (5th Cir. 2000) (holding that former community property which has been partitioned and classified as separate property of the debtor's former spouse under state law prior to the commencement of the case does not pass into the bankruptcy estate); *Chapman v. Whitsett*, 236 F. 873, 877 (8th Cir. 1916) (holding that bankrupt's creditors were not entitled to property inherited by bankrupt's former wife from her father-in-law because bankrupt had no interest in the property); *Gray v. Perlis*, 76 Cal. App. 511, 515 (Cal. Ct. App. 1926) (holding that Debtor had no interest in his wife's business, that it was her separate property, and that the business could not pass to the estate as community property).

joint owner of the Account with beneficial rights to the funds in it. Therefore, it does not appear that Mrs. Eagleton possessed equitable title to any portion of the Account prior to filing for bankruptcy or after filing for bankruptcy.

IV. Conclusion

The court finds there is insufficient evidence to show that Mrs. Eagleton signed an account application granting her joint ownership of the Account. Further, the testimony and other evidence presented by the parties show that Mrs. Eagleton and, therefore, Debtors have no equitable rights in the Account. Thus, the court **DENIES** the Motion.

It is so ORDERED.

Signed this the 22nd day of July 2004.

HONORABLE D. MICHAEL LYNN,
UNITED STATES BANKRUPTCY JUDGE