Solemn and Ancient Farce: New York Judicial Liens on Personal Property

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Introduction

The judicial lien, in New York and elsewhere, is the very telos of in personam liability in private law. In personam liability stands for the noble proposition that debtors ought to pay. When they don't, the law stands to ready, in its fashion, to award a creditor with a judicial lien. Its creation is the transubstantive miracle by which the in personam right becomes a right in the debtor's property.

As important as the judicial lien is,1 the law surrounding it is in bad repair. The reason for this is obvious. Federal bankruptcy law has proved a fearsome competitor to the enforcement of money judgments outside of bankruptcy. When Wall Street can't pay, it files for chapter 11 protection, usually as a prelude to complete liquidation under chapter 7. It doesn't wait for the sheriff to levy a bank account. Ironically, the bankruptcy trustee is a judicial lien creditor on the day of the bankruptcy petition.2 This has been called the very organizing principle of federal bankruptcy law.3 Yet the law of the judicial lien is ignored and under-developed all the same.

As attractive a competitor as federal bankruptcy law is, it still basically requires the debtor to commence the proceeding. Involuntary bankruptcies exist, but they are rare4 and dangerous for creditors.5 So if a creditor faces a vicious, contumacious debtor who simply declines to pay (common enough in divorce cases), recourse must often be had to the ugly mechanisms by which courts liquidate assets of the debtor in order to "make" the judgment.6 Hence the necessity of this study of the New York judicial lien, the first ever since New York's enacted the Civil Practice Law and Rules (CPLR), that Herculean effort that was to have scrubbed clean the Augean stables of local civil procedure.

In contemplating this mechanism as it exists in New York, one cannot but react with horror and disgust, not to mention bafflement that New York dares to flatter itself the premier venue of commercial litigation.7 Just prior to the enactment of the CPLR, two authors wrote:

It is doubtful whether any area of the law is as complex, confused, uncertain and devoid of rational justification as that which relates to the priorities and liens on personal property that are acquired by procedures to enforce money judgments.8

Yet, based on my study of 45 years of jurisprudence, it is my sad duty to report that the introduction of new Articles 52 and 62 in 19639 has done little, perhaps nothing, to simplify or rationalize the law in this area. Mostly, the CPLR simply repeats the absurdities of prior law. When it innovates, it compounds the absurdity.

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1 See Lynn LoPucki, The Death of Liability, 106 YALE L.J. 1, 4 (1996) ("Unless that [money] judgment can be enforced, liability is merely symbolic").
6 Lawyers used to speak of "mak[ing] the judgment out of the debtor's personal property . . . ." Isadore H. Cohen, Collection of Money Judgments in New York: Supplementary Proceedings, 35 COLUM. L. REV. 1007, 1010 (1935) [hereinafter cited as Cohen, Supplementary Proceedings]. The phrase relates to the ancient name for the writ of execution--fieri facias or fi. fa., so named because the writ's opening words were "quod fieri facias de bonis et catalisis" (that you cause to be made of the goods and chattels). American Fin. Corp. v. Webster, 1982 Del. C.P. LEXIS 3 ( Ct. Common Please 1982).
7 Ehrlich-Bober & Co., Inc. v. University of Houston, 49 N.Y.2d 574, 581, 404 N.E.2d 726, 730, 427 N.Y.S.2d 604, 608 (1980) (referring to New York's "undisputed status as the preeminent commercial and financial nerve center of the Nation and the world").
8 Daniel H. Distler & Milton J. Schubin, Enforcement Priorities and Liens: The New York Judgment Creditor's Rights in Personal Property, 60 COLUM. L. REV. 458, 458 (1960); see also Jack B. Weinstein, Proposed Revision of New York Civil Practice, 60 COLUM. L. REV. 50, 89 (1960) ("Most law offices have thousand of dollars in unpaid judgments in their files . . . . this is the worst offender in failing to keep up with the facts of modern life") (remarks of Daniel H. Distler).
This Article, an installment of an unpleasant but necessary in-depth study of New York judicial liens, focuses on the encumbrance of personal property with judicial liens arising from Articles 52 and 62 of the CPLR.\textsuperscript{10} The focus is on the judicial lien as a property interest. Procedural niceties unconnected to judicial liens are largely neglected, in the interest of space and personal inclination.\textsuperscript{11} My analysis divides judicial liens into two types. Part I discusses the execution lien and the closely analogous pre-judgment attachment lien.\textsuperscript{12} The execution lien is the "legal" remedy for the disease of money judgment. In Part II, I discuss "equity" liens—liens associated with injunctive turnover orders and the appointment of receivers. In Part III, I discuss personal property that is so highly esteemed as to be exempt from encumbrance by the judicial lien. Here we shall read of oxen, church pews and watches worth less than $35. The legislation on exemptions serves a dual purpose. First, it immunizes certain property against judicial liens. Second, thanks to federal law, it authorizes bankrupt debtors to remove exempt property from the bankruptcy estate. At all points of the analysis, the interaction of federal bankruptcy law and state law will be thoroughly examined.

I. The Execution Lien

A. Creation

The execution lien, that "solemn and ancient farce,\textsuperscript{13}" is conjured into existence by CPLR § 5202(a):

Where a judgment creditor has delivered an execution to a sheriff, the judgment creditor's rights in a debt owed to the judgment debtor or in an interest of the judgment debtor in personal property... are superior to the extent of the amount of the execution to the rights of any trustee of the debt or property...\textsuperscript{14}

This peculiar sentence struggles to say that the lien is created the moment that a judgment creditor serves an execution on the sheriff.\textsuperscript{15} Notice that the above sentence omits to use the word lien. It merely says that the rights of a creditor (whatever they may be) are good against subsequent transferees. From this we can infer that the creditor has a property interest—a lien!—in the debtor's personal property once the execution is delivered.\textsuperscript{16}

And what is a lien? The CPLR never says. Apparently you're already supposed to know that in advance. Yet few lawyers, I suspect, can hazard a satisfactory definition.

In general, a lien is a property interest connected with a debt, so there is typically a debtor and a creditor. The property interest in question is a power—in Hohfeldian terms, the ability to change the

\textsuperscript{10} See also David Gray Carlson, Judicial Liens on New York Real Property (2007) (forthcoming).

\textsuperscript{11} Although I allude to many procedural aspects of the judicial lien, I do not deeply analyze the constitutionality of New York's legal regime. Various due process challenges have been mounted against this regime. When they succeed, the New York legislature dutifully amends the CPLR. My study assumes, perhaps wrongly, that the current regime is as constitutional as it is regrettable.

\textsuperscript{12} Pre-judgment Attachment liens merge into execution liens, once the judgment is entered. Tenzer, Greenblatt, Fullon & Kaplan v. Abbruzzese, 57 Misc. 2d 783, 293 N.Y.S.2d 634 (S. Ct. Queens Co. 1968).

\textsuperscript{13} Cohen, Supplementary Proceedings, supra note 6, at 1007.

\textsuperscript{14} Although only a sheriff (an officer of the Supreme Court) is mentioned, delivery to marshals working for lesser or federal courts has like effect. First Westchester Nat'l Bank v. Lewis, 42 Misc. 2d 1007, 249 N.Y.S.2d 537 (S. Ct. Westchester Co. 1964); see, e.g., N.Y. City Civ. Ct. Act § 701(b) ("The provisions of law applicable in supreme court practice, relating to the execution of mandates by a sheriff and the power and control of the court over the sheriff executing the same, shall apply to in this court; and they shall apply equally to both sheriffs and marshals"). The marshal, however, may not enforce a supreme court judgment; only the sheriff can. Yeh v. Seakan, 121 Misc. 2d 861, 464 N.Y.S.2d 627 (S. Ct. Oneida Co. 1983).

\textsuperscript{15} Don King Prods., Inc. v. Thomas, 945 F.2d 529, 533 (2d Cir. 1991) ("Under New York law, a judgment creditor becomes a 'judgment lien creditor' as to personal property only after execution is delivered to the sheriff").

\textsuperscript{16} The inability to utter the word lien in § 5202(a) may stem from two scholars, one of whom was an associate reporter for the committee that drafted Article 52. These two writers unjustifiably thought the word "lien" vague, and so § 5202(a) almost incomprehensibly dances around using the word. Distler & Schubin, supra note 8, at 459-65. Saying that the word "lien" is vague is like saying the phrase "security interest" is vague and then recommending that UCC Article 9 must never use it. Incidentally, the CPLR at least twice utters the profane word "lien." CPLR § 5202(b), 5226(a)
legal present, which the empowered person may or may not wish to exercise.\footnote{Wesley N. Hohfeld, Fundamental Legal Conceptions as Applied in Legal Reasoning 7, 55-60 (Walter Wheeler Cook ed. 1923).} The lien creditor's power is to \textit{sell} the debtor's property. Classically, the lien creditor can sell what the debtor had at the time the lien was created. This formulation suggests that the power cannot be defeated by the debtor's subsequent transfers. This is a proposition the CPLR imperfectly articulates. According to CPLR \S\ 5233(a)

\begin{quote}
[i]the interest of the judgment debtor in personal property obtained by a sheriff pursuant to execution or order, other than legal tender of the United States, shall be sold by the sheriff at public auction . . .
\end{quote}

This principle is incoherent as stated. What \textit{is} the interest of the judgment debtor that the sheriff obtains? As of what time must this interest be judged? The answer is, at the time of the execution. This would mean that, by the time of the sale, a debtor might have \textit{no} interest in property, yet the sheriff still has a power of sale, as the following scenario shows:

\textit{First Scenario}

\textbf{Monday}: The sheriff levies a thing from a judgment debtor (whom I will call \textit{JD}) pursuant to a writ of execution obtained by judgment creditor (\textit{JC}). So that \textit{JC} has a lien.  
\textbf{Tuesday}: \textit{JD}, who owns the equity interest in the levied thing, conveys all right, title and interest to \textit{X}, so that \textit{JD} has absolutely no connection to the thing. 
\textbf{Wednesday}: In a procedurally valid sale, the sheriff sells \textit{X}'s thing to \textit{Y}.

In the First Scenario, the sheriff had power to sell free of \textit{X}, even though, on Wednesday, \textit{JD} had \textit{no interest at all}. \textit{Y} obtains whatever interest \textit{JD} had in the thing on \textit{Monday}. Hence, the classic formulation is that a lien is the power of a creditor to sell whatever the debtor had at the moment the creditor's lien was created.

If the personal property is a debt that can be extinguished by payment, the creation of a judicial lien is the involuntary assignment of the debt, so that \textit{JC} not only has a power of sale but also has a power to collect money from the debtor of the debtor (whom, in imitation of Article 9 of the Uniform Commercial Code, I shall call the account debtor, or \textit{AD}).\footnote{UCC \S\ 9-102(1)(3) ("Account debtor' means a person obligated on an account, chattel paper, or general intangible").} In such cases, no sale is needed to liquidate the property into cash, the language in which debt is expressed. Once \textit{JC} serves the execution on the sheriff and creates the lien, \textit{AD}, who owes a debt to \textit{JD} must pay the sheriff instead of \textit{JD}.\footnote{CPLR \S\ 5232(a) (fourth sentence). There is a superficial resemblance between \textit{JC} claiming derivatively through \textit{JD} and \textit{JC} claiming that \textit{AD} has made \textit{JC} the third-party beneficiary of a contract. Where \textit{JC} has a judgment and sues \textit{JD} under a third-party beneficiary theory, the court may convert the breach-of-contract action to a proceeding supplementary to judgment pursuant to \S 5225(b) or 5227. Port Chester Elec. Constr. Corp. v. Atlas, 40 N.Y.2d 652, 389 N.E.2d 327, 357 N.Y.S.2d 983 (1976).} In making delivery of the execution the moment of lien creation, New York follows the noble reform of 1676 when the spirit of Cromwell temporarily stirred Parliament from its torpor to pass the famous Statute of Frauds.\footnote{29 Car. 2, c. 3, \S\ 16 (1676); see Baker v. Hull, 250 N.Y. 484, 487, 166 N.E. 175, 176 (1929) (tracing New York rule to the Statute of Frauds).} Best known for making contracts unenforceable unless in writing and for requiring a signed and delivered deed as the mode of transferring real property, the Statute of Frauds also changed the moment when the writ of \textit{fieri facias}—which today we call a writ of execution, or simply an execution—created a lien.

Prior to the Statute of Frauds, English law indulged in the extraordinary fiction that everything the courts did was accomplished on the first day of the term (the date of \textit{teste}), including execution on property.\footnote{Erwin's Lessee v. Dundas, 45 U.S. 58, 75 (1846); Roth v. Wells, 29 N.Y. 471, 488 (1864).} Hence, Shakespeare's comment about "lawyers in the vacation, for they sleep between term
and term, and then they perceive not how Time moves.\textsuperscript{22} Imagine that the first day of term was January 10, 1600. On January 11, 1600, \textit{JD} sells a cow to \textit{X} for a few pence. \textit{JC} files a complaint against \textit{JD} in February and obtains a judgment in April. The court issues a writ of \textit{fieri facias} to the sheriff on April 15. The sheriff was fully able to levy on \textit{X}'s cow because the judgment bound \textit{JD}'s property as of the first day of the term, the day before \textit{X} bought the cow.\textsuperscript{23} Obviously this played some havoc with \textit{JD}'s general ability to sell cows.

In order to improve \textit{JD}'s position, the Statute of Frauds deferred \textit{JC}'s judicial lien until the moment the writ of execution was delivered to the sheriff. This solution, however, is subject to the criticism that delivery of the execution is largely an invisible event. If \textit{X} wishes to buy \textit{JD}'s cow, \textit{X} can never be sure that the sheriff has not received a writ of execution which would encumber the cow with a lien. Because this is so, many jurisdictions in the United States have wisely deferred the moment of lien creation even further—to the time the sheriff actually levies (or takes custody of) the personal property of \textit{JD}.\textsuperscript{24}

New York takes a different and less satisfactory approach to the problem. Instead of abandoning the Statute of Frauds solution altogether, as it should have done, it sentimentally retains delivery as the moment of lien creation—New York's continuing tribute to the seventeenth century. To counteract the invisibility of this lien, New York creates two exceptions whereby transfers subsequent to the lien are free and clear of it. We consider each of these mystifying and unsatisfactory exceptions in turn.

1. Pre-Levy Transfers

According to CPLR § 5202(a)(1), the execution lien, created upon delivery of the execution to the sheriff, is no good against "a transferee who acquired the debt or property for fair consideration before it was levied upon." This is very broad protection indeed. CPLR § 5202(a)(2), governing the post-levy era, mentions absence of knowledge, but knowledge is not mentioned in § 5202(a)(1). Therefore, it must be concluded that a judgment debtor has power to give title free and clear of an execution lien to a bad faith transferee for a fair consideration. In exalting the bad faith transferee over diligent creditors who serve executions on sheriffs, New York unashamedly apes the bad example of Article 9 of the UCC, where bad faith secured parties can take priority over earlier unperfected security interests, even though they know they are harming the rights of a prior unperfected secured party.\textsuperscript{25}

Section 5202(a)(1) requires that a transfer be "for fair consideration." At least one court has interpreted this language to exclude security interests under guaranty contracts, where \textit{JD} is not the principal obligor.\textsuperscript{26} The reasoning is that \textit{JD} never received the loan proceeds; some third party did. This makes the guaranty obligation in the nature of a donative transfer—one for no fair consideration. This position, however, entirely overlooks the fact that, under the law of suretyship, \textit{JD} always obtains subrogation rights against the principal obligor, in exchange for the suretyship promise.\textsuperscript{27} Therefore, courts err if they think sureties receive nothing from the parties they assure. Properly, secured parties (whom I will call \textit{SPs}) under suretyship contracts are properly transferees for fair consideration.

A lien even weaker than the execution lien is created in the pre-petition context when a plaintiff serves an order of attachment on a sheriff. According to CPLR § 6203, a lien is created when the order

\textsuperscript{22} \textit{WILLIAM SHAKESPEARE, AS YOU LIKE IT} Act 3 Sc. ii.
\textsuperscript{23} Bond v. Willet, 29 How. Pr. 47, 50 (1864).
\textsuperscript{24} E.g., Mich Comp. Laws Ann. § 600.6012.
\textsuperscript{25} UCC § 9-322(a). In the case of a fraudulent conveyance, New York law gives to a good faith transferee who gave less than a fair consideration a lien for the consideration actually given. N.Y. Debtor & Creditor Law § 278(2). But no such lien is provided as a partial defense to the judicial lien under CPLR § 5202(a)(1). 11 JACK B. WEINSTEIN ET AL., NEW YORK CIVIL PRACTICE ¶ 5202.13 (2d ed.).
\textsuperscript{27} Contrary to popular belief, upstream guaranties are usual for fair consideration because of subrogation. Kenneth J. Carl, \textit{Fraudulent Transfer Attacks on Guaranties in Bankruptcy}, 60 AM. BANKR. L.J. 109, 113 (1986).
of attachment is delivered to the sheriff, but $D^{28}$ retains power to give better title to "a transferee who acquired the debt or property before it was levied upon for fair consideration or without knowledge of the order of attachment." The disjunctive suggests that bad faith transferees for value are protected against the attachment lien (as is true with the execution lien), but in addition good faith donees are protected. The only party defeated by the pre-levy attachment lien is the bad faith donee and some subsequent judgment creditors. New York's feeble pre-levy attachment lien justifiably has been called "America's weakest lien." Countermanding this weakness, at the same time the New York legislature enacted CPLR § 6203, it also spoiled the uniformity of the Uniform Fraudulent Conveyance Act by adding Debtor & Creditor Law § 273-a:44

Every conveyance made without fair consideration when the person making it is a defendant in an action for money damages or a judgment in such an action has been docketed against him, is fraudulent as to the plaintiff in that action without regard to the actual intent of the defendant if, after final judgment for the plaintiff, the defendant fails to satisfy the judgment.

So even if the good faith donee takes free of the attachment lien, the same donee has received a fraudulent conveyance, since the order of attachment implies that the debtor-transferor is probably already a defendant within the meaning of the above-quoted provision.

It has tempted some to justify § 5202(a)(1) because the assignee ($X$) who receives a transfer free of the execution lien replaces the value lost to $JC$ by paying $JD$ the consideration. But this is not so. Antecedent debt is included in the concept of fair consideration. From $JD$'s standpoint, the property conveyed to $X$ is a dead loss if $X$ is paid on antecedent debt. Justification for lien weakness will have to be found elsewhere. Further-more, $JC$ at least had something—a lien. Once the lien disappears, $JC$ has nothing—only the hope of getting a new judicial lien. Perhaps several justifications are needed. If $X$ pays a fresh consideration, $X$ deserves protection because the transaction is revenue-neutral for $JC$. Where $X$ takes a transfer in payment of or as security for antecedent debt in good faith, $X$ prevails because $X$ did no intentional wrong and, as a creditor, is the moral equal of $JC$. Where $X$ is in bad faith for a fair consideration, perhaps we must simply admit that we don't want to encourage a suit from $JC$ regarding what $X$ did or did not know. Per-haps the legislature doesn't really believe that $JC$ has much of a property interest just because her lawyer has filled in a form and delivered it to the sheriff. The lien created by so scant an investment in diligence produces an invisible lien, threatening

28 In attachment cases, I will refer to the defendant as $D$, since the plaintiff ($P$) does not and may never have a money judgment.

29 Emphasis added.

30 In Adan v. Abbott, 114 Misc. 2d 735, 452 N.Y.S.2d 476 (S. Ct. N.Y. Co. 1982), $D$'s lawyer on a murder rap claimed to take free of an attachment lien on book royalties, but the court held that $D$ was no transferee. Presumably, the mouthpiece could have obtained a security interest for past and future services, and as bad faith transferee, beat the attachment lien after all. But, as we are about to learn, new Article 9 prevents subsequent SPs from taking free of judicial liens under the CPLR. See infra text accompanying notes 41-62.

31 Actually, judgment creditors would seem to be eligible for protection under § 6203(1), but this wipes out the basic priority system of § 5234(b). So, by implication, subsequent judicial lien creditors can never claim protection under § 5202(a)(2) or § 6203(1). See supra text accompanying notes 83-85.


33 The new Uniform Fraudulent Transfer Act, however, adopts § 273-a as a good idea. UFTA § 4.


35 WEINSTEIN ET AL., supra note 25, at ¶¶ 5202.02, 5202.06, 5202.11, 5202.13.

36 N.Y. Debtor & Creditor Law § 272. The CPLR intentionally adopts the language of the Uniform Fraudulent Conveyance Act, which is the basis of New York's law. See infra text accompanying notes 101-02.

37 See WEINSTEIN ET AL., supra note 25, ¶ 5202.11 ("Because fair consideration may include discharge of an antecedent debt, however, there are clearly instances where the CPLR provisions are less advantageous to the judgment creditor than were the provisions of former law").

38 At least this would be so if $JD$ receives the cash proceeds in trust for $JC$. Although this would make sense—$JC$ has contributed property to $JD$'s transferee—there is not yet any judicial precedent for a proceeds theory. But it would be easy for $JC$ to make this claim. $JC$ could simply ratify $JD$'s action and make $JD$ the agent of $JC$ for the purpose of the sale.
commerce. Yet in this last instance, a bad faith \( X \) faces the risk that the transfer to \( X \) was for the purpose of hindering or delaying creditors, making it a deliberate fraud on creditors like \( JC \).\(^{39}\) If so, \( X \) may have to bear \( JC \)'s legal fees under a non-uniform New York enactment.\(^{40}\)

**a. Subsequent Security Interests**

Section 5202(a)(1) generates some merry confusion when read in conjunction with Article 9 of the Uniform Commercial Code. According to UCC § 9-317(b), a secured party is subordinate to a person who becomes a lien creditor while the security interest is unperfected. Yet according to § 5202(a)(1), a creditor whose unperfected security interest attaches after delivery of the execution but before the levy takes free of the execution lien. Whereas the CPLR points to the superior second-in-time rights of an unperfected SP, the UCC exalts the second-in-time rights of a person who becomes a lien creditor while a security interest is unperfected. The two provisions are in contradiction.\(^{41}\)

To further complicate matters, the UCC defines "person who becomes a lien creditor" as a person whose lien arises from "attachment, levy or the like." In New York an execution lien arises from delivery of the execution to the sheriff, so presumably a judgment creditor who has delivered an execution to the sheriff falls under the awkward "and the like" catch-all phrase of the UCC.\(^{42}\)

Accordingly, the following anomalous priority is created:

**Second Scenario**

*Monday:* \( JC \) serves a writ of execution on the sheriff, thereby creating a judicial lien.

*Tuesday:* Pursuant to a security agreement, \( SP \) advances funds to \( JD \), thereby creating a security interest in some thing. \( SP \) does not perfect.

In the Second Scenario, CPLR § 5202(a)(1) awards priority to \( SP \), because \( SP \) is a transferee for a fair consideration on Tuesday. The UCC, however, can be read as awarding priority to \( JC \) because \( JC \) is "a person that becomes a lien creditor before . . . the security interest . . . is perfected."\(^{43}\) If so, each statute gives a different answer.

In *Yellin, Kenner & Levy v. Simon*,\(^{44}\) Judge Thomas Griesa ruled that, in the Second Scenario, . . .

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\(^{39}\) N.Y. Debtor & Creditor Law § 276.

\(^{40}\) Id. § 276-a.

\(^{41}\) Peter F. Coogan, *Intangibles as Collateral Under the Uniform Commercial Code*, 77 Harv. L. Rev. 997, 999 (1964) ("Surprisingly, neither the [UCC] nor the CPLR . . . seems to recognize the existence of the other").

\(^{42}\) It has always struck me as lazy for the drafters of the UCC, and the New York legislature who enacted it, to define what it means to become a lien creditor in New York in terms as uninstructive as "and the like." Would it be so hard to look up what this means according to the CPLR?

\(^{43}\) UCC § 9-317(b)(2). In *Mantovani v. Fast Fuel Corp.*, 494 F. Supp. 72 (S.D.N.Y. 1980), a creditor claimed the exception in CPLR § 5202(a)(1) by virtue of an unperfected security interest. The claim was denied on the following ground:

> A reading of the purported "assignment of interest" is nothing more than an agreement under which [JD's] interest in the proceeds of contract were to serve as collateral for [JD's] debt to [JC]. To be sure, the "assignment of interest" possessed all the earmarks of a collateral agreement and none of the earmarks of a genuine transfer.

> . . . It is evident that such a collateral agreement, although denominated as an assignment of interest, falls far short of the type of "perfected transaction" which marks a valid assignment.

\(^{44}\) Id. at 76 (citation omitted). If this passage states that the creation a of security interests is not a transfer of JD's property, then it is of course quite benighted. If it says that unperfected security interests cannot qualify for the 5202(a)(1) exception, then it stands for the override by the UCC of § 5202(a)(1). *Mantovani* case is a masterpiece of confusion. In it, the IRS and JC competed for a general intangible owed by AD. The IRS had filed notice of its lien first and clearly had priority. JC argued that it had served an execution second in time, but that JC qualified for the protection of CPLR § 5202(a)(1). In other words, JC implied that the IRS was bound by the exception of § 5202(a)(1). The above-quoted mystifying passage responds to this "point" and can be dismissed, along with the argument, as absurd.

SP loses.46 According to the seldom cited UCC § 10-103, where the UCC conflicts with some non-uniform legislation, the UCC must triumph. Accordingly, Judge Griesa ignored the exception to § 5202(a) and decided the priority contest with reference to Article 9 only, according to which SP was the loser.

Judge Griesa’s interpretation is correct as of 200, but was erroneous at the time it was decided. In Yellin, JC delivered an execution to the sheriff before SP’s security interest attached or was perfected. In Judge Griesa’s view, JC was the winner under the terms of old UCC § 9-301—now unhappily renumbered as § 9-317(a)(2)46—because JC became a lien creditor before SP perfected. On this view, the UCC overrules § 5202(a)(1) and (2) in all cases; no secured party could ever take advantage of § 5202(a)(1), provided JC delivers an execution to the sheriff before SP files a financing statement or otherwise perfects.

In contrast, SP had argued that old § 9-301(b) applied only where JC became a lien creditor during an unperfected gap in SP’s security interest. On this view, entirely correct prior to 2001, old § 9-301(b) had nothing to say when a person became a lien creditor entirely before SP’s security interest attached. Rather, insofar as the UCC is concerned, JC was senior solely because SP’s security interest could only attach to JD’s rights in the collateral47—the equity left over in light of JC’s judicial lien.

To consider this correct argument more slowly, we start with the premise of UCC § 9-201—Article 9’s so-called golden rule:

*Except as otherwise provided by this Act* a security agreement is effective according to its terms between the parties, against purchasers of the collateral and against creditors.48

Old UCC § 9-301(b) was one of the exceptions to which the italicized language referred. It provided:

Except as otherwise provided in subsection (2),49 an unperfected security interest is subordinate to the rights of

(b) a person who becomes a lien creditor before the security interest is perfected . . .50

Notice that old § 9-301(b) regulated unperfected security interests only. Where an unperfected gap existed and a subsequent JC came into existence, SP was subordinated.51 On the other hand, where SP perfected and attached at the same time, Article 9 could have no effect on the priority contest whatever. Old § 9-301(b) applied only if there was an unperfected gap.

If this argument was correct, as I believe it was, then the UCC did not apply in Yellin (even if SP never perfected). Accordingly, SP could indeed claim to fall under § 5202(a)(1). Meanwhile, JC

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46 To be precise, SP was a post-levy transferee. But SP was without knowledge of the levy and so potentially complied with the second exception to § 5202(a). Accordingly, the Yellin case is also good authority for the meaning of CPLR § 5202(a)(1), pertaining to pre-levy transfers.

47 In the Golden Age of Article 9 (prior to 2000), § 9-317 bore the noble number § 9-301. Today, we petulantly suffer sixteen unifying choice-of-law provisions before we encounter the all-important priority contest between secured creditors and judicial lien creditors—a contest most portentous for commercial law.

48 UCC § 9-203(b)(2). The drafter of new Article 9 call this the “nemo dat concept,” UCC § 9-317 Comment 4. Though redolent of James Mason’s character in Twenty Thousand Leagues Under the Sea, it refers to the latin sentence, nemo dat quod non habet: no one giveth who hath not.

49 Old UCC § 9-201 (emphasis added).

50 Subsection (2) provided to purchase money SPs a grace period for perfecting commencing when JD receives delivery of the collateral and running for ten days.

51 Going back further in history, prior to the UCC, an unsecured creditor who advanced “gap” credit could later obtain a senior judicial lien, even if SP perfected its security interest before JC obtained a lien. Stephens v. Perrine, 143 N.Y. 476. 39 N.E. 11 (1894).

Under the notorious case of Moore v. Bay, 284 U.S. 4 (1931), a bankruptcy trustee could subrogate herself to the avoidance rights of a unsecured gap creditor and avoid a security interest that was perfected years before the bankruptcy. One of the most important goals of Article 9 was to limit avoidance rights to creditors who obtained liens during the unperfected gap. Since a bankruptcy trustee was not subrogated to the rights of lien creditors, Article 9 effectively de-fanged the dragon of Moore v. Bay. Carlson & Shupack, supra note 32, at 319-20.
could not claim protection of old § 9-301(b). Hence, there was no conflict—only the CPLR applied. Under the CPLR, SP should have won, even if SP never perfected.52

Yellin was a misinterpretation of old § 9-301(b). Yet new UCC § 9-317(b)(2) basically adopts Yellin's premise lock, stock and barrel. According to new § 9-317(b)(2):

A security interest or agricultural lien is subordinate to the rights of:

\[ \cdot \cdot \cdot (2) \text{ except as otherwise provided in subsection (e),}^{53} \text{ a person that becomes a lien creditor before the earlier of the time:} \]

(A) the security interest or agricultural lien is perfected; or

(B) one of the conditions specified in Section 9-203(b)(3)\(^{54}\) is met and a financing statement covering the collateral is filed.\(^{55}\)

Section 9-317(a)(2) operates differently from old § 9-301(b). First, § 9-317(a)(2) makes no reference to unperfected security interests, as did old § 9-301(b). Rather, new § 9-317(a)(2) applies to perfected security interests, consistent with the Yellin premise. As a result, it now becomes plausible to contend that new § 9-317(a)(2) governs the Second Scenario. Ironically, this puts the UCC into conflict with the CPLR, which means that SP loses! Although new Article 9 was designed to reduce the power of JC's against SPs, here is one unintended consequence in which JC's were exalted over SPs.

New § 9-317(a)(2) therefore governs perfected security interests as well as unperfected ones. Consider the following chronology:

**Third Scenario**

*Monday:* SP files a financing statement pursuant to a security agreement, specifying some thing is SP's collateral. SP has made no commitment to lend.

*Tuesday:* JC serves a writ of execution on the sheriff.

*Wednesday:* SP advances funds to JD, thereby creating a perfected security interest on the thing.

In the Third Scenario, JC had a senior lien all day Tuesday but lost priority on Wednesday. In this case, both CPLR § 5202(a)(1) and new § 9-317(a)(2)(B) give SP the victory. Under the UCC, filing without more is not perfection. Filing plus attachment is perfection.\(^{56}\) Prior to 2000, JC would have prevailed.\(^{57}\)

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52 In the First Scenario, SP did not perfect and yet, on my reading of the pre-2000 UCC, still should have won under the exception in CPLR § 5202(a)(1). Can this be justified? The answer is yes, because old § 9-301(b) applied only in cases where a person became a lien creditor in the gap between attachment and perfection of a security interest. JC became a lien creditor before attachment, and so UCC § 9-301(b) simply did not apply. This is easy to see in a case where SP's security interest attaches and is perfected simultaneously, as where SP's financing statement was filed prior to Monday in First Scenario. But it is equally true if SP never perfected at all.

To see why, imagine that JC has a judgment for $100 and that JD has a thing worth $1000. On Monday, JC serves an execution to the sheriff, creating a defeasible lien on the thing. Suppose on Tuesday, JD sells the thing outright to SP for a fair consideration. Clearly, JC no longer has a judicial lien on the thing. SP owns it free and clear. But now suppose that SP takes an unperfected security interest in the thing in exchange for a $1000 loan. Since SP's interest is less than absolute, JC's lien is not entirely destroyed. Rather, it encumbers JD's equity in the thing. Nevertheless, JC's lien is still largely destroyed. SP's unperfected security interest is senior to it. The destroyed part of JC's lien can never come into conflict with SP's unperfected security interest for the simple reason that JC's judicial lien does not encumber that part of the collateral to which the unperfected security interest attached. JC merely has the right to receive any surplus. UCC § 9-615(a)(3). But all other aspects of JC's lien are surely just as destroyed as is the case where JC conveys an absolute interest to SP.

In Yellin, we do not know whether SP's security interest on Tuesday was perfected at birth or whether there was an unperfected gap. Either way, SP should have prevailed under CPLR § 5202(a)(1) because old § 9-301(b) applied only to persons who became lien creditors after attachment and before perfection.

53 Subsection (e) provides to purchase money SPs a grace period for perfecting commencing when JD receives delivery of the collateral and running for twenty days.

54 This section refers to the existence of a security agreement between JD and SP.


56 UCC § 9-308.

57 According to UCC § 9-317 Official Comment 4, this subparagraph was designed to make sure that an initial discretionary advance by SP would have priority over a prior judicial lien.
Now SP still wins because JC has not become a lien creditor before "one of the conditions specified in Section 9-203(b)(3)" is met and a financing statement covering the collateral is filed. Here the Yellin premise, imported into new § 9-317(a)(2), does no harm to SP. But it still creates a bad result for SPs in the Second Scenario, in spite of new § 9-317(b)(2)(B).

Compare yet another chronology:

**Fourth Scenario**

*Monday:* JD and SP sign a security agreement with regard to a thing owned by JD and SP gives value. SP does not perfect.
*Tuesday:* JC serves a writ of execution on the sheriff.
*Wednesday:* SP perfects.
*Thursday:* The sheriff levies on behalf of JC.

This time JC clearly wins under UCC § 9-317(a)(2). JC became a lien creditor before SP perfected. And SPs unperfected security interest is prior to JC’s lien. SP cannot claim to be a post-lien transferee of JD under CPLR § 5202(a)(1). On these facts, there is no conflict between the UCC and § 5202(a)(2). Nevertheless, in *Ruppert v. Community National Bank*, the court, on the above facts, said in erroneous dictum that SP was entitled to protection under CPLR § 5202(a)(1) because SP obtained an unperfected security interest before the levy. *Ruppert* is therefore the converse of the Yellin error. It overlooks the fact that § 5202(a)(1) is an exception to the principle stated in the preamble. So, properly, § 5202(a)(1) is irrelevant; SP was first in time but subordinate to JC under UCC § 9-317(b)(2). SP was not a post-execution transferee and had no right to huddle under the umbrella of § 5202(a)(1).

**b. Future Advances**

The prior section points out that new Article 9 changes the mode of governing the priority between SP and JC. There has also been a change in the way new Article 9 governs the priority of future advances made by SP after JC has become a lien creditor.

As originally enacted in 1962, the UCC had no future advance rule. So imagine the following scenario:

**Fifth Scenario**

*Monday:* JD conveys a security interest in goods to SP. SP perfects, which implies that JD has rights in the collateral, a security agreement exists, and SP has given value to JD. The security agreement authorizes but does not require SP to make discretionary future advances.
*Tuesday:* JC serves a writ of execution on the sheriff.
*Wednesday:* The sheriff levies goods on behalf of JC.
*Thursday:* SP makes a discretionary future advance.

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58 UCC § 9-203(b)(3) refers to the security agreement.
59 Id. § 9-317(b)(2)(B).
62 The *Ruppert* court further erred in holding that, when the sheriff released the collateral directly to SP, SP was a transferee by virtue of obtaining possession. In fact, SP’s possession was a perfecting act. The transfer occurred much earlier, when SP’s security interest attached to the collateral. Nevertheless, the case was correctly decided; when the sheriff released the levied collateral to SP, JC’s execution lien died, leaving SP’s newly perfected security interest without a competing judicial lien against it. See infra text accompanying notes 155-65.
Prior to the 1972 amendments, SP was definitely senior for Monday's advance, but no one knew the status of Thursday's advance. According to the "unitary" theory of security interests, Thursday's advance was senior. According to the "multiple" theory, Thursday's advance was junior.

The question became one of high moment in 1966, when Congress amended the tax lien statute to protect UCC floating liens from invalidity against tax liens under the inchoateness doctrine. According to the 1966 amendments, SP's future advance would be protected only if the advance were good against a judicial lien creditor under state law. But this was precisely what no one knew. So the 1972 amendments added a rule that whittled down JC by the amount of Thursday's advance. According to § 9-301(4) (1972):

A person who becomes a lien creditor while a security interest is perfected takes subject to the security interest only to the extent that it secures advances made before he becomes a lien creditor or within 45 days thereafter or made without knowledge of the lien or pursuant to a commitment entered into without knowledge of the lien.

This 1972 provision protected Thursday's advance, but only because there was already a security interest on Monday. In comparison, consider this:

**Sixth Scenario**

*Monday:* JD signs a security agreement, which authorizes but does not require SP to make discretionary future advances. SP files a financing statement.

*Tuesday:* JC serves an execution on the sheriff.

*Wednesday:* SP makes a discretionary future advance.

*Thursday:* The sheriff levies goods on behalf of JC.

In the Sixth Scenario, § 9-301(4) (1972) did not apply to protect the Thursday advance, because old § 9-301(4) required SP to have a perfected security interest before Tuesday, when JC first became a lien creditor. But, at least in New York, SP could rely on the protection of CPLR § 5202(a)(1) to take free of JC's lien (provided it is agreed that Yellin was a bad Erie guess at New York law).

New Article 9 changes the premise of future advance priorities. First, under § 9-317(a)(2)(B), SP wins in the Sixth Scenario without any help from the CPLR. Since JC did not become a lien creditor before a financing statement was filed pursuant to a security agreement, JC loses. Second, according to new § 9-323(b):

[A] security interest is subordinate to the rights of a person that becomes a lien creditor to the extent that the security interest secures an advance made more than 45 days after the person becomes a lien creditor unless the advance is made

(1) without knowledge of the lien; or

(2) pursuant to a commitment entered into without knowledge of the lien.

New § 9-323(b) no longer requires SP to have a perfected security interest before Tuesday in order to be senior for the Thursday advance.

One fly in the ointment of new Article 9 is presented by the following scenario:

**Seventh Scenario**

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64 See Carlson & Shupack, supra note 32, at 349-50. Inchoateness is described *infra* in the text accompanying notes 76-96.


66 Emphasis added.

67 See supra text accompanying notes 44-52.
Under § 9-323(b), SP should be junior since SP advanced more than 45 days after JC became a lien creditor. Yet SP can claim to be the winner under § 9-317(a)(2)(B), since SP filed a financing statement before JC became a lien creditor. Hence, there is a conflict within the UCC about SP’s priority. An Official Comment insists that § 9-323(b) overrides § 9-317(a)(2), but, of course, the statute nowhere makes this explicit. Nevertheless, it is often said that the particular statute overrules a conflicting general statute, and courts have learned to apply the Official Comments of the UCC as if they were really part of the statute. On this basis, courts will surely subordinate SP’s advance in the Seventh Scenario.

c. Involuntary Transfers

Significantly, § 5202(a)(1) does not use the word "purchaser," which would connote a voluntary buyer of personal property. Rather, the broader term of "transferee" is used. This is an unfortunate change from prior law. Former Civil Procedure Act § 683 protected pre-levy good faith purchasers, not transferees.

The expansion of post-lien protection from purchaser to transferee implies that a federal tax lien arising after delivery and before the levy primes the execution lien. This too gives rise to the same paradoxical priority between the execution lien and the tax lien that we witnessed with regard to Article 9 security interests. According to the Internal Revenue Code, a tax lien arises "upon all property and rights to property whether real or personal" of the taxpayer "at the time the [tax] assessment is made. . ." Yet the lien is unperfected as to any "judgment lien creditor" until the IRS perfects (by filing notice of the tax lien in the local state UCC filing office). So we get the following anomaly:

Eighth Scenario

Monday: JC serves an execution on the sheriff.
Tuesday: The IRS assesses a tax against JD., thereby creating a tax lien on JD's property.
Wednesday: The IRS files notice of its tax lien.

Here the CPLR awards priority to the tax lien. Yet the Internal Revenue Code says that "[t]he lien imposed by section 6321 shall not be valid as against any . . . judgment lien creditor" until the IRS

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68 UCC § 9-317 Comment 4 (third paragraph).
69 Watt v. Alaska, 451 U.S. 259, 267 (1981); United States v. Chase, 135 U.S. 255, 260 (1890) ("where there is, in the same statute, a particular enactment, and also a general one, which, in its most comprehensive sense, would include what is embraced in the former, the particular enactment must be operative, and the general enactment must be taken to affect only such cases within its general language as are not within the provisions of the particular enactment").
71 Compare 11 U.S.C. § 101 ("The term 'purchaser' means transferee of a voluntary transfer"); N.Y. Real Prop. Law § 290(2) ("the term 'purchaser' includes every person to whom any estate or interest in real property conveyed for a valuable consideration, and every assignee of a mortgage, lease or other conditional estate"); N.Y.U.C.C. § 1-201(32) ("'Purchase' include taking by sale . . . or any other voluntary transaction creating an interest in property").
73 Id. § 6322.
74 A judgment lien creditor is "a person who has obtained a valid judgment . . . for the recovery of . . . a certain sum of money . . . and a person who has perfected a lien under the judgment on the property involved." 26 C.F.R. 301.6323(b)-1(g).
75 26 U.S.C. § 6323(a), (f).
perfects. Since federal law overrides CPLR § 5202(a)(1), JC is senior. But suppose we reverse the chronology:

**Ninth Scenario**

*Monday:* The IRS assesses a tax against JD.
*Tuesday:* JC serves a writ of execution on the sheriff.
*Wednesday:* The IRS files notice of its tax lien.

Here the Internal Revenue Code points to JC's priority, whereas the IRS cannot claim to be a transferee of JD in the gap between delivery of the execution and levy.

A strange line of cases holds that, where JC's lien is "inchoate," the IRS always takes priority over it. "A choate lien is one in which the identity of the lienor, the property subject to the lien and the amount of the lien are established."76 Execution liens in New York, at least prior to levy, are choate even though the execution lien covers all of JD's personal property.77 Perhaps JD's power of sale free of JC's lien points to inchoateness.78 Nevertheless, in *American Express Travel Related Services Co. v. Kalish & Rice, Inc.*, 79 the court ruled that execution liens are choate as soon as the court officer (here a federal marshal) receives an execution.80 The court noted that the marshal had already levied AD when AD commenced an interpleader action. So it is possible to read this case as saying that a levied execution lien is choate. In *Lerner v. United States*, 81 the court held that the execution lien was choate by virtue of delivery of the execution in 1981.82 This delivery was still good enough to beat an IRS lien in 1985, even though there had never been a levy.83

Not only does word "transferee" include tax lien creditors. It also encompasses judicial lien creditors. Suppose JC1 serves and execution on the sheriff and JC2 serves an execution on the same sheriff. If we read the CPLR literally, JC2 takes free and clear of JC1. Yet we learn in CPLR § 5234(b) that JC1 retains priority. Ergo, implicitly § 5202(a)(1) defines "transferee" to mean any transfer, voluntary or involuntary, except a judicial lien creditor. Otherwise, § 5234(b)'s priority rule is read out of existence.

New York's scheme for collecting state taxes half-incorporates executions under the CPLR. New York's lien for *income* tax is equated with an execution lien.84 Ergo, it cannot fall under the exception of § 5202(a)(1), because of the aforementioned conflict with § 5234(b). New York's lien for *sales* tax does not equate with an execution.85 Ergo, the sales tax lien *is* entitled to the exception of CPLR § 5202(a)(1).

For all state tax liens, upon assessing a tax, the State Tax Commission sends a warrant to the "sheriff of any county of the state, or to any officer or employee of the department, commanding him

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76 Don King Prods., Inc. v. Thomas, 945 F.2d 529 (2d Cir. 1991).
78 United States v. Morrison, 247 F.2d 285 (5th Cir. 1957) (equitable lien inchoate in part because innocent lienors could later take priority over it).
80 Under Federal Rules of Civil Procedure 64, the federal marshal is subject to the CPLR in any matter pertaining to a writ of execution.
82 In *Corrigan v. United States Fire Insurance Co.*, 427 F. Supp. 940 (S.D.N.Y. 1977), we are not told the sequence between delivery of the execution and assessment of the tax. It appears as if the New York state tax warrant (which equates with an execution) was served before the IRS filed notice of its tax lien. So the case at least stands for the proposition that execution liens, prior to levy, are choate.
83 One problem with *Lerner* is that execution liens supposedly die when returned at the end of sixty days. *See infra* text accompanying notes 155-65. The court fails to explain how the execution could have survived for four years *sans levée*.
84 N.Y. Tax Law § 692(d).
85 *Id.* § 1141(b).
to levy upon and sell such person's real and personal property . . . . \(^{86}\) The sheriff must file the warrant with the clerk of the Supreme Court for the county wherein the taxpayer resides. Once docketed, the warrant becomes the equivalent of a judgment. \(^{87}\) The warrant itself is the equivalent of an execution. The sheriff is authorized to levy, and the State Tax Commission has an execution lien (at least once the warrant is a judgment). \(^{88}\) The warrant, however, is not limited to a sixty-day life, as executions are. \(^{89}\) Rather, the sheriff may levy at any time. \(^{90}\)

Yet there is a difference between the state income tax lien under § 692(d) for income tax and the sales tax lien under § 1141(b). The income tax lien statute simply states that the tax commission has whatever rights a judgment would give as to personal property. In addition, the warrant itself is the execution. This means that, when it comes to income tax liens, the tax warrant is the same as an execution. Not so with regard to the sales tax lien under § 1141(d), which creates a lien quite independently of the CPLR's governance of executions. In Craner v. Marine Midland Bank (In re Craner), \(^{91}\) the state filed its warrant for sales tax moments before the bankruptcy. Under § 1141(d) it was \textit{per se} senior to a subsequent hypothetical lien creditor. \(^{92}\) If the lien had been for income tax under § 692(d), the trustee's hypothetical judicial lien status would have trumped the tax commission. \(^{93}\) Unless there is a genius in this legislation that I have proved unable to discern, these results raise the suspicion of unintended caprice.

The Second Circuit has \textit{Erie}-guessed that New York City tax liens arise when its warrant is docketed; delivery of the warrant was not necessary to encumber the taxpayer's property. \(^{94}\) Accordingly, the city is not vulnerable to the exception in CPLR § 5202(a)(1) or (2). The commissioner of labor also can issue warrants for unpaid unemployment insurance obligations. \(^{95}\) But New York Labor Law § 573(2) states that docketing the warrant creates a lien on real property only. As to personal property, one court has ruled that the Commissioner of Labor has no lien until the sheriff levies. \(^{96}\)

d. Assignments for the Benefit of Creditors

Prior to the permanent institution of federal bankruptcy in 1898, debtors could institute a voluntary collective proceeding by making an assignment for the benefit of creditors. Although initially contractual in nature, a history of private abuses led the New York legislature to govern the proceedings by statute. \(^{97}\) Federal bankruptcy law has largely eclipsed the assignment for the benefit of creditors, but the procedure still exists and is even occasionally used. \(^{98}\)

According to the Court of Appeals in \textit{International Ribbon Mills, Ltd. v. Arjan Ribbons, Inc.}, \(^{99}\) an assignment for the benefit of creditors is not a transfer for a fair consideration. But this overlooks the fact that the assignment is for the benefit of creditors. \(^{100}\) Consideration for the transfer is the

\(^{86}\) N.Y. Tax Law § 692(c).
\(^{87}\) ID. § 692(d) & (e) (state income tax), § 1141(b) (state sales tax).
\(^{89}\) This is discussed \textit{infra} in the text accompanying notes 443-47.
\(^{93}\) It was also not a voidable preference because it was a statutory lien. 11 U.S.C. § 547(c)(6).
\(^{94}\) This is because mere delivery of an execution does not make a JC senior to every conceivable subsequent JC. Because this is so, the trustee's strong arm power prevails. See supra text accompanying notes 443-47.
\(^{95}\) United States v. Herzog (In re Thriftway Auto Rental Corp.), 457 F.2d 409 (2d Cir. 1972).
\(^{98}\) N.Y. Debtor & Creditor Law §§ 3-24; L. 1909 ch. 17.
\(^{100}\) 36 N.Y.2d 121, 125-26, 325 N.E.2d 137, 139, 365 N.Y.S.2d 808, 811 (1975).
assignee's obligation to transfer proceeds of the debtor's property to the creditors. This should have been enough for the assignee to take free of the execution lien under § 5202(a)(1). Venerable case law says otherwise, however. Prior to the CPLR, the difficulty was that old Civil Practice Act § 683 protected "purchasers," which was construed to mean purchaser for a fresh consideration. The CPLR, however, protects transferees for a fair consideration. These words are intended to incorporate by reference the definition of the Uniform Fraudulent Conveyance Act. This implies that antecedent debt is fair consideration. So assignees for the benefit of creditors should certainly be viewed as transferees for a fair consideration, since they take on behalf of creditors with antecedent debts.

The court in International Ribbon Mills admitted that satisfaction of antecedent debt is fair consideration, but it doubted whether securing antecedent debt is. The International Ribbon court cites to the definition of "fair consideration" in New York Debtor & Creditor Law § 272(a), which requires satisfaction of debt, but it overlooks § 272(b), which does indeed refer to the securing of antecedent debt. The better view is that assignees for the benefit of creditors take a debtor's property for a fair consideration as purchasers for value. So viewed, they take free of execution liens before the sheriff levies.

Complicating this view is that Article 9 of the UCC defines a lien creditor as, among other things, an assignment for the benefit of creditors. This implies that general assignees take free of unperfected security interests. If they take free of these, why shouldn't they also take free of unlevied execution liens? Yet, if assignees really are lien creditors, it is still true that they have no priority under CPLR § 5234. The conflict between § 5234 and § 5202(a)(1) led us to suggest that the class of post-delivery transferees implicitly excludes the subsequent JCs. Assignees for the benefit of creditors do not appear in § 5234. So they should be fully eligible for § 5202(a)(1) protection, even if the UCC generally names them to be judicial lien creditors.

2. Post-Levy transfers

Not only is JC's execution lien vulnerable to pre-levy transfers but it is also vulnerable to some post-levy transfers. According to the second exception to § 5202(a), JC's execution lien is no good against

101 In re Betty Barton Frozen Food Corp., 35 Misc. 2d 1057, 231 N.Y.S.2d 969 (S. Ct. Kings Co. 1962), mod. on other grounds, 20 A.D.2d 708, 247 N.Y.S.2d 247 (2d Dept. 1964). At one moment in International Ribbon Mills, Judge Breitel seemed to indicate that the assignee had merely waived the claim of fair consideration by not raising it: "The assignee, however, neither alleged nor contended, as indeed would be most unlikely, that the assignment was in satisfaction of any of the assignor's debts." 36 N.Y.2d at 124, 325 N.E.2d at 139, 365 N.Y.S.2d at 810. So perhaps the status of the assignee is still open. In Alcor, Inc. v. Balanoff, 45 A.D.2d 795, 357 N.Y.S.2d 160 (3d Dept. 1974), the court seemed prepared to find that an assignee for the benefit of creditors is superior to an execution lien if the sheriff has not levied. It found, however, that a levy of property not capable of delivery had occurred before the assignment for the benefit of creditors had been effectuated.

102 Distler & Shubin, supra note 8, at 477 n.94.
104 36 N.Y.2d 121, 125-26, 325 N.E.2d 137, 139, 365 N.Y.S.2d 808, 811 (1975)
105 According to this provision:

Fair consideration is given for property, or obligation.

a. When in exchange for such property, or obligation, as a fair equivalent therefor, and in good faith, property is conveyed or an antecedent debt is satisfied . . .

106 According to this provision:

Fair consideration is given for property, or obligation.

b. When such property, or obligation is received in good faith to secure a present advance or antecedent debt in amount not disproportionately small as compared with the value of the property, or obligation obtained.

107 UCC § 9-102(a)(52)(B).
108 Id. § 9-317(b)(2).
This exception introduces us to a new term: property "capable of delivery." The phrase, undefined in the CPLR, captures the idea of tangible property—property that can be picked up and carried off. This, where JD has property capable of delivery, the sheriff must levy on it "by taking the property into custody..." In contrast, property not capable of delivery is intangible in nature. There is nothing physical for the sheriff to hold onto, no handle by which the object can be reduced to manucaption. Thus, where the sheriff levies "by serving a copy of the execution upon the garnishee..." Where property is capable of delivery, the sheriff levies it by taking custody. In such cases, JD has no power to convey free and clear of JC. The premise is that JD's lack of possession is a warning to the world that JD's title to the goods is defective. On this very principle, creditor possession under UCC Article 9 is notice to the world that the secured party has a security interest in the item that the debtor does not possess.

The sheriff who has levied property not capable of delivery has accomplished this by delivering the execution to AD. Now JD has power to convey to bona fide transferees without knowledge. The levy of such property is not exactly invisible. Buyers could consult with AD before buying a claim against her. But entities in the business of buying general intangibles apparently will not be put to this trouble. The slight convenience of buyers outweighs the property rights of a JC who has goaded the sheriff into a diligent levy. Accordingly, JD has a post-levy power to sell free and clear of the levy, if the transferee paid a "fair consideration after it was levied upon without knowledge of the levy." Ironically, new UCC reverses the result for the buyer of any payment intangible. This results follows because the revision to UCC § 9-317(a) accidentally deprives any secured party of the CPLR protections.

To make this point a little more slowly, Article 9 covers security interests in general intangible property, and it traditionally covered those who bought outright accounts or chattel paper. Buyers of general intangibles were not under the UCC and, prior to 2000, such buyers were eligible to take free...
of execution liens under CPLR § 5202(a)(2). New Article 9, however, has expanded its scope to cover sales of payment intangibles or promissory notes. Accordingly, these buyers are denied protection under CPLR § 5202(a)(2). Only buyers of general intangibles that are not payment intangibles can take free of a post-levy execution lien.

The post-levy attachment lien has greater weakness than the post-levy execution. According to CPLR § 6214(a), all levies are paper levies. Under CPLR § 6203(2), once the sheriff levies, the debtor may transfer better title to a transferee for fair consideration without knowledge of the levy. In general, Article 62 avoids the Article 52 distinction between property capable or not capable of delivery. A paper levy under § 6214(a) is supposed to culminate in payment or delivery of personal property to the sheriff. Accordingly, the debtor's power to give better title to a bona fide transferee for value ends when property is "in the possession of the sheriff." The attachment lien after levy is also likewise vulnerable until the garnishee pays or gives up property to the sheriff. Finally, although we have not yet examined equity liens, equity liens are likewise defeasible. For example, if JC acquires a turnover order, JD retains power to convey better title to "a transferee who acquired the debt or property for fair consideration and without notice of the such order."

Although the attachment lien is even feebler than the execution lien, new UCC deprives any buyer of or lender on a payment intangible of CPLR protections. Virtually any other buyer need hardly fear the attachment lien, but, thanks to new Article 9, any voluntary transferee of a payment intangible is absolutely subordinate to an attachment lien, once a plaintiff has served the order of attachment on the sheriff.

3. Defeasibility and the Bankruptcy Estate

We have seen that New York makes most of its judicial liens defeasible. Prior to levy, both the execution and attachment liens can be defeated by transfers to bad faith transferees, if they have given fair consideration. After the levy, transfers can defeat the execution lien if the property is not capable of delivery and the transferee is in good faith and for a fair consideration. The attachment lien after levy is also likewise vulnerable until the garnishee pays or gives up property to the sheriff. Finally, although we have not yet examined equity liens, equity liens are likewise defeasible. For example, if JC acquires a turnover order, JD has a lien on personal property under CPLR § 5202(b), but JD retains power to convey better title to "a transferee who acquired the debt or property for fair consideration and without notice of the such order."

Do these disabilities adversely affect the bankruptcy estate? After all the bankruptcy trustee is a hypothetical judicial lien creditor as of the time of the bankruptcy petition. Suppose a bankrupt debtor conveys property to a bona fide transferee after the bankruptcy petition. Does § 5202(a)(1) or § 5202(b) imply that the transferee takes free of the bankruptcy trustee?

Let me rehearse some bankruptcy basics in light of a very simple hypothetical fact situation:

Tenth Scenario

Monday: D, who owns a Renoir painting, files for bankruptcy.

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121 UCC § 9-102(a)(2).
122 According to CPLR § 6214(c):

Where property or debts have been levied upon by service of an order of attachment, the sheriff shall take into his actual custody all such property capable of delivery and shall collect and receive all such debts.

Taking custody, however, is not the levy. Nevertheless, the levy dies after ninety days, except as to property or debts delivered or paid during the 90 day period (allowing for court extensions). CPLR § 6214(e).

A plaintiff may also insist that the sheriff seize property right off the bat. But the plaintiff must furnish a satisfactory indemnity. CPLR § 6215. Also, an order of attachment "granted without notice may provide that the sheriff refrain from taking any property levied upon into his actual custody, pending further order of the court." CPLR § 6211(b) (last sentence).
123 CPLR § 6203(2).
124 CPLR §§ 5202(a)(1), 6203(1).
125 CPLR § 5202(a)(2).
126 The nature of these liens is discussed infra in the text accompanying notes 581-621.
Tuesday: Without court or trustee approval, D conveys the Renoir painting to X, a good faith purchaser for value with no knowledge of the bankruptcy.

May the trustee retrieve the painting from X? If the trustee is deemed to be a judicial lien creditor on Monday, and if New York law applies, the answer would be no. Under CPLR § 5202(a)(1) or § 5202(b), X takes free and clear of the judicial lien. Is this also the bankruptcy result? If so, § 5202(a)(1) and § 5202(b) wreak havoc in any bankruptcy where personal property is located in New York.

The argument against this result is that the trustee is not just a judicial lien creditor subject to the disabilities of the CPLR. The trustee is also a successor to whatever rights D had. Accordingly, the Renoir is property of the bankruptcy estate on Monday under Bankruptcy Code § 541(a)(1). X is an "entity . . . in possession of property that the trustee may use, sell, or lease under [Bankruptcy Code § 363]," within the meaning of § 542(a); accordingly, X must turn over the Renoir to the trustee.128

There is, however, another way of looking at the matter. According to this view, the trustee must bring an avoidance action against X, because D has made a post-petition transfer of estate property.129 According to Bankruptcy Code § 549(a):

the trustee may avoid a transfer of property of the estate—
(1) that occurs after the commencement of the case; and
(2) . . .
(B) that is not authorized under this title or by the court.

Actions under § 549(a), if required, are subject to the defense of § 546(b)(1)(A), which provides:

The rights and powers of a trustee under sections 544, 545, and 549 of this title are subject to any generally applicable law—
(A) permits perfection of an interest in property to be effective against an entity that acquires rights in such property before the date of perfection . . .130

X could conceivably save the Renoir by invoking this defense. If a judicial lien creditor had a pre-levy execution lien on the Renoir, then § 5202(a)(1) is a generally applicable law that permits post-lien transfers to be effective against a judicial lien creditor who "acquired rights" in the Renoir before X perfected an interest in the Renoir. If so, then not only is the § 549(a) action defeated, but X is also immune from bankruptcy's automatic stay.131

Courts have attempted to restrict the use of § 546(b)(1) by conditioning the defense on premises not actually invoked in the statute. One court insists that § 546(b)(1) applies only if X has an unperfected lien prepetition which is perfected postpetition.132 Another court required a state statute to have an overt "relation back" device on the face of the statute.133 Still another required a prepetition unsecured claim before a § 546(b)(1) defense could be asserted.134 These non-statutory criteria, if applied against the tradition of enforcing the statute as written, would be impediments to X's defense. Yet does not the United States Supreme Court constantly admonish the lower courts not to add criteria to the statutes that Congress did not see fit to add?135

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129 Olsen v. Zerbst (In re Olsen), 36 F.3d 71 (9th Cir. 1994).
130 Emphasis added.
133 Makaroff v. City of Lockport, 916 F.2d 890, 892 & n.1 (3d Cir. 1990).
134 In re AR Accessories Group, Inc., 345 F.2d 454 (7th Cir. 2003).
135 Travelers Casualty & Surety Co. v. Pacific Gas & Elec. Co., 127 U.S. 1199, 2005 (2007) ("In rejecting Travelers' claim for contractual attorneys' fees, the Court of Appeals did not conclude that the claim was "unenforceable"under § 505(b)(1) as a matter of applicable nonbankruptcy law. Nor did it conclude that Travelers' claim was rendered unenforceable by any provision of the Bankruptcy Code . . . The court nevertheless rejected Travelers' claim based solely on a rule of that court's own creation . . . ").
The best way to view the Tenth Scenario is to recognize that the trustee does not need § 549(a) to recover the painting from $X$. Rather, $D$ simply has no power to convey free and clear of the bankruptcy estate. Although $D$ purported to convey the Renoir to $X$, $D$ is in effect a thief with void title. Rather than relying on avoidance under Bankruptcy Code § 549(a), the trustee can simply seek a turnover order against $X$, who is in possession of property of the bankruptcy estate. If this follows, CPLR § 5202(a)(1) and like provisions do no damage to the administration of bankruptcy estates.

What does this say about the trustee's status as a hypothetical judicial lien creditor under state law? The above analysis assumes that it adds to, but does not detract from, the trustee's power. On the one hand, the trustee is simply the successor to $D$ and therefore owns legal title to the Renoir for the benefit of creditors. On the other hand, the trustee has the additional powers of a hypothetical judicial lien creditor. For instance, if $D$ had granted $SP$ an unperfected security interest prior to bankruptcy, the trustee as mere successor takes subject to $SP$. But as a hypothetical judicial lien creditor, the trustee is senior to $SP$.  

4. Territorial and Temporal Limitations

Subject to the above-described exceptions, $JC$ has a lien when she delivers an execution to the sheriff. But perhaps this principle has some inherent limitations not expressed in the statute.

The first is arguably territorial. Suppose the property in question is located in Erie County but the creditor serves an execution on the sheriff of Suffolk County. Does the creditor have a lien on the property in Erie County?

Prior to the enactment of the CPLR, the law was clear on this point. Former § 679(a) of the Civil Practice Act provided:

> goods and chattels of a judgment debtor . . . are bound by the execution, when situated within the jurisdiction of the officer to whom an execution against property is delivery, from the time of the delivery thereof to the proper officer to be executed, but not before.

The CPLR, however, makes few references to the jurisdiction of the sheriff. Nor is there any clear statutory impediment to prevent the sheriff in Nassau County to cross (many) county lines in order to levy the property in Erie County. For example, express territorial limits are imposed with regard to income executions, but this is designed to prevent national employers from being garnished for wages earned entirely outside New York. Also, the CPLR sets forth a priority rule covering the circumstance in which officers for two different courts have both received executions. The priority rule holds that the first officer to levy has priority. This rule applies, however, only if the property is "levied upon within the jurisdiction of all the officers." Article 62 requires that an order of attachment be directed to the sheriff or any county or of the city of New York where any property in which the defendant has an interest is located or where a garnishee may be served. The order shall direct the sheriff to levy within his jurisdiction . . .

Do these references imply no limitations exist with regard to ordinary executions in all other circumstances? The answer is unknown.

There is also a limit with regard to after-acquired property. An execution lien cannot attach to property unless the debtor has rights in the property. So if a judgment creditor serves an execution on

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136 Ironicaly, if $X$, without knowledge of the bankruptcy, gives the painting to a museum, then Bankruptcy Code § 542(c) validates the museum's property interest, requiring the trustee to bring the § 549(a) action, which can be brought notwithstanding § 542(c). Nevertheless, the museum plausibly has a § 546(b)(1) defense.


138 UCC § 9-317(a)(2).

139 See infra text accompanying notes 489-94.

140 Id.

141 Id.

142 The leading treatise assumes that these territorial restrictions exist. WEINSTEIN ET AL., supra note 25, ¶¶ 5202.02, 5202.06.
the sheriff on Monday and the debtor buys a thing on Wednesday, the lien arises on Wednesday, not on Monday.\textsuperscript{142}

As always, contingency baffles the courts. In \textit{Corwin Consultants, Inc. v. Interpublic Group of Cos. Inc.},\textsuperscript{143} the IRS arguably filed notice of a tax lien\textsuperscript{144} with regard to a non-compete contract \textit{JD} had with a corporation. Thereafter, \textit{JC} served an execution on the sheriff. The contract required that \textit{JD} "earn" the payment by not competing. The court ruled that the IRS had a lien on the executory contract only when \textit{JD} earned the money by not competing. It then held that the IRS was senior to \textit{JC}.	extsuperscript{145} But if it is true that the IRS had a lien only when \textit{JD} earned an installment by non-competition, then the IRS should have been tied and hence \textit{pro rata} with \textit{JC}.\textsuperscript{146} In fact (assuming the IRS properly filed), the IRS had priority because it is possible to encumber an executory contract even before payments are earned by \textit{JD}'s performance.\textsuperscript{147} This is a principle we revisit when we analyze whether garnishments can be voidable preferences in federal bankruptcy proceedings.\textsuperscript{148}

\section*{B. Duration}

\textit{CPLR} § 5230 governs the formal aspects of the execution. The document itself must\textsuperscript{149} rehearse the following information:

(1) The date the judgment was entered, if entered in the supreme, county or family court.\textsuperscript{150} If entered in some other state court or in federal court, the date on which a transcript of the judgment was filed with the county clerk.\textsuperscript{151}
(2) The court in which it was entered.\textsuperscript{152}
(3) The amount of the judgment.\textsuperscript{153}
(4) The names of the \textit{JCs} and \textit{JD}s.
(5) A direction that only property or debts in which \textit{JD} (not deceased) has an interest.
(6) The last known address of \textit{JD}.
(7) Whether the property execution upon was subject to an earlier order of attachment in favor of \textit{JC}.

The first item suggests that, where a judgment has been entered in New York supreme court, enforcement can begin even before the clerk docketts the judgment.\textsuperscript{154}

\begin{footnotes}
\item[142] United States v. Fleming, 474 F. Supp. 904, 907 (S.D.N.Y. 1979) (city tax warrant, which is equated with an execution).
\item[144] The case was reversed on the question of whether the IRS filed its notice in the proper location. 512 F.2d at 606.
\item[145] It is not clear from the case whether \textit{JC} perpetuated the execution lien with a levy or by extending the 60-day life of the lien. A different judgment creditor who had levied was held to have no priority, so presumably \textit{JC} did something to keep the execution lien alive for several years.
\item[147] See In re Owen, 1990 U.S. Dist. LEXIS 16384 (N.D.N.Y. 1990) (a pre-petition levy of an executory contract established a lien valid against a bankruptcy estate).
\item[148] See infra text accompanying notes 569-75.
\item[149] Failure to comply justifies the sheriff in refusing to levy under the execution. Freedom Discount Corp. v. McMahon, 38 A.D.2d 947, 331 N.Y.S.2d 489 (2d Dept. 1972) (income execution).
\item[150] There is a hint in Kitson & Kitson v. City of Yonkers, 40 A.D.3d 758, 835 N.Y.S.2d 670 (2d Dept. 2007), that an error in the date of judgment renders the execution and any levy thereunder void.
\item[151] Federal Rules of Civil Procedure 69 permits executions to be delivered to a federal marshal, but the rule also requires that New York state law govern the execution. That the execution must list the date that the federal judgment was filed with the county clerk suggests that no execution delivered to a federal marshal is valid until this transcript has been filed. No case has ever established this point, however, though it is routinely held that the federal marshal cannot levy on real estate, as the federal judgment must first be registered in state court. Carlson, \textit{Real Property}, supra note 10.
\item[152] Where \textit{JC} has a federal judgment docketed with the Supreme Court of New York, the execution to the state sheriff properly issues from the Supreme Court, not the federal court. Fireman's Fund Insurance Co. v. Plaza Oldsmobile, Ltd., 596 F. Supp. 657, 662-63 (E.D.N.Y. 1984), rev'd on other grounds, 766 F.2d 95 (2d Cir. 1985) (but upholding the execution nevertheless).
\item[153] The amount of interest need not be listed. This the sheriff must calculate. WEINSTEIN ET AL., supra note 25, ¶ 5230.11.
\item[154] Entry means that the clerk enters the judgment in a chronological judgment book. Docketing means listing the judgment in an alphabetical index. Docketing cannot occur until the winning side files the judgment role. Carlson, \textit{Real Property}, supra note 10. Where an execution is served before proper entry, the execution becomes effective only when entry of the judgment is achieved.
\end{footnotes}
An execution can be issued by an officer of the court, including a clerk "or the attorney for the judgment creditor as officer of the court."\textsuperscript{155} Thus, as is true with restraining notices,\textsuperscript{156} victorious plaintiff lawyers need no court involvement to ignite the clunky engine of judicial collection.

According to CPLR § 5230(c), an execution must be returned to the clerk of the court whence it issued sixty days after delivery\textsuperscript{157} unless a levy of property not capable of delivery has occurred. (Oddly property capable of delivery not mentioned.) The time may be extended "in writing"\textsuperscript{158} once by the judgment creditor's attorney (acting as officer of the court). It may be extended multiple times "unless another execution against the same judgment debtor . . . has been delivered to the same enforcement officer and has not been returned."\textsuperscript{159}

Although the statute nowhere says so, courts assume that return of the execution (where no levy has occurred) terminates the execution lien on the debtor's personal property.\textsuperscript{160} Early cases suggest the sixty day period is for the benefit of the creditor, who has the right to expect prompt enforcement,\textsuperscript{161} but, of course, termination of the lien much benefits the debtor or perhaps junior JCs. Another thought is that the short life of the execution is designed to prevent JC from using the execution lien as a security device; rather, the creditor is expected to encourage the quick liquidation of debtor assets. Two commentators remark:

>a wary creditor, discovering assets to levy on, would be well advised to withhold the information from the sheriff until any prior outstanding executions against the same debtor have been returned. Such strategy, however, makes a mockery of the implication in the decisions that delivery alone constitutes the "diligence" to be rewarded by priority.\textsuperscript{162}

Yet counter-examples exist to suggest the execution lien survives return of the execution. In International Ribbon Mills, Ltd. v. Arjan Ribbons, Inc.,\textsuperscript{163} JC delivered an execution to the sheriff. Soon thereafter JD made an assignment for the benefit of creditors. Judge Charles Breitel complained that the record was silent on whether the execution had been returned before or after the assignment.\textsuperscript{164} Rather than remand, he found another way to award JC priority. But Judge Breitel was quite ready to find that JCs execution created a priority so long as the return was after the assignment. Perhaps the

\textsuperscript{115} CPLR § 5230(b). A sheriff may issue an income execution, if designed to enforce an order for support in a matrimonial action. CPLR § 5241(b).

\textsuperscript{116} CPLR § 5222.

\textsuperscript{117} The sixty day period was introduced in 1840. Ansonia Brass & Copper Co. v. Conner, 103 N.Y. 502, 9 N.E. 238 (1886).

\textsuperscript{118} CPLR § 5230(c). Presumably this means a writing delivered to the sheriff.

\textsuperscript{119} In United States v. Abcon Assoc., 2006 U.S. Dist. LEXIS 92038 (E.D.N.Y. 2006), execution creditors were held entitled to a priority in an interpleader action. The opinion does not state when the interpleader action was filed or whether the lives of the executions were extended or not. Presumably, if the execution lapsed before the start of the interpleader action, the creditors would have no claim to the interpled fund. See International Ribbon Mills, Ltd. v. Arjan Ribbons, Inc., 36 N.Y.2d 121, 124, 325 N.E.2d 137, 138, 365 N.Y.S.2d 808, 810 (1975) (if execution lapses before an assignment for benefit of creditors, the judgment creditor has no lien good against the assignee). If the executions were alive at the time the interpleader commenced, would this be enough to have a priority in an interpleader action. Two commentators remark:

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\textsuperscript{162} Ansonia Brass Copper Co. v. Conner, 103 N.Y. 502, 507-08, 9 N.E.2d 238, 240 (1886); Excelsior Needle Co. v. Globe Cycle Works, 48 A.D. 304, 309, 76 N.Y.S.2d 538, 540 (4th Dept. 1900).

\textsuperscript{163} Distler & Schubin, supra note 8, at 474. Ancient doctrine also stated that, if a creditor orders the sheriff to hold off on levying or sale, the execution lien becomes "dormant": that is, it can be primed by other liens. Peck v. Tiffany, 2 N.Y. 451, 456 (1849); Williams v. Standard Oil Co., 219 A.D. 193, 219 N.Y.S. 195 (4th Dept. 1927); Excelsior Needle Co. v. Globe Cycle Works, 48 A.D. 304, 309-10, 62 N.Y.S. 538, 540-41 (4th Dept. 1900). There is no hint that this continues to be the rule under the CPLR.

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\textsuperscript{166} The assignee did not take free of the execution lien because the court ruled that the assignment was not for a fair consideration, within the meaning of CPLR § 5202(a)(2). See supra text accompanying notes 99-108.
idea is that possession by the general assignee is possession by the sheriff and hence a levy in disguise. In effect, the assignee levies for the benefit of JC. Another example is *In re City of New York*, where the city had condemned JD land and owed just compensation. JC served an execution on the sheriff which was returned unsatisfied sixty days later. Subsequently, JD executed an assignment for the benefit of creditors. The court held that JC had priority. So obviously the execution lien did not die just because the sheriff returned the execution without levying upon the city. This case goes even further than *International Ribbon* to suggest that return of the execution does not terminate the execution lien, as the assignment was entirely after the return of the execution.

### C. Levies

A levy can only occur during the life of an execution. The execution constitutes a court order to the sheriff to levy. Without any such order, the sheriff is inert. The sheriff is strictly an officer of the court—a robot who moves only upon judicial command. Meanwhile, only the sheriff can levy.

Attorneys may not. JC may, however, arrange to be appointed a receiver in which case JC would have the power to sell JD's property. JC, however, must waive receiver fees as a condition of her appointment.

If a levy of property has occurred during the life of the execution, the lien continues so long as the levy does. While the levy continues, the sheriff has no duty to return the execution. Or if the execution is returned nevertheless, the levy sustains JC's lien. Although CPLR § 5230(c) suspends the sheriff's duty to return the execution only if the sheriff levies property not capable of delivery, no court has been tempted to announce a different rule for property capable of delivery.

#### 1. Property Not Capable of Delivery

A levy of property not capable of delivery is accomplished by serving the execution on a third party who owes a debt or has control of property. I will call this a "paper levy." A levy is accomplished only if, at the time the third party is served, the third party actually owes a debt or controls property in which he or she knows or has reason to believe the judgment debtor or obligor has an interest, or if the judgment creditor or support collection unit has stated in a notice which shall be served with the execution that a specified debt is owed by the person served to the judgment debtor or obligor or that the judgment debtor or obligor has an interest in specified property not capable of delivery in the possession of the person served.

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165 A like result is appropriate for interpleader cases. See *supra* n. 140.
174 American Express Travel Related Servs. Co. v. Kalish & Rice, Inc., 693 F. Supp. 1436 (S.D.N.Y. 1988). One court has suggested in dictum that, where levy is by seizure of property capable of delivery, the judgment creditor (through his attorney as an officer of the court) must extend the life of the execution itself; return of the execution implies that the sheriff must surrender the tangible property back to its owner. New York State Commission of Taxation & Fin. v. Bank of New York, 275 A.D.2d 287, 289, 712 N.Y.S.2d 543, 545 (1st Dept. 2000).
The levy therefore has a knowledge requirement. Either AD must have reason to know of an obligation to JD, or JC must specify the debt owed or property possessed. So, for example, in State Tax Commission v. Blanchard Management Corp., JD, itself a judgment creditor, had validly levied a debt owed by AD (a bank). JC then levied AD without informing AD that AD’s customer’s bank account had been levied by JD. The court absolved AD of the duty to figure out the connection between the levied customer and JD. As a result the levy failed.

If indeed AD knows that it owes JD a debt or possesses her property capable of delivery at the time the execution is served, the levy encompasses both that debt-property and also subsequent debts or after-acquired property that AD owes or controls. If knowledge of present property is absent, there is no levy and no duty on AD to refrain from paying or surrendering after-acquired property to the judgment debtor.

According to CPLR § 5232(a), the levy of property not capable of delivery constitutes an injunction against AD’s transferring property or paying debts to JD. In short, the levy is the equivalent of a restraining notice under § 5222(b). The injunctive effect, however, lapses ninety days after the levy. The injunctive effect can be further extended by motion beyond ninety days. Indeed, the motion to extend can be made even after the levy has died. Courts seem to assume that the lapse of the injunctive effect is the same thing as the lapse of the execution lien. Indeed, it is fair on this basis to view garnishment as injunctive in nature, consistent with its history.

The filing of a turnover action automatically extends the injunctive effect of the post-judgment levy so long as the turnover action continues. It equally extends the life of the pre-judgment levy pursuant to an order of attachment. Extension by commencement of a turnover proceeding is a key concept under the CPLR. Where AD refuses to pay or hand over property not capable of delivery, the sheriff does not intervene to enforce AD’s obligation. Rather, JC is expected to start a turnover proceeding even if AD has not been served with the execution.

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175 CPLR § 5232(c) (third sentence).
176 If AD has reason to know and lies about it, thereby causing the levy to die, JC has a tort cause of action against AD for damages caused. Leber-Krebs, Inc. v. Capitol Records, 779 F.2d 895 (2d Cir. 1985) (misrepresentation caused court to revoke order of attachment).
178 CPLR § 5232(a) (fourth sentence) (“The person served with the execution shall forthwith transfer all such property, and pay all such debts upon maturity, to the sheriff or to the support collection unit and execute any document necessary to effect the transfer or payment”).
179 Id. (fourth sentence). In Wordie v. Chase Manhattan Bank, 140 A.D.2d 435, 529 N.Y.S.2d 1 (2d Dept. 1988), AD responded to a levy by sending the sheriff a check. The sheriff lost the check, and AD sent paperwork for replacing it to JC’s attorney who never completed it. AD was held not to have violated the § 5232(a) injunction.
180 CPLR § 5232(a) (eighth sentence) (“At the expiration of ninety days after the levy is made by service of the execution, or of such further time as the court, upon motion... has provided, the levy shall be void except as to... debts... paid to the sheriff... or as to which a proceeding under sections 5225 or 5227 has been brought”).
181 Id. (sixth sentence). A motion to extend need not be decided, only moved for, within the life of the levy. Knapp v. Barron, 83 F.R.D. 75 (S.D.N.Y. 1979) (pre-judgment attachment).
182 In re Blatter, 16 B.R. 137, 139 (Bankr. S.D.N.Y. 1981). Pre-judgment attachment is on a different basis. Whereas ninety days is mentioned in connection with injunction against transfers, CPLR § 6214(a) (fourth sentence), CPLR § 6214(e) separately ends the levy in all aspects if there is no payment, delivery, extension, or turnover proceeding within the life of the levy.
183 In the nineteenth century, debt could be garnished only through a supplemental proceeding. Isadore H. Cohen, Collection of Money Judgments in New York: Third Party Orders, 35 COLUM. L. REV. 1196 (1935) [hereinafter cited as Cohen, Third Party Orders].
185 CPLR § 6214(e) (last clause). In the pre-judgment context the turnover proceeding is governed by § 6214(d). In federal court, a motion to the court can be substituted for the special proceeding required in § 6214(d). Foreign Exchange Trade Assocs. v. Oncetur, S.A., 591 F. Supp. 1496, 1501 n.9 (S.D.N.Y. 1984).
proceeding.

There is a story behind this aspect of the levy of property not capable of delivery. The story has to do with the fact that, in the nineteenth century, equity liens—those arising from receiverships of turnover orders—related back to the time the equity proceeding was commenced. In this era, the entire idea that levies might extend to intangible property was entirely rejected. Instead, JC was expected to bring a supplementary proceeding against third parties in order to collect debts.187 In other words, all liens on property not capable of delivery were equity liens. Only in 1952 did New York permit levy of property not capable of delivery.188 Later, the CPLR (regrettably) abandoned the idea that equity liens are created when the equity proceeding is commenced. Rather, the CPLR deferred the birth of the equity lien. Today, a turnover proceeding without a levy189 creates a lien only when "a judgment creditor has secured an order for delivery or [or] payment of a debt. . . or personal property."190 Compensating for this regrettable defer, the sheriff was permitted to levy intangibles. Yet, significantly, the sheriff plays no role in enforcing the paper levy. As in the old days, this is left to the supplementary proceeding against the garnishee. In other words, the levy of property not capable of delivery basically represents a way to obtain an earlier equity lien associated with the turnover order.

A paper levy dies in ninety days unless commencing a turnover proceeding extends the levy.191 If commencement of the turnover proceeding precedes the levy, it will sustain the life of a subsequent levy. In Clarkson Co. v. Sheehan,192 JC commenced a turnover proceeding, which did not create a lien. Thereafter, JC served an execution on the sheriff and obtained a levy. Following JC’s levy, JC obtained its own levy. Hopping for priority, JC protested that a turnover proceeding commenced before a levy could not extend the life of JC’s execution lien. But the court ruled for JC under CPLR § 5232(a)’s eighth sentence:

At the expiration of ninety days after a levy is made by service of the execution, or of such further time as the court, upon motion of the judgment creditor. . . has provided, the levy shall be void except as to property. . . as to which a proceeding under sections 5225 or 5227 has been brought.193

The Sheehan court observed that this sentence did not require the turnover proceeding to be commenced after the levy. It was enough that, prior to lapse, a proceeding "has been brought."194 The passive voice, so unpopular with law review editors, saved JC’s priority.

An emerging rule from the case law is that, where the sheriff has levied property not capable of delivery, no second levy on behalf of the same JC is valid. In New York State Commissioner of Taxation & Finance v. Bank of New York,195 JC served an execution and the sheriff levied AD. While the levy was still enjoying its ninety-day life, JC served a second execution on the sheriff, who purported to levy against AD a second time. AD waited until the first levy was dead and, even though the second levy was less than 90 days old, AD released the funds to JD. The court held that AD had behaved properly because the second levy was no levy at all. According to the court:

The service of multiple, overlapping levies creates confusion and is contrary to the purpose of the statutory limitation "to minimize the burden on the garnishee." Even where an extension is granted on motion, "[t]he court must avoid permitting extensions that would harass the garnishee, unduly embarrass

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187 Cohen, Third Party Orders, supra note 184.
190 CPLR § 5202(b).
191 Id. § 5232(a) (eighth sentence).
192 540 F. Supp. 636 (S.D.N.Y. 1982), aff’d, 716 F.2d 126 (2d Cir. 1983).
193 Emphasis added.
194 540 F. Supp. at 640 n.2.
the judgment debtor or prejudice other judgment creditors.\(^{196}\)

The Bank of New York court would have allowed a second levy after the first levy was utterly dead.\(^{197}\) But Kitson & Kitson v. City of Yonkers\(^{198}\) does not even permit this. Rather, the execution creditor must move to revive the defunct levy \textit{nunc pro tunc}.\(^{199}\)

These \textit{nunc pro tunc} motions were invented in the era of Seider v. Roth.\(^{200}\) In Seider, the Court of Appeals scandalsized the civil procedure professors by holding that a New York resident could sue a Montreal driver for an accident in Vermont by attaching the insurance company's obligation to defend the driver, where the insurance company was present and doing business in New York. A lapse of the ninety-day attachment levy, however, was thought to be a jurisdictional bar to the Seider-style \textit{quasi in rem} action.\(^{201}\) To preserve judicial business, courts permitted \textit{nunc pro tunc} motions to extend the levy.\(^{202}\) This \textit{nunc pro tunc} practice could never have occurred under the statutes that preceded the CPLR.\(^{203}\) The United States Supreme Court has since put a stiletto into the heart of Seider-style \textit{quasi in rem} cases on the modern premise that \textit{quasi in rem} jurisdiction requires the defendants to have some minimum contact with the forum state.\(^{204}\) Nevertheless, the ghost of Seider lingers on in the form of \textit{nunc pro tunc} practice to haunt New York civil procedure.

What of transferees between the death of the levy and its miraculous resurrection in a \textit{nunc pro tunc} order? The Kitson court urged, "In determining an application for an extension the court should consider the intervening interests of third parties."\(^{205}\)

An intervening interest of a third party did emerge in Fireman's Fund Insurance Co. v. D'Ambra,\(^{206}\) which involved the following chronology:

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\(^{196}\) 275 A.D.2d at 289-90, 712 N.Y.S.2d at 545, \textit{citing} WEINSTEIN ET AL., \textit{supra} note 25, ¶ 5232.14, 5232.15.

\(^{197}\) 275 A.D.2d at 289, 712 N.Y.S.2d at 545. \textit{Accord}, Vance Boiler Works v. Co-operative Feed Dealers, Inc., 46 Misc. 2d 654, 260 N.Y.S.2d 303 (S. Ct. Wayne Co. 1965). In Vance, JC delivered an execution on January 11, 1963, and JC delivered the next day. On January 13, the sheriff levied by serving both executions on the debtor. The levy was therefore for the benefit of both JC and JC. When the levy died after 90 days, JC delivered another execution. This time, the levy netted some value. JC2 was given all the proceeds, proving that new levies after the old one dies were permitted.

\(^{198}\) 10 A.D.3d 21, 778 N.Y.S.2d 503 (2d Dept. 2004).

\(^{199}\) Kitson overrules an early pronouncement by the Second Department in Freedom Discount Corp. v. Clune, 32 A.D.2d 833, 302 N.Y.S.2d 465 (2d Dept. 1979), where JC obtained a default judgment on July 8, 1966 against JD. JD sought relief from the judgment, but the court ambiguously gave JD the right to answer the complaint. The default judgment was not formally revoked until two years later. Meanwhile, thinking that the court's initial permission for JD to answer the complaint was tantamount to a vacation of the judgment, JC obtained an order of attachment, under which the sheriff levied some wages, itself an impropriety, as attachment liens cannot reach wages. Glassman v. Hyde, 23 N.Y.2d 354, 360, 244 N.E.2d 259, 262, 296 N.Y.S.2d 783, 296 (1968). The attachment levy then died. Inconsistently, JC insisted there was a judgment and so served an execution on the sheriff, who levied the same employer, who paid more wages to the sheriff, who paid them to JD. JD then obtained an order requiring the sheriff to repay the amount levied under the execution, since the judgment had been vacated. Before the sheriff could repay, JC re-delivered the old order of attachment on the sheriff, demanding that JC's debt to JD for the refund be levied. The court smiled upon this "second" levy. Cf. Andrias v. National Surety Corp., 98 Misc. 2d 292, 413 N.Y.S.2d 820 (1st Dept. 1978) (disapproving of a "fraudulent trick" the attachment by JD of JD's liability on a money judgment to JC, whom JD wished to sue quasi in rem).


\(^{201}\) Cenkner v. Shafer, 61 Misc. 2d 807, 306 N.Y.S.2d 634 (S. Ct. Herkimer Co. 1970). In pre-judgment attachment cases, the question arises whether the levy is at all necessary for the court to issue a quasi in rem judgment. Under CPLR § 6203, the plaintiff has a lien on all personal property as soon as the order of attachment is delivered to the sheriff. Admittedly, this lien is extraordinarily weak. The defendant still has a right to convey free and clear to just about anyone (except an Article 9 secured party). Why isn't this enough to justify a judgment quasi in rem?


\(^{204}\) 444 U.S. 320 (1980); \textit{citing} supra note 25, ¶ 5232.14, 5232.15.


\(^{206}\) 766 F.2d 95 (2d Cir. 1985).
It should have been straightforward that JC₁ had priority to whatever the bank owed JD. According to CPLR § 5234(b):

Where two or more executions or orders of attachment are issued against the same judgment debtor, . . . and delivered to the same enforcement officer . . . they shall be satisfied out of the proceeds of personal property or debt levied upon by the officer . . . in the order in which they were delivered . . . An execution or order of attachment returned by an officer before a levy or delivered to him after the proceeds of the levy have been distributed shall not be satisfied out of those proceeds.

Under this distribution rule, the sheriff must prefer JC₁, even where its levy has lapsed and has never been renewed. Though the operative levy was pursuant to JC₂'s subsequent execution, JC₁'s priority under the order of attachment still perdured. JC₁ loses seniority under the last sentence of § 5234(b) only if the sheriff has returned the order of attachment prior to the operative levy on behalf of JC₂. This last sentence is odd. A sheriff has a duty to return executions. But no duty exists to return orders of attachment. To the contrary, according to § 6211(a) final sentence:

The order [of attachment] shall direct the sheriff to levy within his jurisdiction, at any time and upon such debts owing to the defendant as will satisfy the amount specified in the order of attachment.

So, unlike an execution which has a limited life of sixty days (unless extended), an order of attachment endures until a money judgment is actually entered. Accordingly, even though the sheriff collected under JC₂'s levy, priority went to JC₁, in spite of the lapsed levy. Lapse meant only that, if AD had paid JD, AD could not be held liable for doing so.

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207 CPLR § 6214(b) (fifth sentence) (emphasis added). The rule applies only to garnishees. Apparently, it does not apply when the sheriff levies the order of attachment against the defendant. Finance Inv. Co. (Bermuda) Ltd. v. Gossweiler, 145 A.D.2d 462, 535 N.Y.S.2d 633 (2d Dept. 1988). A curious omission in § 6214 is that none of its rules governs a levy of the defendant directly. See infra text accompanying notes 633-52.

208 Id. § 5230(c).

209 Id.

210 Contra, Corwin Consultants, Inc. v. Interpublic Group of Cos., Inc., 375 F. Supp. 186 (S.D.N.Y. 1974), rev'd on other grounds, 512 F.2d 605 (2d Cir. 1975). In Corwin, JC₁ had served an order of attachment on the sheriff. Later JC₂ served an execution. The IRS also claimed a tax lien and was apparently the first to levy AD. Although the matter would seem to have been under the federal law of tax lien levies, JC₁ commenced an action in state court under CPLR § 5239 to determine priorities. Even though the IRS was the first to levy, the state court ordered AD to pay the disputed funds into the court. The matter and presumably the funds were removed to federal court by the IRS. Judge Morris Lasker ruled that JC₁ had forfeited its priority because the levy lapsed. The holding is odd because the sheriff never levied at all for JC₁ or anyone else. Nevertheless, Judge Lasker thought CPLR § 5234(b) decided the matter. Here we find no reference to lapsed levies in deciding priorities. So JC₁ properly should have had priority, if indeed CPLR § 5234(b) were relevant.

How should the case have been decided? Since this was a federal levy, 26 U.S.C. § 6342(a) requires that, after expense of sale, the money goes to the IRS for its tax sale. No reference here is made to senior liens. Yet the levy does not deprive senior lien creditors of their priority. United States v. National Bank, 472 U.S. 713, 721 (1985). In Corwin, it appears that the IRS did not file its notice in the right place. Therefore, judicial lien creditors would have priority over the IRS. 26 U.S.C. § 6323(a). The IRS was itself a post-lien pre-levy transferee within the meaning of CPLR § 5202(a)(1) and § 6203(1). But this we must ignore, as state law is preempted by 26 USC § 6323(a). See supra text accompanying notes 71-80. Therefore, JC₁ should have been first, as it served the order of attachment on the sheriff first. The failure to levy, or lapse of levy, is irrelevant. JC₁ is second by virtue of the subsequently served execution. CPLR § 5234 is itself irrelevant to these priorities, as the sheriff apparently never levied and never had funds.

211 This precise answer was rejected by the District Court, on the ground that JC₁'s priority lapsed when the levy lapsed. Fireman's Fund Insurance Co. v. Plaza Oldsmobile, Ltd., 596 F. Supp. 657, 662-63 (E.D.N.Y. 1984), rev'd on other grounds, 766 F.2d 95 (2d Cir. 1985). This ignores the direct command of § 5234(b)'s last sentence, which states that only if the sheriff has returned the order of attachment does JC₁'s priority lapse. See Amoco Overseas Oil Co. v. Compagnie Nationale Algerienne de Navigation, 605 F.2d 652, 653 (2d Cir. 1979) (where order of attachment pre-existed the Foreign Sovereign Immunities Act, 28 U.S.C. § 1609, and where
Overlooking this admittedly fine point, Judge Ellsworth Van Graafieland ruled that JC's had priority by virtue of the July 2 re-levy. Fireman's Fund, therefore, contradicts the Kitson holding, and, in Kitson, Judge Goldstein punishes the Second Circuit with a withering "but see" citation—the prerogative that Erie v. Thompsons grants state judges at the expense of their federal betters. Given that the Fireman's Fund ruling was unnecessary to the result and a mere Erie guess, Kitson presumptively states the rule: subsequent levies are meaning-less. Only the first levy counts, and it must be extended on a nunc pro tunc basis.213

Meanwhile, another thing that extends the levy of property not capable of delivery is that AD actually pays or surrenders property. According to CPLR § 5232(a) (eighth sentence), the levy is void after ninety days "except as to property or debts which have been transferred or paid to the sheriff". And CPLR § 6214(e) terminates a levy under an order of attachment "except as to property or debts which the sheriff has taken into his actual custody."214 JC's therefore have had cause to expand the notion of what it means to pay the sheriff. In particular, several courts have found that AD's attornment—acknowledgement of liability—to the sheriff is the same as paying her, for the purpose of perpetuating the levy.215

2. Banks

Much confusing the levy of property not capable of delivery is New York's rule, perhaps still valid, that, for garnishment purposes, every branch of a bank is a separate entity from every other branch.216 So a garnishment on a Brooklyn branch fails to encumber a bank account opened in Manhattan.217 The reason for this is as follows:

Unless each branch of a bank is treated as a separate entity for attachment purposes, no branch could safely pay a check drawn by the depositor without checking with all other branches and the main office to make sure that no warrant of attachment had been served upon any of them. Each time a warrant of attachment is served upon the branch, every other branch and the main office would have to be notified.

This would place an intolerable burden upon banking and commerce . . . 218

At best, this rule should be limited to garnishing bank accounts. Arguably, it should be viewed as the levy lapsed after the Act, the order of attachment was still valid; any other ruling "mistakes the levy for the order of attachment". Accord, id. ("but the order granting the attachment was never itself void. It subsisted so that a new levy . . . could be made under it").

Suppose a levy of property not capable of delivery dies and, instead of moving to revive it nunc pro tunc, JC commences a turnover proceeding, which would have extended the levy if commenced during or before the life of the levy. Will the turnover proceeding revive the levy? Although this would make sense, there is no current case law to support it. In Kitson & Kitson v. City of Yonkers, 10 A.D.3d 21, 778 N.Y.S.2d 503 (2d Dept. 2004), JC's levy died. JC, then obtained an execution lien. JC started a turnover proceeding in which JC intervened. JC's turnover commencement did not revive his earlier levy—at least not at JC's expense. JC was held to have the senior lien, but JC then obtained an intervening party between the death of JC's levy and the commencement of the turnover proceeding.

Once the sheriff has the property, the sheriff must "hold and safely keep" it. CPLR § 6218(a). If urgency requires, the court may direct a sale. Only after the plaintiff has a money judgment will the plaintiff actually get the money.

211 Accord, id. ("but the order granting the attachment was never itself void. It subsisted so that a new levy . . . could be made under it").
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Unless each branch of a bank is treated as a separate entity for attachment purposes, no branch could safely pay a check drawn by the depositor without checking with all other branches and the main office to make sure that no warrant of attachment had been served upon any of them. Each time a warrant of attachment is served upon the branch, every other branch and the main office would have to be notified.

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outmoded with regard to branches located entirely within the United States.\(^{219}\) In any case, the rule should never be applied with regard to discrete property a bank may hold.\(^{220}\) Whereas a bank might erroneously honor a check at branch \(A\) even though branch \(B\) was levied, there is no similar danger if branch \(B\) receives an execution and branch \(A\) holds identifiable property capable of delivery.\(^{227}\) The branch rule should be limited strictly to the phenomenon of check clearing.\(^{222}\)

3. Debts v. Property

The CPLR draws unsatisfactory distinctions between debts and property and between property that is or is not capable of delivery. Each of these distinctions, arcane and old-fashioned, have proved dark pools of confusion and contradiction into which litigants might disappear, never to emerge again.

According to CPLR § 5201(a), not every debt can be levied. Rather, a money judgment may be enforced against "any debt, which is past due or which is yet to become due, certainly or upon demand of the judgment debtor. . . . " Contingent debts cannot be garnished. Certitude is the key to the kingdom of debt.\(^{223}\) This dread of contingency is entirely outmoded. Article 9 of the UCC sees no reason why contingent debts cannot be collateral.\(^{224}\) Yet New York courts have a history of equating contingent debt with no debt at all.\(^{225}\) This anxiety has been legislated into the CPLR to no good end.

Meanwhile, contingent property other than debts can be levied. According to § 5201(b), a judgment may be enforced "against any property which could be assigned or transferred, whether it consists of a present or future right or interest and whether or not it is vested. . . ." Vested typically

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219 Digitrex, Inc. v. Johnson, 491 F. Supp. 66 (1980) (upholding restraining order served in New York as affecting conduct of the bank outside the state). For branches existing abroad, where Full Faith and Credit does not reign, New York's "separate entity" rule is indeed useful. If ten different countries each insisted on the effectiveness of local garnishment with regard to a deposit elsewhere, a bank with foreign branches would have a tenfold liability for a single deposit. Joseph H. Sommer, Where Is a Bank Account?, 57 MD. L. REV. 1, 35-37 (1998); see McCloskey v. Chase Manhattan Bank, 11 N.Y.2d 936, 183 N.E.2d 227, 228 N.Y.S. 825 (1962) (German deposit could not be garnished in New York).


221 The separate entity theory for banks has been rejected for various reasons not related to attachment of bank accounts. First National City Bank v. Internal Revenue Service, 271 F.2d 616 (2d Cir. 1959) (bank records); Yayasan Sabah Dua Shipping SDN BHD v. Scandinavian Liquid Carriers Ltd., 335 F. Supp. 2d 441 (S.D.N.Y. 2004), aff'd, 41 N.Y.2d 949, 363 N.E.2d 358, 394 N.Y.S.2d 634 (1977) (AD could pay garnishment even if contractual language prohibited it). The matter is different if the bank has uttered a negotiable instrument, such as a certificate of deposit. Such property is "capable of delivery," and so the sheriff must levy by taking possession of it. CPLR §§ 5201(c)(4), 5232(b). JC could, however, pursue the bank in a turnover proceeding. CPLR § 5227; Kazanjian v. Jamaica Savs. Bank, 105 Misc. 2d 228, 432 N.Y.S.2d 62 (S. Ct. N.Y. Co. 1980). The bank is also susceptible to pre-judgment attachment, which makes no reference to property capable of delivery. If the bank actually pays, even though a negotiable instrument is outstanding, the bank is entitled to a discharge under CPLR § 5209 or § 6204. Presumably this holds even if the negotiable instrument ends up in the hands of a holder in due course.

222 In ancient times, banks required passbooks from their customers as a condition for paying a bank account. Banks could not, however, resist a garnishment on the ground that they had no duty to pay without presentment of the passbook. Brezenoff v. Franklin Sav. Bank, 108 Misc. 2d 626, 438 N.Y.S.2d 171 (S. Ct. N.Y. Co. 1981); Dunmeyer v. Dunn, 44 Misc. 2d 8, 252 N.Y.S.2d 811 (S. Ct. N.Y. Co. 1964); see Oppenheimer v. Dredker Bank A.G., 50 A.D.2d 434, 377 N.Y.S.2d 625 (2d Dept. 1975), aff'd, 41 N.Y.2d 949, 363 N.E.2d 358, 394 N.Y.S.2d 634 (1977) (AD could pay garnishment even if contractual language prohibited it). The matter is different if the bank has uttered a negotiable instrument, such as a certificate of deposit. Such property is "capable of delivery," and so the sheriff must levy by taking possession of it. CPLR §§ 5201(c)(4), 5232(b). Yet New York courts have a history of equating contingent debt with no debt at all. This anxiety has been legislated into the CPLR to no good end.

223 In City of New York v. Bedford Bar & Grill, Inc., 2 N.Y.2d 429, 141 N.E.2d 67, 161 N.Y.S.2d 67 (1957), JD assigned to SP its contingent right to a refund from the state comptroller if JD chose to cancel its liquor license. JD did cancel its license, so that the comptroller had a fixed obligation to pay. JC then obtained a lien on the comptroller's obligation. The Court of Appeals held that JC was the victor. SP had only an equitable lien on after-acquired property, which could not take priority over JC's "legal" judicial lien. One would have thought that the equitable lien, arising when the comptroller's obligation to pay became vested, would have been completely good against a subsequent judicial lien. The whole point of the equitable lien is to foreclose subsequent creditors. Eisenberg v. Mercer Hicks Corp., 199 Misc. 52, 101 N.Y.S.2d 662 (S.Ct. New York Co. 1950), aff'd mem., 278 A.D.2d 806, 104 N.Y.S.2d 804 (1st Dept. 1951). Nevertheless, JC prevailed, justly engendering the scorn of the great Grant Gilmore. 1 GRANT GILMORE, SECURITY INTERESTS IN PERSONAL PROPERTY §§ 7.12, 7.29 (2000).
means subject to a condition precedent.\textsuperscript{226} CPLR § 5232(a) authorized garnishment—that is to say a "paper" levy pursuant to CPLR § 5232(a)—with regard to debts or property not capable of delivery. So CPLR § 5232(a) presumes that intangible property might exist which is not a debt. Such property may be defined as \textit{AD}'s obligation to pay which is not certain to become due.

Significantly, only third party garnishees can be the subject of a paper levy pursuant to § 5232(a). Where there is no third party to garnish, property not capable of delivery cannot be levied at all. Copyright is an example.\textsuperscript{227} Any such property can be reached only by turnover order under CPLR § 5225(a)\textsuperscript{228} where the debtor may order the debtor "to deliver any other personal property . . . to a designated sheriff." Oddly, the sheriff may not levy the copyright from \textit{JD}, but \textit{JD} may be ordered to turn the copyright over to the sheriff for sale, all the same. Yet CPLR § 5233 requires that "[t]he property shall be present and within the view of those attending the sale unless otherwise ordered by the court." Without a court order, the sheriff may not sell property not capable of delivery simply because such property is invisible.\textsuperscript{229}

When it comes to pre-judgment attachment, the distinction between property capable and not capable of delivery falls away.\textsuperscript{230} Article 62 assumes that all levies are be paper levies. Third parties can be served with the order of attachment with regard to debts or "any interest of the defendant in personal property."\textsuperscript{231} A paper levy is also permitted against debtors in possession of any personal property. This is so whether it be capable or not capable of delivery. So, absurdly, a copyright may be levied prior to judgment but not after.

As commercial lawyers and speculative philosophers know,\textsuperscript{232} all debts are property. But if this is so, then is not § 5201(a) swallowed whole by § 5201(b)? This is what the Court of Appeals seemed to hold in \textit{ABKCO Industries, Inc. v. Apple Films, Inc.}\textsuperscript{233} In \textit{ABKCO}, a plaintiff (\textit{P}) sued \textit{D} for defaulting on a loan. Pursuant to this law suit, \textit{P} obtained an order of attachment, which the sheriff served on \textit{AD}. According to CPLR § 6202, "[a]ny debt or property against which a money judgment may be enforced as provided in section 5201 is subject to attachment." \textit{AD} had promised to remit profits to \textit{D}, if any, from a film. That profits would accrue seemed a safe bet, as \textit{D} was the Beatles, the fab four in the vanguard of the British invasion.\textsuperscript{234} Yet the amount of the profit was as uncertain as it was substantial. The \textit{ABKCO} court held that \textit{D}'s right to a profit could not be levied as a debt. But it could be levied as contingent property within the meaning of § 5201(b).

It is still true, however, that § 5201(b) property must be "property which could be assigned or transferred." These are showings on which \textit{JC} bears the burden of proof.\textsuperscript{235} But if this can be shown, \textit{JC} can garnish a renter's right to buy cooperative shares,\textsuperscript{236} a divorcing spouse's right to receive the
proceeds of real estate in which he has no present inter-est, his own obligation to pay the judgment debtor, or a factor's obligation to remit proceeds from accounts receivable (even though a factor's right of charge-back existed).

The Court of Appeals came to regret its ABKCO decision soon enough. In Supreme Merchandise Co v. Chemical Bank, the court held it no good because acceptance of a contingent as a ground. Rather, it wanted to make a grander point that letters of credit cannot be garnished so long the order of attachment on the issuing bank was no levy.

Properly, even if the first levy had been valid, B₁-₂ took free of it under CPLR § 6203(2), which holds that the attachment lien is no good against "a transferee who acquired the debt or property for fair consideration after it was levied upon without knowledge of the levy while it was not in the possession of the sheriff." The Supreme Merchandise court, however, was not content to reverse on so narrow a ground. Rather, it wanted to make a grander point that letters of credit cannot be garnished so long as AD's obligation to pay it is still contingent. It ruled that AD's obligation to pay the letter of credit was a contingent debt which, under § 5201(a), could not be levied. As a result, the early March service of the order of attachment on the issuing bank was no levy.

How could this be reconciled with ABKCO? The court concluded:

Such a mechanical application of ABKCO to all questions concerning attachable interests not only would swallow up CPLR 5201(a) in its entirety but also would require us to blind ourselves in every instance to the nature of the interest involved. We determine, therefore, that the mere assignability of [AD's] interest does not warrant the conclusion that it is "property" for purposes of CPLR 5201(b), and that in the circumstances the interest is not subject to attachment.
The *Supreme Merchandise* court also stated that the letter of credit was subject to a "greater contingency" than was the case for the film royalties in *ABKCO*. In *ABKCO*, *D*’s right in the debt/property was "contingent solely as to value, which depended on events beyond its own control"—i.e., the popularity of the Beatles. But in *Supreme Merchandise*, *D*’s right was contingent on *D*’s own performance in presenting conforming documents. This conditionality, depending on *D*’s willful act, somehow meant that *D*’s right was not "property" within the meaning of § 5201(b). As a later court put it, the rights to a letter of credit are "not the property of the beneficiary thereunder for the purposes of attachment." But they are the property of the debtor for all other purposes. Thus, property is sometimes not property, depending on what suits the preconceived result the courts wish to reach.

These grounds—property for some purposes but not for others—will convince no one unwedded to the preconceived result. Indeed, it is not even an argument but rather the mere announcement of the result. Accordingly, the *Supreme Merchandise* court was reduced to confessing that letter of credit were just special—a kind of legal miracle:

The more profound difference from *ABKCO*, however, lies in the fact that what is at issue here is [D’s] interest in a negotiable letter of credit, an instrument extensively used in domestic and international trade, which because of its unique character typically implicates others than the immediate parties to the underlying transaction. The transaction before us, for example, involves not only [D and P], but also [AD and B1—J], none of whom had any part in the dispute between [P] and [D], yet whose interests could be affected by permitting attachment of [D’s] interest in the letter of credit.

We are persuaded that, for policy reasons, the rationale of *ABKCO* does not extend this far, and that [D’s] interest for present purposes must be considered a contingent, nonattachable "debt" under CPLR 5201(a) rather than attachable "property" under CPLR 5201(b).

For good measure, the court warned, "In view of the versatility of letters of credit, it bears emphasis that our disposition is limited by the facts before us."249

*Supreme Merchandise* holds open the possibility that, when debts are "too contingent," they are not property under § 5201(b). So post-*ABKCO* examples persist of courts disallowing levies of contingent debts. For example, choices in action might to too contingent to levy upon and sell.250 A promise to hold *D* harmless from a harm not yet manifested is too contingent for a levy.251 And a pension right that required the debtor’s election could not be reached through a turnover order, where the debtor had not made the election.252

One probable achievement of *Supreme Merchandise* is the final overruling of *Seider v. Roth*,253 that scandalous chapter in American jurisprudence reviewed earlier.254 *Seider* virtually guaranteed any New Yorker a local forum for any cause of action, provided the defendant had insurance from a...
national company. It was not long, however, before the constitutional rug was yanked from beneath the jurisdictional feet of Seider. After Shaffer v. Heitner,255 any defendant in a *quasi in rem* lawsuit must have the same minimum contacts with the forum state as would justify the assertion of personal jurisdiction.256

But does Seider live on as a valid collection principle? Imagine that JC1 is injured in a car accident by JD. AD has promised to defend and, if necessary, to indemnify JD. Before JC1 obtains a judgment, JC1 docks a judgment on some unrelated claim. JC1 then induces the sheriff to garnish AD. According to Seider, the levy picks up the insurance policy. Does this mean that JC1 can hijack insurance intended to protect JC1?

For the most part, New York's direct action statute prevents this result.257 The effect of this provision is to give a security interest in the insurance policy to JC1, that is good against JC1.258 Yet this does not entirely solve the dilemma. Seider involved the garnishment of the insurance company's obligation to defend. Of what does this consist? AD typi-cally chooses the attorney that defends D and pays that attorney. Yet any fee payable by AD to the attorney is garnished in advance by JC1. Indeed, under CPLR § 5232(a) (fifth sentence), "the garnishee is forbidden to . . . pay . . . any [garnished] debt." Knowing this, the attorney no doubt will refuse to perform the services that AD is obliged to finance. In short, not only is the debt contingent and not garnishable, it is likely never to arise.

This contingency closely resembles that in *Supreme Merchandise*, where an issuing bank's obligation to pay a letter of credit depended on D's presentation of documents. D's incentive to avoid presentment led the court to declare that D's right was too contingent to be considered "property" in the *ABKCO* sense. The garnishment in Seider is no less contingent. So not only is Seider overruled on the jurisdiction side259 but also on the collection side as well, by the *Supreme Merchandise* decision.

### 4. Property Capable of Delivery

Where property is capable of delivery, the sheriff must levy "by taking the property into custody without interfering with the lawful possession of pledgees and lessees."260 The phrase "into custody" has been defined to include the sheriff padlocking a store and posting notice that its contents had been levied.261 Posting without padlock262 and padlock without posting263 have sufficed. So has an oral declaration, coupled by an inventorying of the personal property levied.264 According to an ancient case:

256 The question arises, what is the point of *quasi in rem* jurisdiction after Shaffer? Perhaps none, but some states, including New York, have elected not to enact the maximum possible "*in personam* "long arm" statute. Banco Ambrosiano v. Artoc Bank & Trust Co., 62 N.Y.2d 65, 71, 464 N.E.2d 432, 435, 476 N.Y.S.2d 64, 67 (1984). Hence, there is a statutory gap in which constitutionally permissible *quasi in rem* jurisdiction might supply jurisdiction where *in personam* jurisdiction is not statutorily permitted. Michael B. Mushlin, *The New Quasi In Rem Jurisdiction: New York's Revival of a Doctrine Whose Time Has Passed, 55 Brooklyn L. Rev. 1059, 1089-99* (1990). Isn't it odd that plaintiffs can basically get pre-judgment security interests in the assets of foreign defendants, even though it no longer serves any jurisdictional purpose? With regard to domiciliaries, the plaintiff must first prove the defendant has the same minimum contacts with the forum state as would justify the assertion of personal jurisdiction after *Shaffer*.
259 Rush v. Szewchuk, 444 U.S. 320, 328-30 (1980) (this "ingenious jurisdictional theory" unconstitutional because "the fictitious presence of the insurer's obligation in Minnesota does not, without more, provide a basis for concluding that there is any contact in the International Shoe sense between Minnesota and the insured").
261 The phrase "into custody" has been defined to include the sheriff padlocking a store and posting notice that its contents had been levied.261 Posting without padlock262 and padlock without posting263 have sufficed. So has an oral declaration, coupled by an inventorying of the personal property levied.264 According to an ancient case:
An even simpler test is that a levy occurs when the sheriff intends to levy and does some overt act to express the intent. A levy occurs if the sheriff (but for legal process) would be guilty of trespass upon the chattel.

At least one court has stated that the sheriff (or, rather, marshal) must act reasonably and not take too much property; otherwise the levy will be undone. Another court saw no problem in the levy of a luxury cooperative apartment to enforce a $350 judgment.

a. Leased Property

A sheriff may not levy by seizure if it interferes with the possession of a lessee or a pledgee. The reference to a lessee presumably assumes JD is the lessor, not the lessee. Where JD is lessor, the reference could have been omitted, since JD has no present right of possession. So neither does the sheriff. All JD has is the leasehold interest (that is, the right to receive rent during the lease) and the lessor's "residual interest" (AD's obligation to return the leased property at the end of the lease). Can these obligations be levied, on the theory that they are properties not capable of delivery? After all, the leased thing may be deliverable (that is tangible) when considered in the abstract, but perhaps JD's purely future interest in the thing is not itself presently deliverable. Separately, is not the rent obligation a debt or at least property not capable of delivery?

It would certainly not shock the conscience to say that each of these interests of JD were not capable of delivery, but there are doctrinal impediments. These impediments lead to the suspicion that courts may find that JD's rights in leased personal property are reified into what Article 9 calls chattel paper. The chattel paper would then be separate from the leased thing.

With regard to JD's future right to possess the leased thing, JD's future right of possessing the leased thing is property capable of delivery (i.e., no paper levies), if we follow the classic, now outmoded, case of Feldman v. First National City Bank (In re Leasing Consultants). There, the Second Circuit Erie-guessed that a future possessory interest in a thing is not distinguishable from the deliverable thing under New York law. The decision is not based on any unique Article 9 principle...
but relies on an underlying premise of New York property law that is neither codified nor countermanded in the UCC itself.

In *Leasing Consultants*, a New York debtor (D) leased equipment to *AD* in New Jersey. D granted a security interest in the chattel paper to *SP* and, separately, a security interest in the equipment leased. *SP* was unusually determined to perfect its security interest. It took possession of the chattel paper, which sufficed for perfection of its security interest in the rent stream. To make assurance double sure, it filed a financing statement with both the New York secretary of state and the local UCC clerk in Queens. And by way of triple insurance, D even filed a cautionary financing statement in New Jersey where the leased equipment was located in the possession of *AD*. This would have protected D (and hence *SP*) if the lease were covertly a security interest in equipment that *AD* bought outright. Were it a true lease, the filing was useless. Yet, when D filed for bankruptcy in New York, this smorgasbord of perfection did not sate the appetite of the bankruptcy trustee, nor did it satisfy the Second Circuit's *Erie*-impaired intuitions. Since *SP* was claiming a security interest on goods in New Jersey, *SP* should have filed yet one more time—in New Jersey. *SP* was therefore unperfected, at least as to the right to possess the equipment in the future.

New Article 9 has purged perfection of its adventurous spirit. It now requires but one filing where D is located. As a result, *Leasing Consultants* is no longer good law on the question of how to perfect a security interest in D's rights as a lessor. The New York filing alone would have sufficed to confound the modern bankruptcy trustee. But the underlying property premise of *Leasing Consultants* still remains: a claim to a future possessory right of a thing is the same as claiming the thing-in-itself. Transporting this lesson to the CPLR, the only way to reach the future interest in property capable of delivery is for the sheriff to seize the underlying thing under § 5232(b). Yet the sheriff is not permitted to interfere with the rights of the lessee. Meanwhile, a paper levy under § 5232(a) is not permitted because *JD*'s right is in a thing capable of delivery. Section 5232(a) applies only if the property is not capable of delivery. In short, the Second Circuit's *Erie* guess as to the state of New York law is that New York is wedded to the principle that the thing and *JD*'s future interest in the thing are one and the same. This reasoning implies that future interests in personal property are quite immune from the New York execution lien.

Even so, is not the rent stream on a different basis? Can the sheriff levy the rent on the theory that it is a debt or property not capable of delivery? *Leasing Consultants* left this question open. Confusing the matter is *Glassman v. Hyder*; no mere *Erie* guess. *Glassman* concerned levying rent from real property, and its applicability depends on whether leases of real and personal property operate on the same principle.

In *Glassman*, a non-domiciliary defendant (D) leased a New Mexico building to *AD*, who was present in New York. *JC* obtained an order of attachment under CPLR Article 62, and the sheriff tried to levy the rent stream by garnishing *AD* in New York. Peering deeply into New York's unsatisfactory distinction between debts and property, the Court of Appeals ruled that, as a debt, the rent was not leviable because it was not a debt certain to become due, within the meaning of CPLR § 5201(a). *AD* might be evicted, in which case the rent obligation would be canceled. The court conceded that the rent stream was also contingent property, leviable under § 5201(b). But, as the building was in New Mexico,

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279 UCC § 9-313(a).

280 Why didn't *D*'s cautionary filing suffice? Because leases, then and now, require no perfection. The filing was a meaningless event. Ironically, had the lease been a disguised security interest, *D*'s filing would be perfection, and *D*'s assignment of the security interest to *SP* would have been unassailable.


282 *Id.*

283 The opinion is most confused on this point. The trustee and *SP* had joined to sell all their rights in the equipment to a third party for $60,000. The court remanded to determine whether this $60,000 represented solely *SP*'s perfected right or also *SP*'s security interest on *D*'s future right of possession. The trustee argued that the $60,000 represented only the future right of possession. 486 F.2d at 373-74.

rent-as-property could only be reached by means of a New Mexico judicial lien. Translated to our present context, *rent cannot be distinguished from the thing.* So conceived, rent of deliverable personal property is property capable of delivery. Yet the sheriff cannot take the thing away from AD, because this would interfere with AD's right of possession.

There is reason, however, to find that leases of real and personal property are so different that *Glassman* is not authority for the personal property "bailment" lease. In real estate cases, New York views the rent stream so tied up with the thing that it gives no regard to assignments of real estate rents, separate and apart from a mortgage on the reversion. Rather, whomsoever possesses the reversion has the right to collect the rent. The only way a secured creditor claiming the underlying real estate can capture the rent stream is to dispossess the debtor (by obtaining the appointment of a receiver).

On the other hand, under the ancient common law of personal property leases, the lease was considered a bailment. The obligation to pay for an irrevocable bailment was more like an account receivable in the nature of a promise to pay the price. That is to say, the "account" was unconnected to the thing purchased. True, the consequence of failing to pay permitted termination of the bailment, but there was no necessary connection between the rent stream and the thing rented. If true, the way is open for a court to view the rent stream as property not capable of delivery, albeit not a debt certain to become due. As such, it can be levied by garnishing AD.

Article 9 points to another possibility. What signifies JD's present possession of the rent stream is tangible chattel paper—that is, the lease agreement. If JD borrows from SP and allows SP possession of the chattel paper, SP is perfected. The UCC, however, innovated on this score. Prior to the UCC, possession of the lease was not essential to owning the rent stream. If the UCC creates a different rule, it is very easy for a court to rule that this reification of rent stream into chattel paper exists only if Article 9 applies, because SP claims seniority over the sheriff. Whatever the UCC says about SP is useless unless SP (that is, either a buyer of or lender against chattel paper) is involved in the litigation.

On the other hand, the UCC does govern if SP claims the rent income. Suppose SP possesses the chattel paper but has not filed a financing statement. SP is perfected, which means that the sheriff is obliged to view the chattel paper as embodying the rent stream. In other words, when SP claims the rent stream, the rent is chattel paper—property capable of delivery. Where no SP claims the rent, the rent stream is property not capable of delivery. Yet another strange encounter between the CPLR and the UCC!

**b. Pledged Property**

Pledges are not so very different from leases. A lessee is entitled to possession so long as she

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285 *Glassman* supports a further distinction: if AD is past due on rent, that past due rent is a chose in action that is not the same as the New Mexico real estate. Rather, the past due rent is a leviable debt. And if there is even a smidgen of overdue rent, the after-acquired property principle in § 5232(a)'s second sentence picks up all rent as debt, once the rent becomes unconditionally due and owing. Carlson, *Real Property*, supra note 10.

286 In re Riverside Nursing Home, 100 B.R. 686 (S.D.N.Y. 1989); Poughkeepsie Sav. Bank v. R & G Sloane Mfg. Co. Inc., 84 A.D.2d 212, 445 N.Y.S.2d 560 (2d Dep't 1981); Witschger v. J.K. Marvin & Co., 255 A.D. 70, 5 N.Y.S.2d 910, 915 (2d Dep't 1938); Ireland v. United States Mortgage & Trust Co., 72 A.D. 95, 76 N.Y.S. 177 (1st Dep't 1902) ("the mere fact that the mortgagee receives the rents and proceeds does not constitute him chargeable as a mortgagee in possession").

287 N.Y. Real Prop. Law 254(10).


290 Chattel paper does not, however, embody a future right to possess the thing leased. UCC § 9-330 Comment 11. If it did, then sale of chattel paper would actually be an Article 2 transaction (in part). Boss, supra note 288, at 107.

291 UCC § 9-313(a).

292 Boss, supra note 228, at 92, 103-06.

293 Article 9 applies to sales of chattel paper as well as to security interests in it. UCC § 9-109(a)(3).
does not breach the lease. A pledgee is likewise entitled to possession until the property is redeemed.\textsuperscript{294} Regardless of what § 5232(b) says, a sheriff may not levy property capable of delivery from a pledgee (SP) simply because SP's right of possession is superior to that of JD. If JD has no right of possession, neither does the sheriff.

\textit{Leasing Consultants}\textsuperscript{295} is just as effective an \textit{Erie} guess for pledges as for residual interests in leased property: a future right to possess a thing is the same as the thing. Therefore the sheriff cannot paper-levy JD's future right of possession following redemption.\textsuperscript{296} Meanwhile, JD's right to a surplus after a foreclosure sale\textsuperscript{297} could be viewed as a contingent debt of SP to JD. As such, it is property not capable of delivery.

The interaction of CPLR § 5232(b) with pledges was addressed in \textit{Knapp v. McFarland}.\textsuperscript{298} In \textit{Knapp}, JD and X owned a Maryland building and were involved in litigation. Pending the outcome, they sold the building for cash and put the funds in escrow with AD\textsubscript{1} in Maryland. AD\textsubscript{1} used the proceeds to buy a treasury bill for the benefit of the litigants. The treasury bill was purchased from AD\textsubscript{2} in New York.

In its analysis, the \textit{Knapp} court made two fundamental errors. First, it imagined that AD\textsubscript{1} was a pledgee, not a bailee. Second, the court imagined that the treasury bill was a certificated security—that is, JD had pledged to AD\textsubscript{1} an identifiable piece of paper which AD\textsubscript{1} held in its vault as collateral agent for AD\textsubscript{1}. In fact, AD\textsubscript{1} probably held only a security entitlement in AD\textsubscript{1}'s jumbo treasury bill or perhaps in AD\textsubscript{2}'s book-entry with the Federal Reserve Bank.\textsuperscript{299} If so, the sheriff was levying property not capable of delivery. Let us continue to play along with the court's misconceptions, however.

Taken together, these two misconceptions implied that the sheriff could not grab the alleged certificate; CPLR § 5232(b) did not permit him to interfere "with the lawful possession of pledgees . . ." Instead, the sheriff simply served the execution on AD\textsubscript{2} without taking possession of the allegedly certificated security.

Later, enforcement of JC's judgment was suspended when JD posted a supersedeas bond pending appeal.\textsuperscript{300} This was a happy news for JC, because it guaranteed a solvent surety to pay the judgment if JC survived appeal. The sheriff, however, protested against dissolving the levy altogether because the sheriff was entitled to an undetermined poundage fee for the levy. He therefore demanded that an execution lien for $11,000 be sustained, notwithstanding the \textit{supersedeas} bond.\textsuperscript{301} JD countered that, since the sheriff had not seized the alleged certificate that AD\textsubscript{1} supposed held, the sheriff had not levied and so was disentitled to any poundage. Judge Mansfield viewed this action as a valid levy:

\begin{quote}
 Under the circumstances we believe that the Sheriff's service of a copy of the execution upon [AD\textsubscript{2}] was sufficient to constitute a valid levy entitling him to poundage. The effect of the service of a copy of the execution, coupled with issuance of the restraining notices, was to bar the bank as garnishee from making any transfer of the Treasury bills.\textsuperscript{302}
\end{quote}

Of course, service of the execution is the proper way to levy property not capable of delivery.\textsuperscript{303} Yet

\begin{flushright}
\textsuperscript{294}A pledgee, however, may not use the collateral beneficially, as a lessor could, unless the parties agree otherwise. UCC § 9-207(b)(4).
\textsuperscript{295}See supra text accompanying notes 277-82.
\textsuperscript{296}UCC § 9-623.
\textsuperscript{297}Id. § 9-615(d)(1).
\textsuperscript{298}462 F.2d 935 (2d Cir. 1972).
\textsuperscript{300}CPLR § 5204.
\textsuperscript{301}It may be observed that $11,000 covers the time and expense of strolling from Courthouse Square in Manhattan some five blocks south to Pine Street, where AD\textsubscript{1} (Chemical Bank) was then located. Nice work if you can get it!
\textsuperscript{302}462 F.2d at 941.
\textsuperscript{303}CPLR § 5232(a).
\end{flushright}
Judge Mansfield did not go so far to proclaim JD's future interest in the alleged certificate to be property not capable of delivery. Rather, he ruled that, while there was no levy of the certificate, somehow there was a levy sufficient to justify poundage. The levy was not a levy for the purpose of permitting the sheriff to sell. But it was a levy for the purpose of generating a poundage fee. Feeble reasoning indeed!

Entirely mysterious is Judge Mansfield's insistence that a restraining notice, served on AD2 by JC's attorney, somehow plays a role in establishing the levy. All a restraining notice does is to order AD2 not to convey away the certificate. Yet a paper levy under CPLR § 5232(a) (seventh sentence) has precisely this same injunctive effect. So Judge Mansfield idea seems to be that, where property capable of delivery is pledged and where AD2 is enjoined against alienating the thing, somehow this all adds up to a paper levy for which the sheriff deserves compensation.

Continuing to play along with the court's two misconceptions, it was possible for Judge Mansfield to uphold the levy on another basis. The principle of Leasing Consultants prevents JD's future interest in a certificate to be property not capable of delivery. A future interest in a thing is the thing, according to that opinion. But if we really had a genuine pledge before us (which we do not), then AD1 (as agent of AD2) owed JD a contingent debt--JD's right to a surplus in case of a foreclosure sale. As property not capable of delivery, it could be paper-levied under § 5232(a). On this basis, Judge Mansfield could have upheld the levy. He could then have dispensed with the restraining notice, the role of which is unexplained and mysterious in Judge Mansfield's analysis. On this view (and continuing with the misconception that AD2 was a pledgee holding JD's property capable of delivery), AD2 had a contingent duty to pay a surplus to JD. But can the sheriff levy a sub-bailee once removed from JD for this surplus? According to CPLR § 5232(a), "the sheriff shall levy upon any interest of the . . . judgment debtor in personal property not capable of delivery . . . by serving a copy of the execution upon the garnishee." A garnishee is defined as "a person other than the judgment debtor who has property in his possession or custody in which a judgment debtor has an interest." So, as long as JD's right to the surplus is indeed property not capable of delivery, the levy of the remote bailee was proper. Of course, poundage would be determined on the value of this contingent right to a surplus, not on the value of the underlying certificated security, which is not leviable under the CPLR. And, we should add, there was no possible surplus, since AD1-2 were bailees, not pledgees.

Judge Mansfield thought the certificate, not the surplus, was the thing levied. Of course, there was no certificate. There was only AD2 intangible obligation to obey the instructions of AD1 as to a security entitlement, which means that Judge Mansfield was accidentally correct. There was a levy of the treasury bill, which was property not capable of delivery! Nevertheless, CPLR § 5201(c)(4), as it then existed, would still have not permitted the levy of AD2. According to CPLR § 5201(c)(4) as it was then in effect:

Where property or a debt is evidenced by a negotiable instrument for the payment of money, a negotiable document of title or a certificate of stock of an association or corporation, the instrument, document or certificate shall be treated as property capable of delivery and the person holding it shall be the

304 Judge Dorothy Eisenberg interprets Knapp oddly when she cites it for the following proposition:

New York courts have not held the Sheriff's failure to obtain possession of the property to be seized fatal to the lienor's interest in every case, but the courts have made an exception only where the failure is caused by a third party's failure to comply with the Sheriff's directives to turn over the property.

In re Flax, 179 B.R. 408, 412 (Bankr. E.D.N.Y. 1995) (citing Knapp). The sheriff had no power to direct a pledgee to surrender possession. A paper levy implies such a direction. CPLR § 5232(a) (fifth sentence). But Knapp holds that the levy did not involve property not capable of delivery.

306 See supra text accompanying notes 277-82.

307 AD1 could terminate AD2's bailment at any time, in which case AD2's obligation to pay the surplus to JD would disappear.

308 CPLR § 105(i).

309 Unless Article 8 overrules it in this regard. On this possibility, see infra text accompanying notes 326-35.
garnishee; except that in the case of a security which is transferable in the manner set forth in section 8-320 of the uniform commercial code, the firm or corporation which carries on its books an account in the name of the judgment debtor in which is reflected such security, shall be the garnishee; provided, however, that if such security has been pledged, the pledgee shall be the garnishee.310

Old UCC § 8-320 governed ownership of pro rata interests as reflected in book entries of brokers. What old CPLR § 5201(c)(4) is saying is that AD1 could not be the garnishee. Only AD1 (in Maryland) was. Looking past the Knapp court's two misconceptions, we can see that the case was still wrongly decided. The Knapp case was, to say the least, a weak Erie guess as to the state of New York law. In fact, AD2 was no pledgee and so owed no contingent debt to pay a surplus. Rather, AD2 was the bailee for JD (and AD1, a sub-bailee). Furthermore, the so-called certificated security was no such thing. It was what new Article 8 calls a "security entitlement," which means that the property was not leviable at all, since AD2 held no property traceable to JD. To understand this last claim we must delve into the law of Article 8 and the transfer of securities.

5. Article 8 securities

Levying securities that have been pledged as collateral poses special complexity because it is possible that Article 8 of the UCC overrules CPLR in the case of pledgees. Accordingly, we turn next to the interaction of judicial liens and Article 8 of the UCC.

a. Securities Entitlements

Over the past thirty-five years, the stock certificate, like the vinyl recording, has become passé. Instead, certificates issued by publicly traded companies have been immobilized. The issuer utters a jumbo certificate, which is held by the Depository Trust Company (DTC), a corporation organized under the banking laws of New York. The DTC then issues pro rata shares in the jumbo certificate to various brokers. The brokers then sell pro rata shares in their pro rata shares to customers or other brokers. The typical American shareholder is therefore many times removed from the jumbo certificate located in DTC's carefully guarded vault in New York City.311 Article 8, much revised in 1994,312 calls the shareholder's remote interest in a jumbo certificate a security entitlement.313 According to UCC § 8-112(c):

The interest of a debtor in a security entitlement may be reached by a creditor only by legal process upon the securities intermediary with whom the debtor's securities account is maintained, except as otherwise provided in subsection (d).


312 Jeanne L. Schroeder, Is Article 8 Finally Ready This Time?: The Radical Reform of Secured Lending on Wall Street, 1994 COLUM. BUS. L. REV. 291.

313 UCC § 8-102(17) (defining security entitlement as "the rights and property of an entitlement holder with respect to a financial asset specified in Part 5"). Part 5 sets forth various rules of issuance and transfer with regard to security entitlements. A financial asset is defined as, among other things, a security. UCC § 8-101(9)(i).

To be distinguished from the security entitlement is the uncertificated security. The uncertificated security was invented in 1977 to solve the "paper crunch" of the 1960s, during which stock markets could not physically handle the transfer of certificated shares. It never caught on, however, because immobilizing jumbo certificates with the DTC proved popular and easy. Nevertheless, they are used by mutual funds, many of which will be located in New York. Jeanne L. Schroeder & David Gray Carlson, Security Interests Under Article 8 of the Uniform Commercial Code, 12 CARDOZO L. REV. 557, 614 (1990). Mutual fund shares might be held by a broker for the benefit of the customer, in which case the customer owns a security entitlement, not an uncertificated security. But mutual funds may register the ownership interests of customers directly. If so, the uncertificated security of a judgment debtor can be levied only "by legal process upon the issuer at its chief executive office in the United States, except as otherwise provided in subsection (d)." UCC 8-112(b).
"Legal process" is not a term the UCC defines, but courts would be justified in interpreting it to mean either an execution followed by a paper levy, a turnover order or the appointment of a receiver. In New York, each of these establishes a judicial lien on personal property. If a debtor has granted a security interest in the security entitlement, UCC § 8-112(d) provides a different rule:

The interest of a debtor in... a security entitlement maintained in the name of a secured party, may be reached by a creditor by legal process upon the secured party.

This provision applies only where the securities intermediary (i.e., the broker) has attorned to—that is, has agreed to follow only the instructions of—SP. The UCC calls attornment "control." Control is a mode for perfecting Article 9 security interests.

Section 8-112(c) requires that "legal process" be directed only to the broker with whom the debtor has dealt. In Knapp v. McFarland, the sheriff levied AD₂ on the theory that AD₂ was supposedly holding paper for AD₁, which JC, in turn held for JD. In truth, AD₁ invested the cash in a pro rata share of AD₁'s treasury bill and therefore had a security entitlement. Under modern § 8-112(c), enacted in 1984, only AD₁ could be garnished to reach this property—not AD₂. Nevertheless, even at the time Knapp was decided, we saw that the CPLR had a rule requiring that remote brokers could not be garnished, a rule the Knapp court overlooked. Today, § 5201(c)(4) simply cross-references to Article 8, which now takes up the rule the CPLR had introduced.

Suppose JC properly levies a broker with whom JD has dealt. The security entitlement is undoubtedly property not capable of delivery. According to CPLR § 5232(a), a garnishee must "pay all such debts [i.e., debts owed to JD] and "transfer all such property [i.e., JD's property not capable of delivery in control of JD's broker]." The broker's obligation to JD—a securities account—certainly cannot be called a debt. A debt is defined in New York as an amount due or certain to become due.

Therefore, the broker holds property (not debt) of the judgment debtor and so must transfer the property to the sheriff.

The transfer from broker to sheriff is accomplished under UCC § 8-501(b):

[A] person acquires a security entitlement if a securities intermediary:
(1) indicates by book entry that a financial asset has been credited to the person's securities account; or
(3) becomes obligated under other law... to credit a financial asset to the person's securities account.

Since the broker is obligated by law to credit the sheriff, § 8-501(b)(3) suggests that, at the moment of the levy, the sheriff instantly owns the security entitlement. If the broker resists, then, as with all paper levies, JC must bring a turnover proceeding against the broker. According to § 5225(c), "The court may order any person to execute and deliver any document necessary to effect payment or delivery."

What then can the sheriff do with the security entitlement now registered to her in her name?

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314 CPLR § 5202.
315 UCC § 8-106(d) ("the securities intermediary has agreed that it will comply with entitlement orders originated by the purchaser without further consent by the entitlement holder").
316 UCC § 9-314(a).
317 462 F.2d 935 (2d Cir. 1972).
318 See supra text accompanying notes 308-09.
319 For a different result even before the enactment of UCC 8-112(c), see Fidelity Partners, Inc. v. First Trust Co. of New York, 58 F. Supp. 2d 55 (S.D.N.Y. 1999) (New York indenture trustee who issued a jumbo certificate to a broker who sold a pro rata share to a Philippine Bank who sold a pro rata share to a Philippine resident not a proper garnishee).
320 CPLR § 5232(a) (fifth sentence).
321 A securities account is defined as "an account to which a financial asset is or may be credited in accordance with an agreement under which the person is maintaining the account undertakes to treat the person for whom the account is maintained as entitled to exercise the rights that comprise the financial asset." UCC § 80501(a).
322 CPLR § 5201(a).
Unfortunately, the sales mechanism of the CPLR is quite inadequate to the modern Article 8 regime. According to CPLR § 5233(a):

> The interest of the judgment debtor in personal property, obtained by a sheriff pursuant to execution or order . . . shall be sold by the sheriff at public auction at such time and place and as a unit or in such lots, or combination thereof, as in his judgment will bring the highest price . . . . The property shall be present and within the view of those attending the sale unless otherwise ordered by the court.

This section requires that the sheriff must sell it at a public auction.\(^{323}\) If the security entitlement is in shares trading on a stock exchange, certainly the stock exchange itself should be viewed as an auction. There is the difficulty that, at the auction, the property to be sold must be in the view of those attending the auction. A security entitlement, however, is quite invisible (though the broker's records could be viewed). Fortunately, pursuant to § 5233(a), the court can order a different sales procedure. But presumably this puts everyone to the trouble of a court hearing.

Section 5233(b) also imposes notice requirements with regard to the sale. Notice must be posted in three public places in the town in which the sale is to be held. Since the stock exchanges are typically in New York City, the sheriff will be able to substitute newspaper ads for public posters. Notice requirements with regard to publicly traded stock is a useless formality. Given the fact that the auction via the stock market is supposed to be highly efficient,\(^{324}\) notice to potential buyers serves no role in increasing the amount bid. The court might as well waive notice pursuant to its discretion to change the rules under § 5240.\(^{325}\) This too, however, will require a hearing.

Section 5233(c) indicates that "[t]he court may direct immediate sale or other disposition of property with or without notice if the urgency of the case requires." With stock, however, the case is rarely urgent. In any case a court order is required, slowing up and increasing the cost of the liquidation process. In truth, the CPLR is abysmally drafted with regard to securities, in light of the recent invention of the security entitlement.

b. Certificated Shares
(i) Post-Judgment Execution

While certificated shares no longer trade very often in the stock market, they are commonly used in closely held corporations. The CPLR is strangely contradictory with regard to levying these shares.

According to CPLR § 5201(c)(4):

> Where property or a debt is evidenced by a . . . certificate of stock of an association or corporation, the . . . certificate shall be treated as property capable of delivery and the person holding it shall be the garnishee; except that section 8-112 of the Uniform Commercial Code shall govern the extent to which and the means by which any interest in a certificated security . . . may be reached by garnishment.


\(^{325}\) According to CPLR § 5240:

> The court may at any time, on its own initiative or the motion of any interested person, and upon such notice as it may require, make an order denying, limiting, conditioning, regulating, extending or modifying the use of any enforcement procedure . . . .

No similar provision exists in Article 62, governing prejudgment attachment. Nevertheless, at least on appellate panel has suggested that the court has discretion to release funds in hardship cases (though it declined to do so for the purpose of paying the defendant's attorneys, where millions of dollars were missing in a fraud). Corporacion Nacional del Cobre de Chile v. Hirsch, 242 A.D.2d 183, 673 N.Y.S.2d 681 (1st Dept. 1998). In comparison, the Second Circuit ruled that there is no discretion to deny attachment because the court doubts whether the levied asset is valuable. Capital Ventures v. Republic of Argentina, 443 F.3d 214 (2d Cir. 2006).
We may pause to consider some curiosities produced by § 5201(c)(4). First, garnishees are defined as non-debtors in possession of debtor property. Yet § 5201(c)(4) says that anyone in possession (including JD) is to be the garnishee. But to what end? Paper levies of garnishees under § 5232(a) are limited to property not capable of delivery, yet § 5201(c)(4) insists that certificated securities are to be considered capable of delivery. Paper levies of property capable of delivery are permitted as part of pre-judgment attachment, however. Here is makes sense to identify the defendant as a garnishee.

In addition, § 5201(c)(4) seems to be saying that UCC § 8-112 governs the extent to which certificated securities may be reached by judicial process. Yet CPLR § 5232(b) states:

The sheriff. . . shall levy upon any interest of the judgment debtor in personal property capable of delivery by taking the property into custody without interfering with the lawful possession of pledgees.

According to CPLR § 5232(b), the sheriff may not levy pledged shares, even if there is a valuable debtor equity in them. Arguably the UCC imposes a different rule. According to § 8-112(a):

The interest of a debtor in a certificated security may be reached by a creditor only by actual seizure of the security certificate by the officer making the. . . levy, except as otherwise provided in subsection (d).

Does this section not authorize the sheriff to take possession even from a pledgee? If so, § 5232(b) is overruled, because, as we have seen, whenever the UCC conflicts with a non-UCC provision, the UCC prevails. And, independently, CPLR § 5201(c)(4) specifically exalts Article 8 over the CPLR.

Complicating our analysis further is § 8-112(d):

The interest of a debtor in a certificated security for which the certificate is in possession of a secured party. . . may be reached by a creditor by legal process upon the secured party.

The problem we now face is that CPLR § 5201(c)(4) subordinates the CPLR to the UCC. Yet at the crucial moment of governing the levy of pledged certificated securities, the UCC sends us right back to the CPLR for the definition of "legal process." There we learn that the sheriff may not seize pledged certificated securities under § 5232(b). Yet this is preempted by § 8-112(a), which permits seizure of JD's interest in the certificate. We are thus caught in a renvoi.

The vicious circle just described was addressed obliquely in Knapp v. McFarland. In Knapp, the court upheld the paper levy of what it took to be a pledged certificated security under New York law (though in truth SP had an intangible security entitlement). Here is how Judge Mansfield described the relation is § 8-112(a) and CPLR § 5232(b)?

[D] argues that the Sheriff's claim to poundage is defeated by § 8-317 [now numbered as § 8-112(a)], which provides that no levy upon an outstanding security shall be valid until it is actually seized by the
officer. However, that statute was not enacted for the purpose of determining what levy would suffice
to entitle a sheriff to poundage or to enforce a money judgment against a judgment debtor. Its purpose
is to define the rights of third parties claiming an interest in attached personal property. More specifically
its effect is to protect bonafide purchasers for value of property subject to a judgment creditor's lien by
invalidating a levy as to such parties unless the sheriff has taken actual possession.

In other words, Judge Mansfield holds that § 8-112(a) is compatible with CPLR § 5232. The meaning
of § 8-112(a) is that, if the sheriff seizes the certificate, there can be no "protected purchaser" who takes
free and clear of JC's execution lien. But § 8-112(a) does not mean the sheriff must or even may levy
by seizure.

Putting together the above thoughts, Knapp holds that Article 8 does not require levy by seizure
of the certificate. But it is equally true that UCC § 8-112(a) authorizes it. True, § 8-112(d) covers
pledged securities. So we may concede that the specific overrules the general— in the case of pledges,
only § 8-112(d) governs, not § 8-112(a). Yet § 8-112(d) requires us to know what "legal process" is.
Well, legal process includes the levy pursuant to execution. And UCC § 8-112(a) defines levy as
seizure of the certificate. So, at the end of the day, perhaps the sheriff may break into SP's vault and
take the certificate.

(ii) Pre-Judgment Attachment

Whatever may be the case for post-judgment judicial liens on certificated securities, the matter
stands differently for pre-judgment orders of attachment. Pre-judgment attachment does not utilize
the concept of property capable of delivery. Paper levies are authorized for any personal property, whether
held by the debtor or a third party. So in Proteus Food & Industries, Inc. v. Nippon Reizo Kabushiki
Kaisha, AD held JD's certificated security in New York as part of a voting trust. AD was therefore
no pledgee. The sheriff served AD with an order of attachment under CPLR § 6214(a). But unlike post-
judgment levy, pre-judgment paper levies are perfectly valid with regard to certificated securities.
Among the things a § 6214(a) levy signifies is an injunction directed at the garnishee prohibiting
disposition of the property the garnishee holds. Whereas § 8-112(a) states that the "interest of a
debtor in a certificated security may be reached by a creditor only by actual seizure," § 8-112(e)
provides:

A creditor whose debtor is the owner of a certificated security... is entitled to aid from a court... by
injunction or otherwise, in reaching the certificated security...

On this basis, the Proteus Food court upheld the paper levy of shares held by the custodian.

Location of the certificate outside New York has proved an impediment to pre-judgment
attachment. In Koehler v. Bank of Bermuda, Ltd., P obtained an order of attachment against SP, to
whom D had pledged shares. SP kept the shares in Bermuda, but SP was also present in New York for
Shaffer v. Heitner purposes. After judgment was entered against D, the Koehler court signed an ex
parte order commanding SP to bring the shares from Bermuda to New York. Later the court regretted
its action and rescinded it on two grounds. First, D and P had settled, which had the effect of dissolving
the attachment. Second, as an alternative ground, the court ruled that it could not order a person present
in New York to bring shares from outside the state into New York. the court reasoned that the situs of
the stock was Bermuda. But so what? The levy of the order of attachment constituted a command to

334 Id. at 942.
335 See supra n.69.
337 CPLR § 6214(b) (fifth sentence) (Until such... delivery is made... the garnishee is forbidden to make or suffer any... transfer
of, or any interference with any such property... to any other person other than the sheriff... ”).
SP to "deliver all such property [i.e., personal property of D in the possession of P]... to the sheriff." If the levy was valid, then it already constituted an injunction to deliver. Levies last only ninety days, unless extended by, inter alia, bringing a turnover proceeding against SP pursuant to § 5225(b). There is no evidence in the case that the levy had been so extended, but, if it had been, the order seems well within the jurisdiction of the court. So, for example, a defendant (as opposed to AD) has been ordered to bring certificated shares to New York from Bermuda. Why should it make a difference that AD is so ordered?

There is nevertheless troubling dictum in ABKCO Industries, Inc. v. Apple Films, Inc., where the court upheld garnishment of a film royalty owed by a New York AD to a foreign D. Distinguishing the intangible royalty from negotiable instruments, the court held

Tangible personal property obviously has a unique location and can only be attached where it is. It is true that some intangibles are deemed to have become embodied in formal paper writings, e.g., negotiable instruments, and in such instances attachment depends on the physical presence of the written instrument within the attaching jurisdiction.

This remark overlooks the injunctive effect a levy of an order of attachment has. Since the remark is mere dictum, it should be ignored as contrary to CPLR § 6214(a).

(iii) Perfection By Filing

One of the political programs of the 2000 amendments to Article 9 of the UCC was to pulverize the bankruptcy trustee for the benefit of Article 9 lenders. But this could only be done by pulverizing judgment creditors at state law, since bankruptcy trustees have, as of the day of the bankruptcy petition, all the powers of judgment creditors. Any attempt by the UCC to attack bankruptcy trustees directly would likely be struck down on constitu-tional grounds. Otherwise, the drafters of Article 9 would have done it.

Accordingly, one of the important Article 9 reforms is to permit SP to perfect a security interest in "investment property" by filing an ordinary financing statement. "Investment property" is defined to include certificated securities and security entitle-ments. Therefore, after a sheriff levies, whether by serving the execution in case of the security entitlement or by seizing certificated securities, a secured party may emerge who has perfected a senior security interest in the levied property by filing a financing statement.

One possibility is for JC is to convert the judicial lien into an Article 9 security interest. Suppose, for example, that the sheriff, on behalf of JC has garnished JD's broker with regard to a security entitlement. We have seen that the sheriff can insist that the broker attorn to the sheriff. We also suggested that the sheriff can use the stock market as an auction (with court assistance). If the sheriff's power could fall under the concept of control, then JC would be a secured party with priority over a secured party who has perfected by a mere filing.

The impediment is that the definition of "control" of a security entitlement is tied to the concept
of a purchaser. 348 A "purchase" is a "voluntary transaction creating an interest in property." 349 Judicial lien creditors are not purchasers. 350 So the sheriff has no control. But what if JD could be persuaded to sign a security agreement with the sheriff, for the benefit of JC? JD's acquiescence to the levy would be the consensual grant of a security interest, transforming JC's judicial lien into a senior security interest, which trumps SP's perfect-by-filing security interest. 351

According to CPLR § 5225(c), a court "may order any person to execute and deliver any document necessary to effect payment or delivery." 352 Presumably, JD may be ordered to sign a security agreement for the benefit of JC, but this would not make JC a purchaser as JD's action cannot be considered voluntary under these circumstances.

6. Negotiable Instruments

Section 5201(c)(4) proclaims negotiable instruments property capable of delivery. Therefore the sheriff must levy by seizure. 352 The same puzzles about pledgees will play out with regard to negotiable instruments.

Negotiabilility differentiates between bearer paper and paper requiring special indorsement. Where the sheriff levies bearer paper, the sheriff can sell it to a buyer at the execution sale who then becomes a holder. The maker or acceptor will then be obligated to honor the instrument. 353 The buyer, however, can never be a holder in due course; 354 if there is some adverse claim superior to the buyer's or an maker-issuer's defense, the adverse claim or defense will prevail. 355

If, on the other hand, the debtor's indorsement is missing, the buyer at the foreclosure sale should be able to compel JD to supply the missing indorsement, thereby making the buyer a holder. 356 If the maker-issuer does not pay, the buyer can sue the maker-issuer for payment. 357

While the law of the levied negotiable instrument is not difficult, a regrettable opinion exists within the New York oeuvre. In In re Flax, 358 a sheriff levied a certified check made out to JD about 100 days before bankruptcy. Once the bankruptcy petition was filed, the sheriff voluntarily returned the check to the attorneys for JD, who presumably held it in trust for the bankruptcy trustee. This should not have ended the levy. Sheriffs have a duty to return levied material to the bankruptcy estate, according to some courts. 359 The sheriff should not be taken to intend a dissolution of JC's rights. Rather, the bankruptcy estate is obliged to provide adequate protection of JC's valid lien on the certified check as condition to its use, sale or lease. 356

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348 UCC § 9-106 ("A person has control of a certificated security, uncertificated security, or security entitlement as provided in Section 8-106"). Section 8-106 limits all forms of control to purchasers.

349 UCC § 1-201(32). A purchaser, not surprisingly, is "a person who takes by purchase." Id. § 1-201(33).

350 Federal Deposit Insurance Corp. v. Malin, 802 F.2d 12, 20 (2d Cir. 1986) (real estate case).

351 This actually occurred in Citibank, N.A. v. Prime Motor Inns, 98 N.Y.2d 743, 780 N.E.2d 503, 750 N.Y.S.2d 818 (2002). The case did not involve investment securities, however, and JC1, who received the consensual assignment of a payment intangible, stupidly forgot to perfect, so that JC2 snatched away priority.

352 CPLR § 5232(b).

353 Where the sheriff levies personal checks made out to the debtor, the drawer of the check may well stop the payee bank from paying. N.Y.U.C.C. § 4-403(1); Argirion & Finkel v. Marcianne Luncheonette II, Inc., 64 Misc. 2d 660, 315 N.Y.S.2d 448 (S. Ct. Kings Co. 1970). Nevertheless, the buyer of the personal check at an execution sale would have the right to sue the drawer for breach of warranty. The buyer must first become a holder, however. N.Y.U.C.C. § 3-413(2).

354 N.Y.U.C.C. § 3-302(3)(a); see UCC § 3-302(c).

355 Id. UCC §§ 3-306(a) & (b), 3-306.

356 CPLR § 5225(c); N.Y.U.C.C. § 3-201(1); see Gryphon Domestic VI, LLC v. APP Int'l Fin. Co., 41 A.D.3d 25, 836 N.Y.S.2d 4 (1st Dept. 2007) (court could order debtor to execute documents needed to transfer ownership of certificated shares of stock). Under new Article 3, the transferee can skip the step of obtaining the judgment debtor's signature and proceed directly against the maker-acceptor. Where JC relies on CPLR § 5225(c), JC must make the person executing the document a party to the supplementary proceeding. Sochor v. International Bus. Machines Corp., 60 N.Y.2d 254, 457 N.E.2d 696, 469 N.Y.S.2d 591 (1983).

357 N.Y.U.C.C. § 3-413(a).


Nevertheless, the *Flax* court ruled that the levy had dissolved; *JC* was unjustly demoted to the indignity of an unsecured creditor. First, the *Flax* court incomprehensibly assumed that the sheriff had levied property not capable of delivery, so that § 5232(a) governed the levy. It then assumed that the levy was unperfected because the sheriff negligently did not obtain the necessary indorsements to create a bearer instrument. There is no such principle in § 5232(a), even if it applied. The sheriff has no duty whatever to obtain signatures. This the buyer at the execution sale can do. Rather, § 5232(a) indicates that, if property is transferred to the sheriff, the levy does not lapse.  

Meanwhile, a non-negotiable note is property not capable of delivery. Yet it might still be an instrument under the Article 9 definition. Prior to 2000, an *SP* claiming instruments was considered unperfected unless it had possession of them. Therefore, it became possible for *JC*s to sneak in and paper-levy *AD* by serving the execution, even if the lender had filed a financing statement, thereby depriving the secured lender of collateral. After 2000, however, filing with regard to instruments (including negotiable instruments) became good enough to beat judgment creditors any instrument, negotiable or not.  

### 7. Partnership Interests

*JD* may be a partner in some partnership. New York Partnership Law provides a "charging order" procedure whereby the court "charges" the partnership interest of the judgment debtor. Presumably this means that the court issues a turnover order requiring the partnership to pay over to *JC* any distributions the partnership may make to *JD*.

A charging order is not the exclusive mode for creating a lien on partnership distributions. The sheriff may levy pursuant to an execution by serving a partner of the judgment debtor. Even service upon a limited partner binds the general partnership interest of a judgment debtor. The capital account of a partner, however, may not be levied. This capital is partnership property and is, in effect, like any other asset of the partnership, which creditors of individual partners cannot generally reach. Whereas creditors of the partnership can reach individual partner assets, the converse is not true.

The commencement of a charging order proceeding does not create a lien. Rather, the lien arises when the court issues an order. It is therefore open for an execution creditor to seize priority by levying the partnership prior to the issuance of the charging order. In this respect, the charging order is quite identical to the turnover order under § 5225(b).

### 8. Payment or Delivery by the Garnishee

Suppose the sheriff garnishes *AD* on behalf of *JC* and *JC* either pays the debt or delivers 

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361 Monitor Co. v. Confianza Furniture & Appliance Co., 142 N.Y.S.2d 140 (S. Ct. King's Co. 1955) (buyer of pledged certificates sold at an execution sale entitled to inspect the books of the issuer, because *JD* had this right).

362 CPLR § 5232(a) (eighth sentence).

363 See CPLR § 5201(c)(4) (only negotiable instruments are capable of delivery).

364 UCC § 9-102(a)(47) ("'Instrument' means a negotiable instrument or any other writing that evidence a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in is transferred by delivery with any necessary indorsement or assignment").


366 UCC § 9-312(a).

367 N.Y.P.L. § 54(1). A court may also appoint a receiver of the judgment debtor's partnership interest. Id.

368 N.Y.P.L. § 54(1). A court may also appoint a receiver of the judgment debtor's partnership interest. Id.

369 Princeton Bank & Trust Co. v. Berley, 57 A.D.2d 348, 394 N.Y.S.2d 714 (2d Dept. 1977), aff'd mem. 21 N.Y.2d 800, 235 N.E.2d 772, 288 N.Y.S.2d 631 (1968); see CPLR § 5201(3)("Where property consists of an interest in a partnership, any partner other than the judgment debtor, on behalf of the partnership, shall be the garnishee").


property to the sheriff. According to CPLR § 5209:

A person who, pursuant to an execution or order, pays or delivers, to the judgment creditor or a sheriff or receiver, money or other personal property in which a judgment debtor has or will have an interest, or so pays a debt he owes the judgment debtor, is discharged from his obligation to the judgment debtor to the extent of the payment or delivery.373

A similar provision for pre-judgment attachment exists.374 These provisions are designed to assure AD that paying the sheriff is safe and will not result in a double liability. They provide a "safe harbor that preempts the judgment debtor's... claim that the garnishee should have investigated the validity of the execution."375

Section 5209 has a design flaw that the UCC helps to remedy. Suppose JD transfers AD's obligation to pay, but SP has authorized JD to collect from AD (non-notification accounts financing). AD is then garnished. If AD pays the sheriff after the assignment, § 5209 can be of no help, if we read it literally. Section 5209 requires, as of the time of the payment, that there be a debt AD owes to the judgment debtor. If JD has assigned absolutely to SP, AD owes nothing to JD. Rather, AD owes SP and no one else.

Nevertheless, the New York Court of Appeals has managed to rule otherwise. In Tri-City Roofers, Inc. v. Northeastern Industrial Park,376 JD obtained a judgment against AD and immediately assigned it absolutely to SP.377 Because the payment intangible in question was secured by a judgment, the UCC did not apply.378 The sheriff then levied AD on behalf of JC. AD paid the sheriff. The court ruled, "A debtor in order to be charged with a duty to pay a debt to an assignee, must first have actual notice of the assignment."379 This slides over the fact that, by its terms, § 5209 applies only if AD is paying to the sheriff "a debt he owes the judgment debtor."380 Where no debt is owing because of an absolute assignment, the section does not seem to apply by its terms.

In Tri-City, the UCC would have helped AD expressly, if it had applied. According to UCC § 9-406(a):

an account debtor on an account, chattel paper, or a payment intangible may discharge its obligation by paying the assignor until, but not after, the account debtor receives a notification, authenticated by the assignor or the assignee, that the amount due or to become due has been assigned and that payment is to be made to the assignee.381

But is paying the sheriff the same as paying the assignor? The answer is properly yes. The levy implies that the sheriff succeeds to whatever rights JD had, including the right to receive cash in satisfaction

374 CPLR § 5204.
377 SP in this case was the attorney to D. The court refers to SP's recourse against D if SP did not collect the full judgment. "Having assigned its judgment with recourse, it is only the possibility of recourse by its assignee that gives [the assignor] the required status as a party aggrieved." 61 N.Y.2d at 780, 461 N.E.2d at 298, 473 N.Y.S.2d at 161. This "recourse" is consistent with the absoluteness of assignment. It is in the nature of a warranty of the product sold.
378 UCC § 9-109(d)(9).
379 61 N.Y.2d at 780, 461 N.E.2d at 298, 473 N.Y.S.2d at 161. If AD has notice of the assignment, then § 5209 or § 6204 does not protect AD from having to pay the assignee. Continental Cas. Co. v. Metropolitan Savs. & Loan Assn., 46 Misc. 2d 456, 259 N.Y.S.2d 612 (Civ. Ct. N.Y. Co. 1965).
380 CPLR § 5209.
381 An account is an obligation for goods or services, for any kind of suretyship, for energy provided, for hire of a vessel, for a credit card, for lottery winnings, for rights evidenced by chattel paper, commercial tort claims, deposit accounts, investment property, letter of credit rights, or money advanced. UCC § 9-102(a)(2). Chattel paper is a security agreement or lease of personal property. 9-102(a)(11). A payment intangible is an account or other monetary obligation. UCC § 9-102(a)(61).
of antecedent debt. Therefore, if \( AD \) extinguishes the debt by paying \( JD \) instead of \( SP \), \( AD \) likewise extinguishes it by paying the sheriff. This remains so until \( SP \) notifies \( AD \) that \( AD \) must pay only \( SP \).

The foregoing implies that, even if \( JD \) has absolutely assigned the payment intangible to \( SP \) prior to the execution lien, \( JD \) still retains an interest in the property until such time as \( SP \) notifies \( AD \) to pay \( SP \) exclusively. And the meaning of \( Tri-City \) is that the principle of UCC § 9-406(a) is part of the common law in New York.\textsuperscript{382} For this reason CPLR § 5209 does indeed apply by its terms, when \( JD \) has conveyed away the payment intangible.\textsuperscript{383}

Prior to 2000, the predecessor to this UCC provision applied only if \( AD \) owed an account or chattel paper or if \( AD \) owed a general intangible and \( D \) had assigned the general intangible for security. If, however, \( D \) made an absolute assignment of a general intangible, the UCC did not apply.\textsuperscript{384} Article 9 now applies both to the sale and the hypothecation of "payment intangibles."\textsuperscript{385}

Where \( SP \) is the absolute assignee of \( AD \)'s obligation, the situation is simple enough. Prior to notification, \( AD \) is privileged to pay the sheriff. After notification, \( AD \) must pay only \( SP \). But what if \( SP \) only claims a security interest in \( AD \)'s obligation and \( AD \) knows about it? Is \( AD \) free to pay the sheriff? The answer is yes, unless \( SP \) has notified \( AD \) "that payment is to be made to the assignee."\textsuperscript{386} Typically, secured parties permit their debtors to collect payment intangibles until default occurs. After default, \( SP \) can notify \( AD \) that \( D \)'s power to receive payment has terminated.\textsuperscript{387}

These principles were overlooked in \textit{Lincoln Rochester Trust Co. v. S.C. Marasco Steel, Inc.},\textsuperscript{388} where \( AD \) knew of and "assented to" \( SP \)'s perfected security interest when a sheriff levied for \( JC \). \( AD \) paid \( JC \) directly. It is not clear whether assent meant that \( AD \) had undertaken to pay \( SP \) and no one else. If \( JD \) had authority to collect, \( AD \) should have been able to discharge its obligation to \( JD \) by paying \( JC \) directly. CPLR § 5209 says this expressly. Yet \( AD \) was made to pay again. Section 5209 was nowhere cited.\textsuperscript{389}

Section 5209 has its dark side. It protects banks that honor garnishments, even though the bank account contains exempt funds.\textsuperscript{390} The burden is on judgment debtors to come forward and claim that the levy affects exempt property.\textsuperscript{391} This effect of CPLR § 5209 has become a \textit{cause celebre}. Collection agents with judgments against the elderly have begun to garnish bank account which obviously contain nothing but social security funds—exempt under federal law.\textsuperscript{392} The strategy is that the elderly person is too intimidated or confused to seek a refund from the collecting agent.\textsuperscript{393} Under New York law, a debtor must be given notice that property to be levied might be exempt.\textsuperscript{394} This notice includes the address of \( JC \)'s attorney.\textsuperscript{395} These rules mitigate but do not remove the risk that a bank will

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\textsuperscript{382} In other words, New York does not follow the New York rule (first in time is first in right; \( AD \) pays at her own risk). On the misnamed New York rule, see Luize E. Zubrow, \textit{Integration of Deposit Account Financing into Article 9 of the Uniform Commercial Code: A Proposal for Legislative Reform}, 68 MINN. L. REV. 899, 971 (1984).


\textsuperscript{384} Former UCC § 9-102(b).

\textsuperscript{385} UCC § 9-109(a)(3).

\textsuperscript{386} Id. § 9-406(a).

\textsuperscript{387} Id. § 9-607(a)(1).


\textsuperscript{389} The court did note that actions under 5239 are brought to late if a sheriff or receiver disburses funds. Here \( AD \) paid \( JC \) directly. So a § 5239 proceeding was indeed not too late. But \( AD \) should have prevailed on the face of § 5209.

\textsuperscript{390} To add injury to injury, bank agreements typically award a fee to the bank if a garnishment is received, even if the account contains only exempt funds. McCahey v. L.P. Investors, 774 F.2d 542, 545 (2d Cir. 1985); Granger v. Harris, 2007 U.S. Dist. LEXIS 30076, at *20 (April 17, 2007); Jonas v. Citibank, N.A., 414 F. Supp. 2d 411 (S.D.N.Y. 2006) (bank paid over social security funds).

\textsuperscript{391} 42 U.S.C. § 407.

\textsuperscript{392} Ellen E. Schultz, \textit{The Debt Collector vs. The Widow--Viola Sue Kell thought her Social Security benefits were safe in the bank; She was wrong}, WALL ST. J., April 28, 2007, at A-1.

\textsuperscript{393} CPLR § 5323(c).
indifferently pay exempt funds to the sheriff before JD can interfere. The matter is no doubt ripe for legislative reform.

Modern constitutional restrictions on prejudgment attachment may have an important limitation on CPLR § 6204, which provides:

A person who, pursuant to an order of attachment, pays or delivers to the sheriff money or other personal property in which a defendant has or will have an interest, or so pays a debt he owes the defendant, is discharged from his obligation to the defendant to the extent of the payment or delivery.

In the classic case of Harris v. Balk,396 a North Carolina AD was garnished by a plaintiff (P) on a casual visit to Maryland. Upon return to North Carolina, AD was sued by the defendant (D) and made to pay again. The Supreme Court reversed but sounded the following note:

Thus it is . . . the duty of the garnishee to give notice to his own creditor, if he would protect himself, so that the creditor may have the opportunity to defend himself against the claim of the person suing out the attachment . . . While the want of notice by the garnishee to his own creditor may have no effect upon the validity of the judgment against the garnishee (the proper publication being made by the plaintiff), we think it has and ought to have an effect upon the right of [AD] to avail himself of the prior judgment and his payment thereunder. This notification by the garnishee is for the purpose of making sure that his creditor shall have an opportunity to defend the claim made against him in the attachment suit.397

What worried the Harris court was the possibility that P was pursuing a fraudulent quasi in rem suit in Maryland. The above-quoted advice must be viewed, albeit anachronistically, as an Erie guess on the nature of Maryland law. Had CPLR § 6204 been the law of Maryland, AD could have paid the Maryland sheriff without worry or notice to D.

But there is this important limitation. Under Shaffer v. Heitner,398 attachment is worthy of full faith and credit elsewhere only if D has minimum contacts in the adjudicating state. If AD in New York pays on the basis of § 6204 and if D has no such contact with the state of New York, then § 6204 is not entitled to full faith and credit, and AD can be made to pay again in some other state (though not in New York).399 For this reason, § 6204's scope is adversely affected by the modern innovation in Shaffer.400

396 198 U.S. 215 (1905).
397 Id. at 227.
399 To obtain an order of attachment, P must post an indemnity bond, but this bond need only issue for the benefit of D. CPLR § 4212(b) & (e). Where AD is made to pay twice, there is no express rule in the CPLR that AD is entitled to damages, much less to a bond securing AD's obligation to pay damages.
400 CPLR § 5209 and § 6204 purport to discharge AD when AD pays the sheriff or JC pursuant to execution or order. But it does not immunize JC from restitutionary claims when AD pays by error. In Banque Worms v. BankAmerica Int'l, 77 N.Y.2d 362, 568 N.S.Y.2D 541, 544, 570 N.E.2d 189 (1991), the Court of Appeals proclaimed that the "discharge for value rule" from Restatement of Restitution § 14 was the law of New York, not the rule of mistaken payment. According to this rule:

(1) A creditor of another or one having a lien on another's property who has received from a third person any benefit in discharge of the debt or lien, is under no duty to make restitution therefor, although the discharge was given by mistake of the transferor as to his interests or duties, if the transferee made no misrepresentation and did not have notice of the transferor's mistake.

The facts of Banque Worms did not involve a judicial lien. Rather, D owed money to C. D ordered its bank to wire money to C's bank. D then countermanded this order but, by mistake, D's bank wired C's bank. The discharge for value rule implied that C did not have to give it back. Transposed to the realm of judicial liens, if JD's bank pays the sheriff with funds wired to JD by mistake, the mistaken fund wrier cannot get the money back from JC. In A.I. Trade Finance, Inc. v. Petra Bank, 1997 U.S. Dist. LEXIS 7662 (S.D.N.Y. 1997), the court Erie-guessed that Banque Worms does not apply to attachment liens, even though "lien" appears prominently in the Restatement of Restitution. The gist of the reason was that the plaintiff did not yet have a judgment and therefore there might not be any debt at all. Also, since the sheriff was holding the funds pending the judgment, the plaintiff had notice of the error before it actually received the funds. If A.I. Trade Financial is correct, the law of discharge for value differs, depending on whether the creditor has a money judgment or not at the time JD's bank honors the sheriff's levy.
D. Power of Sale

1. Unencumbered Property

In discussing the sheriff's power to sell, we start with the simplest case: property capable of delivery that is unencumbered by any other lien. Such property must be levied by the sheriff taking custody.\footnote{401} Although the CPLR nowhere says so, the expectation is that such property, when levied, should be sold. But levy is not the only means by which the sheriff obtains possession of property not capable of delivery. Under turnover procedure, a court may order \textit{JD} or \textit{AD} to turn personal property of any sort over to the sheriff.\footnote{402}

Could a sheriff proceed directly to sale without a levy or a turnover order? Pre-CPLR case law says no.\footnote{403} Indeed, if there is to be a sale under these circumstances, it would have to be done promptly, as the execution lien dies when the execution is returned at the end of sixty days (unless extended).\footnote{404} CPLR § 5233, governing sales, presents only an indirect obstacle to the sale-without-levy. Section 5233(a) (last sentence) requires that the "property shall be present and within the view of those attending the sale unless otherwise ordered by the court." If property capable of delivery has been levied, the sheriff easily meets this requirement. But this does not quite prove that the sheriff cannot skip the levy and just sell. By the terms of CPLR § 5233(a), the court can "otherwise order" that the property need not be visible to the bidders at the auction.\footnote{405}

Property not capable of delivery or debts are subject to paper levy. Section 5232(b) contemplates that debts should be paid to the sheriff.\footnote{406} But instead of collecting, could the sheriff sell instead? Nothing in CPLR 5233 prohibits it, but, once again, "[t]he property shall be present and within the view of those attending the sale unless otherwise ordered by the court."\footnote{407} A court would have to "order otherwise" the sale of invisible property.

Sale must be by auction.\footnote{408} Rules for advertisement are set forth.\footnote{409} A sale can occur after the sixty-day life of an execution. This is because the sheriff's duty to return the execution is suspended by the levy with regard to property capable of delivery\footnote{410} (by statute with regard to property not capable of delivery).\footnote{411} Levies of property capable of delivery are perpetual,\footnote{412} though the levy of property not capable of delivery terminate after 90 days (unless extended).\footnote{413}

The sheriff has much (but not total) discretion in scheduling and designing the sale.\footnote{414} If property cannot be sold, the sheriff is invited to apply to the court "for determination whether the

\begin{itemize}
  \item \textit{CPLR} § 5232(b).
  \item \textit{Id.} § 5225.
  \item Hathaway v. Howell, 54 N.Y. 97, 112 (1873).
  \item See Manhattan Taxi Serv. Corp. v. Checker Cab Mfg. Corp., 253 N.Y. 455, 171 N.E. 705 (1930) (suggesting court has discretion to alter the rule that property must be in view, but invalidating the sale where it was not).
  \item \textit{CPLR} § 5232(a) (fifth sentence) ("The person served with the execution shall forthwith... pay all such debts upon maturity, to the sheriff or to the support collection unit... ").
  \item \textit{Id.} § 5233(a) (last sentence).
  \item \textit{Id.} § 5233(a). Receivers are not necessarily subject to this rule. \textit{But see} Levitan v. Homberger, 932 F. Supp. 508 (S.D.N.Y. 1996) (court orders receiver to sell general partnership pursuant to § 5233).
  \item \textit{CPLR} § 5233(b). These advertisements must be posted six days before the sale. Where the advertisements are posted less than six days before, the debtor may have the sale overturned. Wholesale Serv. Supply Corp. v. Rubin, 27 A.D.2d 957, 279 N.Y.S.2d 403 (2d Dept. 1967).
  \item This is so by case law. Kennis v. Sherwood, 82 A.D.2d 847, 848, 439 N.Y.S.2d 962, 966 (2d Dept. 1981). \textit{CPLR} § 5230(c) expressly suspends the duty to return only in the case of a paper levy of property not capable of delivery.
  \item \textit{Id.} § 5230(c).
  \item Ansonia Brass & Copper Co. v. Conner, 103 N.Y. 502, 511, 9 N.E. 238, 239 (1886).
  \item \textit{CPLR} § 5232(a).
  \item Morgan v. Maher, 60 Misc. 2d 642, 303 N.Y.S.2d 575 (S.Ct. Nassau Co. 1969) (in real estate sale, sheriff could not reject high bid because it was too low, without a showing that excessive debtor equity would be lost).
\end{itemize}
property can legally be sold.\footnote{This provision was added in light of People v. Lo Ji Sales, Inc., where a bookstore owner was criminally fined for selling pornography. When the fine was enforced by filing a certificate of judgment with the county clerk, the sheriff levied the personal property of the debtor, which consisted, not surprisingly, of pornography, the very stuff that the debtor was fined for selling. The sheriff convinced the court that the levied property should not be sold but rather should be destroyed by shredding, a solution no longer possible in the era of the internet. The solution reached by the Lo Ji court is now ratified by § 5233(d).} This provision was added in light of People v. Lo Ji Sales, Inc., where a bookstore owner was criminally fined for selling pornography. When the fine was enforced by filing a certificate of judgment with the county clerk, the sheriff levied the personal property of the debtor, which consisted, not surprisingly, of pornography, the very stuff that the debtor was fined for selling. The sheriff convinced the court that the levied property should not be sold but rather should be destroyed by shredding, a solution no longer possible in the era of the internet. The solution reached by the Lo Ji court is now ratified by § 5233(d).

Sales can be reversed. For example, if the sheriff sells to an infant, the infant may rescind the sale for want of capacity.\footnote{CPLR § 5237 suggests that JC can be forced to disgorge proceeds if the sale is overturned for "an irregularity . . . or a vacatur, reversal or setting aside of the judgment upon which the execution or order was based." This suggests that other reasons—such as, JD has no interest in the property—do not become cause to rescind the sale. At least one court has thought that the utter failure of JD's title is nevertheless grounds for the buyer to obtain restitution. This is odd, in that, when the sheriff sells, she does not warrant any amount of title. Caveat emptor is usually the rule at the security's auction.}

2. Encumbered Property

Suppose the sheriff has levied personal property encumbered by SP's senior perfected security interest and has sold the thing to X. On the theory that the sheriff can sell whatever JD had at the time the execution was delivered, X owns JD's equity as encumbered by SP's security interest.\footnote{X as owner of the equity is now deemed a nonrecourse Article 9 debtor with the present right to possess, to redeem in case of SP's repossession and to receive a surplus after the sale.} X as owner of the equity is now deemed a nonrecourse Article 9 debtor with the present right to possess, to redeem in case of SP's repossession and to receive a surplus after the sale.\footnote{Perversely, if the security agreement with SP is in default (highly likely if the sheriff is in the levying vein), SP has a senior right of possession. So SP can repossess the car from the sheriff before the sale and from X after the sale. If SP repossesses from the sheriff, JC is entitled to any surplus from the foreclosure sale.}

If a sheriff's sale violates SP's senior right of possession, the sheriff has committed the tort of conversion. Conversion is an offense against a present possessory right. Where the sheriff rightfully possesses because SP has not asserted a senior right, the sheriff has not acted wrongfully. In such a case, SP must demand possession; only a refusal in light of a demand triggers the conversion cause of action.
action.  

In Teddy's Drive In v. Cohen, a tax compliance officer enforcing a state tax warrant (equivalent of a sheriff under an execution) levied encumbered equipment. At the auction, SP (a corporate insider of JD) stood on a table and announced ownership of a senior security interest. The officer continued with the sale. The Teddy's court held that the officer was guilty of the tort of conversion. The court is not clear on whether SP demanded possession. Instead, the court speaks in terms of the officer's limited immunity as a public official, which falls away where the officer has notice of SP's claim. The case should be read as holding that the officer's sale is rightful unless, prior to the sale, SP has demanded possession and the court has refused it.

The question arises as to the consequence of the officer's liability. To answer that, let us consider the following scenario:

Eleventh Scenario

**Monday:** The sheriff levies a thing worth $100 pursuant to JC's execution.

**Later:** At the execution sale, SP announces that she owns a perfected security interest for $80. SP demands possession of the thing. The sheriff refuses to give up the thing and sells it to X for $20. The sheriff is holding the $20 for eventual distribution to JC.

**Still later:** SP wins a money judgment against the sheriff.

The first issue is what are SP's damages. One wishes to say $80, the amount of the secured claim, and should not SP's recovery be limited to the amount of the loan? One must, however, contend with the ancient notion of jus tertii. The court in Valentine v. Long Island R. Co. described the rule as follows:

> The rule undoubtedly is that a bailee cannot plead jus tertii against his bailor . . . The reason for the rule is that by such a plea the bailee . . . might through the claim of some third person keep the property for himself.

This rule suggests that the sheriff must pay $100. SP is a bailee (coupled with an interest) of JD's equity interest. The thing is worth $100 and the sheriff converted it, and no reference to SP's limited interest is permitted. Happily the Valentine court said (albeit in dictum and without authority):

> But there are a number of exceptions to this rule, as for instance where the property has been taken from the bailee by process of law . . .

Ergo, we can confidently assume that the sheriff owes $80.

It is a fundamental principle that a conversion judgment constitutes the sale of the stolen property to the defendant. As applied to the Eleventh Scenario, the sheriff becomes the owner of SP's security interest. This the sheriff can assert against X thereby more or less reimbursing the sheriff. Equilibrium is restored.

A harder question is with regard to the $20 in proceeds that X paid in the Eleventh Scenario.

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432 Tompkins v. Fonda Glove Lining Co., 188 N.Y. 261, 80 N.E. 933 (1907).
434 According to the lower court, "when [SP] announced he held a chattel mortgage on the goods to be sold, he was, in effect, stating that he held title." Teddy's Drive-In, Inc. v. State of New York, 63 A.D.2d 1070, 1071, 406 N.Y.S.2d 157, 157 (3d Dept. 1978). If "title" means "the right to possess," then indeed SP was demanding a superior right of possession.
435 See CPLR § 5234(a) ("No distribution of proceeds shall be made until fifteen days after service of the execution except upon order of the court").
436 187 N.Y. 121, 79 N.E. 849 (1907).
437 187 N.Y. at 127, 79 N.E. at 851.
438 187 N.Y. at 127, 79 N.E. at 851.
One would think that, since SP’s security interest was not foreclosed, JC would have no right to these proceeds. Yet Article 9 holds that SP has both a security interest on X’s thing and a claim to the money X paid for JD’s equity. According to § 9-315 of the UCC:

1. a security interest . . . continues in collateral notwithstanding sale . . . ; and
2. a security interest attaches to any identifiable proceeds of collateral.

So JC does not own the $20 surplus after all. CPLR § 5234(a) commands the sheriff to distribute these proceeds to JC, but JC and also the sheriff\[^{440}\] commit the tort of conversion if she converts to her own use SP’s cash. This is the notorious and unacceptable "two for one" effect that Article 9 provides when collateral is sold subject to a security interest.\[^{441}\]

Suppose SP claims the $20 as proceeds. Apparently this reduces SP’s claim against X’s thing to $60. Yet X paid $20 because this was the value of the equity in light of a surviving security interest of $80. With SP claiming only $60, X obtains a windfall. The windfall would be removed if JC could be subrogated to SP’s security interest for $20. But JC did not even own the $20 that SP received. Subrogation presumably frowns on JC paying SP with SP’s own money.

Sales procedure is particularly mystifying when SP is a pledgee. In the case of pledged property, the sheriff may not levy at all.\[^{442}\] Yet, perhaps the sheriff can sell under § 5233, since § 5233 does not expressly require there to be a levy.\[^{443}\] All of this is very unclear.

There is yet another unanswered question with pledges. Suppose it is agreed that the sheriff can sell pledged property. Perhaps the sheriff has levied Article 8 certificated securities because UCC § 8-112(a) overrides § 5232(b)’s anti-levy rule. Or perhaps a court has ordered SP to turn over the property to the sheriff under § 5225(b). It is still the case that SP has a senior right of possession; if the sheriff sells, the sheriff commits the tort of conversion. Can SP take back possession and then not foreclose, thereby defeating JC’s right to a valuable equity? In hypothecations, repossession is in anticipation of foreclosure. This is not so with pledges. Possession is a mode of perfection. Therefore, a pledgee might play dog in the manger, taking back the collateral and refusing to foreclose, even though JC might have a valuable equity. Whether this is possible is not clear.

### E. Priority

Suppose only one execution is delivered to a sheriff, and the sheriff has obtained cash either through sale or collection of payment intangibles. According to CPLR § 5234(a), the sheriff first distributes the proceeds to payment of fees, expenses and taxes. The sheriff then pays the creditor. The surplus is returned to the debtor. The sheriff may not distribute proceeds until fifteen days have passed since the execution was delivered to the sheriff.

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\[^{441}\] David Gray Carlson, Bulk Buyers Under Article 9: Some Easy Cases Made Difficult, 41 ALA. L. REV. 729, 741 (1990). That this effect exists is exacerbated by new UCC § 9-615(g), which provides:

A secured party that receives cash proceeds of a disposition in good faith and without knowledge that the receipt violates the rights of the holder of a security interest or other lien that is not subordinate to the security interest or agricultural lien under which the disposition is made:

1. takes the cash proceeds free of the security interest or other lien;
2. is not obligated to apply the proceeds of the disposition to the satisfaction of obligations secured by the security interest or other lien; and
3. is not obligated to account to or pay the holder of the security interest or other lien for any surplus.

Since this new provision protects a junior SP from a senior JC but does not protect a junior JC from a senior SP, it must be concluded that the baleful two-for-one rule is intentionally imposed.

\[^{442}\] CPLR § 5232(b).

\[^{443}\] Under old Civil Practice Act 688, pledged property could be sold without interfering with the possessor rights of SP. Monitor Co. v. Confianza Furniture & Appliance Co., 142 N.Y.2d 140, 142 (S. Ct. King’s Co. 1955).

Where two or more executions are delivered to the sheriff, priority is in order of delivery, except that executions for child support have priority over all other executions.\(^{444}\)

Executions may be delivered to different court officers, such as a marshal for the federal court or a lower court.\(^{446}\) In such cases, there is a "first to levy" rule. The first officer to levy established priority for all her "clients" who have served executions on her. The slow-footed officer who did not manage to levy must apply hat in hand to the swifter officer for any leftovers.\(^{447}\) This rule, however, applies only if the property is "levied upon within the jurisdiction of all the officers."\(^{448}\) This is one of the few hints in the CPLR that a sheriff is only supposed to levy within the county of her jurisdiction. Meanwhile, at the very end of this rule is appended an exception: "except that such executions for child support shall have priority over any other assignment, levy or process." So if the second, slower officer has a child support execution, she can take away the proceeds from the first sheriff.

This rule involving duelling sheriffs reflects the notion of in custodia legis.\(^{449}\) According to this doctrine, if a court, however humble in dignity, brings property under its control, all other courts must kow to the court with control over the property in question.\(^{450}\)

A final rule mediates between those who claim under executions and those who claim equity liens—liens arising from turnover orders and receiverships.\(^{451}\) The first between the levy under an execution and the filing of the turnover order or appointment of a receiver prevails.\(^{452}\)


\(^{445}\) See also CPLR § 5241(h). The priority for family support executions was added in 1993, L. 1993, Ch. 59. In enforcement of child support obligations, New York has established support collection units in every social services district. N. Y. Social Services Law § 111(h). This unit receives payment from the defendant in a support matter and distributes it to the plaintiff. The CPLR often gives to the support collection unit the rights of plaintiff’s counsel or the sheriff. For example, the support collection unit may issue restraining notices, CPLR § 5222(a), and executions to the sheriff or to itself. Id § 5230(b). The support collection unit may also levy upon property, just as a sheriff would. Id. § 5232(a) & (b). It may issue executions for support obligations, pursuant to CPLR § 5241(b), just as a sheriff may. See generally Lombardi v. Suffolk Co., 2007 U.S. Dist. LEXIS 8721 (E.D.N.Y. February 7, 2007) (describing support collection units generally).

\(^{446}\) In New York City, the mayor is authorized to appoint up to 83 different marshals for the Civil Court. N.Y.C. Civ. Ct. Act § 1601(1).

\(^{447}\) CPLR § 5234(b) (second sentence) ("and thereafter shall be applied in satisfaction of the executions or orders of attachment delivery to those of the other officers who, before the proceeds are distributed, make a demand upon the officer who, before the proceeds are distributed, make a demand upon the officer who levied, in he order of such demands . . . ").

\(^{448}\) Id.

\(^{449}\) Estate of Livingston, 30 Misc. 2d 71, 74, 211 N.Y.S.2d 897, 901 ("Once levied upon the property is deemed to be in custodia legis").

\(^{450}\) Garro v. Republic Sheet Metal Works, Inc., 284 A.D. 660, 663, 134 N.Y.S.2d 151, 155 (4th Dept. 1954).\(^{450}\) In Citrus Bowl, In. v. Colonial Farms, 47 Misc. 2d 220, 262 N.Y.S.2d 258 (S. Ct. Queens Co. 1965), aff’d, 27 A.D.2d 942, 278 N.Y.S.2d 898 (2d Dept. 1967), a receiver preceded any levy by JC’s and so had priority. JC’s was given priority over a subsequent tax lien. The United States tried to argue that it had priority under what is now numbered as 31 U.S.C. § 3713, which provides:

(a)(1) A claim of the United States Government shall be paid first when—

(A) a person indebted to the Government is insolvent and—

(i) the debtor without enough property to pay all debts makes a voluntary assignment of property;

(ii) property of the debtor, if absent, is attached; or

(iii) an act of bankruptcy is committed; or

(B) the estate of a deceased debtor, in the custody of the executor or administrator, is not enough to pay all debts of the debtor

(2) This subsection does not apply to a case under [the Bankruptcy Code].

The court rejected the claim of the United States, as the equity lien associated with the receiver did not constitute any of the enumerated events. On appeal, however, the United States won priority over JC’s, on the basis of the timing of its lien.
sheriff levies for \( JC_1 \) and then \( JC_2 \) obtains (and the clerk files) a turnover order or the appointment of a receiver, \( JC_1 \) has priority.\(^{453}\) A turnover order has been called an "equitable levy."\(^{454}\) If this metaphor is accepted, then our last rule resembles the "first to levy" rule. Finally, if two equity liens exist, "the proceeds of the property or debt shall be applied in the order of filing."\(^{455}\)

The last sentence of § 5234(c) provides:

> Where delivery, transfer, or payment to the judgment creditor, a receiver, or a sheriff or other officer is not completed within sixty days after an order is filed, the judgment creditor who secured the order is divested of priority, unless otherwise specified in the order or in an extension order filed within the sixty days.

No case has ever applied this woeful sentence. It should be noted, however, that it applies only where the sheriff has levied on the same property covered by the equity order. Why the equity lien holder should lose out when the sheriff has successfully levied is a mystery, especially when turnover orders require \( AD \) to deliver non-monetary property directly to the sheriff. And how important is this principle, if it can be dispelled by the incantation of preservative words in the order itself? If there is a point to this sentence, it eludes me.

### F. Setoffs and Execution Liens

\( AD \) may have the power to offset \( JD \)'s obligation to pay \( AD \) because \( JD \) owes \( AD \) for a mutual debt.\(^{456}\) Execution liens potentially come into conflict with this right. To give \( AD \)'s right of setoff a high degree of protection, the legislature has enacted Debtor & Creditor Law § 151.\(^{457}\) Courts, however, have failed to see how limited § 151 really is. In many cases, \( AD \)'s setoff right needs no protection and would continue to exist even if § 151 had never been enacted. As a result, § 151 has sometimes been misinterpreted.

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\(^{453}\) H&H Poultry Co. v. Lafayette Nat'l Bank, 45 Misc. 2d 480, 257 N.Y.S.2d 182 (S. Ct. N.Y. Co. 1965); Graze v. Bankers Trust Co., 45 Misc. 2d 610, 257 N.Y.S.2d 483 (S. Ct. N.Y. Co. 1965). Even if the levy is senior, the receiver might equitably be given control of the property, so long as \( JC_1 \)'s seniority from the earlier levy is respected. Lankenau v. Coggeshale & Hicks, 350 F.2d 61 (2d Cir. 1965).

\(^{454}\) Id.

\(^{455}\) Id.

\(^{456}\) "Debts are mutual when the debts and credits are in the same right and are between the same parties, standing in the same capacity . . . Where, for example, one party owes a fiduciary duty to the other, or has a claim for trust funds, and the other side's claim is a simple unsecured debt, mutuality is lacking" Scherling v. Hellman Elec. Corp., 181 B.R. 730, 739 (Bankr. S.D.N.Y. 1995).

\(^{457}\) According to this provision:

> Every debtor shall have the right upon:

> (c) the application for the appointment, or the appointment, of any receiver of, or of any of the property of a creditor;

> (d) the issuance of any execution against any of the property of a creditor;

> (e) the issuance of a subpoena or order, in supplementary proceedings, against or with respect to any of the property of a creditor; or

> (f) the issuance of a warrant of attachment against any of the property of a creditor,

> to set off and apply against any indebtedness, whether matured or unmatured, of such creditor to such debtor, any amount owing from such debtor to such creditor, at or at any time after, the happening of any of the above mentioned events, and the aforesaid right of set off may be exercised by such debtor against such creditor . . . receiver or execution, judgment or attachment creditor of such creditor, or against anyone else claiming through or against such creditor . . . receivers, or execution, judgment or attachment creditor, notwithstanding the fact that such right of set off shall not have been exercised by such debtor prior to the making, filing or issuance, or service upon such debtor of, or of notice of, any such petition; assignment for the benefit of creditors; appointment or application for the appointment of a receiver; or issuance of execution, subpoena or order or warrant.

Where \( AD \) is a bank, \( AD \) must notify \( JD \) of the setoff on the same business day. N.Y. Banking Law § 9-g(2).
The common law makes setoff of a mutual debt a defense against an obligation to pay. One way of putting the matter is to say that any obligation to pay is contingent if there is a countervailing debt that the payor could assert against the payee.

For example, if AD (a bank) owes JD for the amount of a checking account ($100), and if AD lends JD $75, payable on demand, we may say that AD has a setoff opportunity—the right to assert a setoff in lieu of payment. AD may or may not choose to assert this right. If AD chooses not to assert it and if AD pays the $100, AD loses the setoff opportunity. Like the ability to speak a foreign language, setoffs are subject to the rule of "use it or lose it."

Given the setoff opportunity, if the sheriff garnishes AD on behalf of JC, JC can only take whatever JD had—a right contingent on AD not declaring the setoff. So, after the garnishment, it is open for AD to assert the setoff, thereby reducing the debt from $100 to $25. All that JC obtains is a conditional lien on AD's obligation to pay $75 to JD and an absolute lien on AD's obligation to pay the remaining $25. Where the setoff opportunity precedes the lien, Debtor & Creditor Law § 151 is not needed to vindicate AD's power to declare a setoff in lieu of paying the sheriff.

Suppose, on these facts, that JD deposits an additional $50 with AD. This deposit is instantly made conditional on AD's right of setoff. JC obtains no senior lien on this new deposit. In these cases, AD has no need of § 151 to protect its right of setoff.

Section 151 comes in handy when AD's claim against JD is not yet mature, whereas AD's obligation to JD is fully mature. One thing § 151 achieves is to permit AD to assert a setoff of mature debt against unmatured debt. Some old cases had asserted otherwise. To be distinguished is contingent debt, which AD may never owe. While unmatured may be set off, contingent debt may not be.
Let us now take another scenario where § 151 always has bite. Suppose that AD has no setoff opportunity at the time the sheriff levies. JC obtains a lien on AD's obligation to pay $100. Suppose thereafter AD lends JD $75. Since the sheriff has the unconditional right to $100, AD has no setoff right at all, without the aid of § 151. AD owes $100 to the sheriff and, separately, AD has a claim against JD for $75. The two debts—AD owes the sheriff and JD owes AD—are no longer reciprocal debts. Under the common law, AD has no setoff right. Debtor & Creditor Law § 151 reverses this result by declaring that AD may set off "any amount owing from such debtor to such creditor, at or at any time after," JC obtains a lien.

In short, § 151 is not needed to protect the pre-existing setoff opportunity of AD. The very nature of AD's conditional obligation to pay implies that AD may assert the setoff against the sheriff. The function of § 151 is to authorize AD to assert a setoff where AD's claim is not yet mature and where no common law setoff opportunity existed at the moment of the levy.

The nature of setoff and the role of § 151 has been misconceived in United States v. Sterling National Bank & Trust Co., which presented the following chronology;

February 13, 1970: The IRS assesses $8,000 in taxes against D and therefore has a lien on D's bank account with AD.
June 23: D borrows $6,000 from AD.
August 14: The IRS assesses $6,400 more in taxes.
November 5: The IRS files notice of the first assessment.
June 9: The IRS serves notice of levy on AD, pursuant to Internal Revenue Code § 6331(a).
July 2: AD purports to manifest its setoff of $3,800. A balance of $1,300 is left, which AD tenders to the IRS.

The IRS then sued AD for the amount of the setoff.

Properly, the IRS had a lien on the bank account for $8,000 as of February, 1970. So no setoff opportunity ever arose for AD. Rather, AD owed the IRS and later AD advanced funds to JD. AD's obligation to pay belonged to the IRS before a setoff opportunity could ever arise.

The Second Circuit thought the only question was whether JD had a property interest in the bank account at the time of the levy. If so, the IRS had priority, even if its lien arose at a time when AD could have asserted a setoff.

The cases cited deal only with the right of setoff, and not with whether the full amount in the account is "property" of the bank's customer. The literal language of § 151 . . . would indicate that the full amount in the account is the customer's property. Under any realistic definition of "property" the full amount in [JD]'s account was his property or his right to property. Until the bank acted to restrict his right to draw on the funds, Smith was entitled to write checks up to the full amount in the account. Clearly then all the funds in Smith's checking account were his property at the time that the IRS served the bank with notice of levy.

Read carefully, the Sterling court seems to be saying that Debtor & Creditor Law § 151 does not apply to liens created by federal law, which is fair enough. But the court also says that § 151 does not negate the idea that JD has "property" in a bank account. Since that is so, the IRS wins. This is a misconception. Where the setoff opportunity pre-exists the IRS liens, JD has only conditional property,
and the IRS succeeds only to that.\footnote{470} In short, the Second Circuit thought that either there is property or there is no property. In fact, there is a third category—conditional property.\footnote{471}

The Sterling misconception soon blossomed into error. In \textit{Aurora Maritime Co. v. Abdullah Mohamed Fahem & Co.},\footnote{472} JC obtained a federal maritime attachment lien. In non-admiralty federal cases, ordinary attachments are issued pursuant to state law.\footnote{473} Maritime attachments, however, are thoroughly federal in nature. In \textit{Aurora}, however, AD owed JD and JD owed AD at the time of the garnishment. So, regardless of what § 151 means, JC should have taken subject to AD's senior right of setoff. The \textit{Aurora} court ruled that New York Debtor & Creditor Law was preempted, and therefore JC ought to have a lien on the entire amount AD had owed JD, as if no setoff opportunity existed. But even if we concede that § 151 is preempted, JC still only obtained AD's conditional right of payment. Even without § 151, the setoff opportunity pre-existed and should have been assertable against the maritime attachment lien.\footnote{474}

The New York courts have also misunderstood the scope of § 151. In \textit{Aspen Industries, Inc v. Marine Midland Bank},\footnote{475} the New York Court of Appeals read § 151 as authorizing AD to pay JD in spite of a restraining notice, so long as AD's claim against JD exceeds JD's claim against AD. In \textit{Aspen}, AD (a bank) had a very large claim against JD relative to JD's small checking account balance. JD continued to deposit funds. Properly, AD had a setoff right regardless of Debtor & Creditor § 151. But it did not use the setoff right. Rather, it honored JD's checks. The Court of Appeals ruled that since, \textit{AD could} have set off the entire checking account, it did not cause any damage to JC when, in violation of the restraining notice, it put JD into funds. This opinion plays fast and loose with the "use it or lose it" nature of setoffs. Having chosen to put JD in funds, AD chose not to use the setoff. It therefore was not under the shelter of § 151 when it honored JD's checks. Having elected not to set off, it should have preserved the money it gave to JD for the benefit of JC.

\section*{G. Income Executions}

\footnote{470}The case can also be read as not saying anything at all about AD's right of setoff. Rather, the case holds that, where a taxpayer has "property" in AD's obligation, AD must pay; competing property rights must be litigated in some other forum:

[A] person served with a tax levy has only two defenses for a failure to comply with the demand, which are either that the person is not in possession of the taxpayer's property or the property is subject to a prior judicial attachment or execution. Therefore, the defense of lien priority is not before us.

\footnote{494} F.2d at 921 (footnote and citations omitted). See \textit{Aurora Maritime Co. v. Abdullah Mohamed Fahem & Co.}, 85 F.3d 33, 47 (2d Cir. 1996) (reading Sterling in this way).

\footnote{471}Sterling was wrongly decided for a reason not related to the discussion in the text. According to Internal Revenue Code § 6323(b)(10), the tax lien is no good against

a savings deposit or other account, with an institution described in section 581 or 591, to the extent of any loan made by such institution described without actual notice or knowledge of the existence of such lien, as against such institution, if such loan is secured by such account.

Although AD's promissory note directly referred to a "continuing lien and/or right of set-off" against his bank account, the Second Circuit in \textit{Sterling} simply ignored this dispositive provision. The lower court ruled this provision only applies to consensually created security interests, which a setoff right could never be. The lower court suggested that, if AD had taken possession of a passbook, AD's right of setoff would have been good against the IRS. 360 F. Supp. 917, 926 (S.D.N.Y. 1973). Yet what good would that do, if AD cannot have a contractual lien on its own obligation to JD? In truth, § 6323(b)(10) seems tailor-made to a bank's right of setoff, and AD should have prevailed on its basis.

\footnote{472}85 F.3d 33 (2d Cir. 1996).
\footnote{473}Fed. R. Civ. Pro. 64.
\footnote{474}The lower court in \textit{Aurora} thought that § 151 permits setoff against liens only when the setoff is actually manifested before the competing lien arose. Because of this assumption, the lower court ruled that § 151, under the circumstances, was not in conflict with the admiralty attachment lien. JC prevailed simply because AD had not manifested the setoff before JC obtained the lien. 890 F. Supp. at 328-29. This is exactly the wrong reading of § 151. Under this reading, AD never has a right of setoff against JC unless AD manifests the setoff before JC's lien. The opposite is true. AD has a right to setoff no matter when JC's lien arises. Industrial Commissioner v. Five Corners Taverns, Inc., 47 N.Y.2d 639, 393 N.E.2d 1005 (1979). The lower court acknowledged \textit{Five Corners} but thought it applied only to liens under New York law, not to federal liens.
Aside from reaching debts due or certain to become due,\textsuperscript{476} or property (contingent or vested),\textsuperscript{477} JC can also reach income by serving an income execution.\textsuperscript{478} Income is considered a third thing, compared to property and debts.\textsuperscript{479} An income execution is appropriate when "a judgment debtor is receiving or will receive money from any source . . .\textsuperscript{480} Because income is this third thing, it cannot be the basis of pre-judgment attachment, since CPLR § 6202 makes only debt or property "as provided in section 5201" subject to attachment.\textsuperscript{481} Meanwhile, where JD has income, JC is completely free to use regular executions to obtain debts or property aside from the income.\textsuperscript{482}

There are two types of income executions. The one available to judgment creditors in general I will call regular income executions.\textsuperscript{483} The other is available for family creditors who claim alimony or child support.\textsuperscript{484} Unlike other executions, the sheriff is included as among those authorized to issue an income execution for enforcement of a support obligation.\textsuperscript{485}

An income execution has different formalities from a simple execution. It must include the name and address of the person from whom JD will receive money,\textsuperscript{486} the amount of money and frequency of payment.\textsuperscript{487} It must set forth a long description of the law of income execution, warning that the burden is on JD to step forward and object if the amounts withheld are excessive.\textsuperscript{488}

The income execution must be served on the sheriff of the county where JD resides. Where JD is not a resident of the state, JC must deliver the income execution to the sheriff of the county where the debtor is employed.\textsuperscript{489} Here is one of the few provisions in the CPLR making reference to the geographical limitations of a sheriff's jurisdiction. Its effect is to immunize debtors who work outside the state for an employer who is present in New York. In Brown v. Arabian American Oil Co.,\textsuperscript{490} JD worked in Saudi Arabia and AD was properly served in Manhattan. Since JD neither lived nor was employed in Manhattan, JC could not comply with the above requirements. Accordingly, the levy was quashed.\textsuperscript{491} Yet in Oysterman's Bank & Trust Co. v. Manning,\textsuperscript{492} a sheriff refused to serve an income execution on a California resident. The Manning court simply ignored the jurisdictional limitation in

\textsuperscript{476} CPLR § 5201(a).
\textsuperscript{477} Id. § 5201(b).
\textsuperscript{480} CPLR § 5231(a). A restraining order, however, cannot be served upon "the employer of a judgment debtor or obligor where the property sought to be restrained consists of wages or salary due or to become due to the judgment debtor or obligor," CPLR § 5222(a); Silbert v. Silbert, 25 A.D.2d 570, 267 N.Y.S.2d 744 (2d Dept. 1966).
\textsuperscript{483} CPLR § 5231.
\textsuperscript{484} CPLR § 5241. "Support" is defined by Family Court Act § 416. A provision similar to § 5241, applying only to family support creditors, permits injunctive orders to employers to pay wages. CPLR § 5242. There is also extensive legislation on executions for medical support. These are not traditional garnishments but rather orders to employers to enroll the debtor's family into health benefits a debtor might have obtained for his family if he had been willing to apply for them. CPLR § 5241(b). See Oneida Co. Dept. of Social Servs. v. S., 2007 N.Y. App. Div. LEXIS 7016 (4th Dept., June 8, 2007).
\textsuperscript{487} CPLR § 5231(a).
\textsuperscript{488} CPLR § 5231(g). This section was added in 1987 to address constitutional objections that debtors were insufficiently notified of the rules of garnishment. Follette v. Cooper, 658 F. Supp. 514 (N.D.N.Y. 1987). The notice is not required for income executions under CPLR § 5241 (support enforcement).
\textsuperscript{489} CPLR § 5231(b).
\textsuperscript{490} 53 Misc. 2d 182, 278 N.Y.S.2d 256 (S. Ct. Suffolk Co. 1967).
CPLR § 5231(b) and ordered the California sheriff to serve the debtor in California. It cited as authority CPLR § 5240, which invites courts to change the rules whenever they want.

The jurisdictional limits connecting the sheriff with the JD's domicile or place of work overturns older decisions which permitted New York garnishment of wages paid by foreign employers to foreign workers, because the employer happened to be present in New York. The statute therefore does not go as far as the Constitution allows. In non-wage cases, if a court has jurisdiction over AD, the court can indeed order AD to pay or deliver property to the New York sheriff.

The procedure in the case of an income execution is that the sheriff serves the income execution on JD, either by personal service or by certified mail. The income execution demands that the debtor pay the sheriff directly, with the warning that the employer will be garnished if the debtor defaults. This procedure was designed "to avoid annoyances to third parties and to give the judgment debtor an opportunity to make payment without embarrassment." If JD does not start paying within 20 days after service, or if the sheriff is unable to effectuate service within 20 days, the sheriff garnishes the employer. The income execution for support operates on a different basis. The debtor must be served first. Unless she alleges a mistake of fact, the employer is served fifteen days thereafter.

After being served with the income execution, the employer has the duty to withhold wages until the judgment is paid. Importantly, the maximum a creditor can obtain from a regular income execution is 10% of income. This amount coheres with the exemption of ninety percent of the earnings of the judgment debtor for his personal services rendered within sixty days before, and at any time after, an income execution, and at any time after, an income execution is delivered to the sheriff or a motion is made to secure the application of the judgment debtor's earnings to the satisfaction of the judgment.

The sixty day limit is significant. Where earnings have been due for over sixty days, the earnings are not exempt. Or if a bank account consists of old wages, only an amount equating with 90% of the earnings over the past 60 days are exempt. Indeed, once in the bank account, the earnings are "debts" that can be levied pursuant to a simple execution. Where past earnings are less than sixty days old, they are 90% exempt; the balance can be reached by a simple non-income execution. Sums not yet earned

493 See CPLR § 313 (authorizing such orders).
494 Compare Kaplan v. Supak & Sons Mfg. Co., 46 Misc. 2d 574, 578, 260 N.Y.S.2d 374, 378 (S. Ct. New York Co. 1965) ("CPLR 5240 permits a certain amount of tinkering on the structure by the judicial handyman, but it does not permit the construction of an entirely new wing using jurisprudential architecture").
497 If the debtor is paying 10% to the sheriff directly, no other creditor can insist that an income execution be levied on the employer. Citibank v. East, 121 Misc. 2d 861, 469 N.Y.S.2d 557 (S. Ct. Queens Co. 1983).
498 CPLR § 5231(a). The form of the income execution for support is rather different. Notably, the income execution must notify the debtor that, unless she claims a mistake of fact, the execution will be served on the employer in 15 days. CPLR § 5241(c).
500 At least as of 1970, few JDs ever paid the sheriff. Marsh, supra note 478, at 402-03.
502 CPLR § 5241(f).
503 Id. § 5231(f). An employer is prohibited from firing a worker whose wages have been garnished. Id. § 5252. The sheriff has the duty to calculate interest. If she does not, the employer is not liable for paying the amount that the income execution requires to be paid. National Surety Corp. v. R.H. Macy & CO., 116 Misc. 2d 780, 455 N.Y.S.2d 1007 (S. Ct. N.Y. Co. 1982).
504 CPLR § 5231(b).
505 Id. § 5205(d)(2).
506 That bank accounts are exempt if they contain exempt wages depends upon a tracing rule applicable to exemptions. See infra text accompanying notes 713-20.
can be reached only by an income execution.\textsuperscript{508} With regard to bank accounts containing wages, CPLR § 5205(d)(2) exempts earnings only in cases where an income execution has actually been served. Where only a non-income execution has been served, no wages are exempt, if we read the CPLR literally. Happily for wage earners, no court has yet noticed that the plain meaning of § 5205(d)(2) permits a 100% garnishment of recent earnings in a bank account under a regular non-income execution.\textsuperscript{509}

The 10% limit of CPLR § 5231(b) coheres with federal legislation which commands that state legislation permit the garnishment of no more than 25% of income.\textsuperscript{510} The 10% maximum is reduced where a wage earner is at or near the minimum wage.\textsuperscript{511} With regard to regular income executions, garnishment is altogether prohibited if disposable earnings for the week are less than 30 times the minimum wage.\textsuperscript{512} For this purpose, disposable earnings are defined as take-home pay—"that part of the earnings . . . after the deduction from those earnings of any amounts required by law to be withheld."\textsuperscript{513} The amount withheld cannot exceed 25% of disposable income or thirty times the minimum wage, whichever is less.\textsuperscript{514}

The limits for income execution for domestic support obligations are far more creditor-generous. If the debtor has a new spouse or dependent child, up to 50% of take-home pay can be withheld. If arrears on past support obligations exist, this number rises to 55%.\textsuperscript{515} Where there is no current spouse, 60% of take-home pay can be reached, 65% if arrears exist which are more than twelve weeks old.\textsuperscript{516} These limits, which are consistent with the Federal Consumer Credit Protection Act,\textsuperscript{517} apply only "[w]here the income is compensation paid or payable to the debtor for personal services . . ."\textsuperscript{518} In comparison, a covenant not to compete—that is, a covenant to offer no personal services—can be 100% garnished.\textsuperscript{519}

There is an odd entanglement between regular income executions and support income

\textsuperscript{508} In Girard Trust Bank v. Gotham Football Club, Inc., 31 A.D.2d 142, 295 N.Y.S.2d 741 (1st Dept. 1968), AD owed D football bonuses for a season. First, if D played in 50% of the defensive or offensive plays, D would receive $2,000. If D showed a good attitude, D would get $1,000 at the end of the season. After the season but before the bonuses were paid, JC served an income execution on AD and obtained 10% of the bonuses. JD served both an income execution and an ordinary execution on AD. D claimed the bonuses were exempt because they consisted of earnings for "personal services rendered within sixty days before . . . an income execution is delivered to the sheriff. . . ." The court agreed with the proposition and remanded to see whether any part of the above two bonuses were earned before the sixty day period. The court seemed to think that if the 50% level was reached within the sixty day period, all earnings were within the exemption. 31 A.D.2d at 147, 295 N.Y.S.2d at 746. In fact, § 5205(d)(2) refers to "earnings of the judgment debtors for his personal services rendered within sixty days before . . . an income execution is delivered to the sheriff . . . ." So the issue is not earning (i.e., the vesting of AD's obligation to pay) but rather is rendering services. Properly, both bonuses should have been prorated.

\textsuperscript{509} The attempt to obtain 100% of wages via a regular execution was rejected in Cadle Co. v. Newhouse, 26 Fed. Appx. 69 (2d Cir. 2001). In Power v. Loonam, 49 Misc. 2d 127, 266 N.Y.S.2d 865 (S. Ct. Nassau Co. 1966), the court ruled that a restraining notice had no effect as to 90% of a bank account, even though no income execution had been served.

\textsuperscript{510} Federal Consumer Credit Protection Act, 15 U.S.C. § 1671. This act permits garnishment to rise to 65% if family support obligations are due and owing.

\textsuperscript{511} CPLR § 5231(b)(i) & (ii).

\textsuperscript{512} Id. § 5231(b)(i).

\textsuperscript{513} Id. § 5231(c)(ii).

\textsuperscript{514} Id. § 5231(b)(ii).

\textsuperscript{515} Amounts paid must first be applied to current obligations; only the surplus can be applied to retire the arrears. Smith v. ABC Co., 2005 N.Y. LEXIS 3467, at *13-*14 (Fam. Ct. Nassau Co., September 29, 2005).

\textsuperscript{516} For purposes of these limits, property settlements are not considered support obligations; the creditor must resort to regular income executions, where only 10% can be obtained. Brody v. Brody, 196 A.D.2d 308, 609 N.Y.S.2d 191 (1st Dept. 1994); Maloney v. Maloney, 140 Misc. 2d 852, 532 N.Y.S.2d 203 (S. Ct. Richmond Co. 1988). In Kahn v. Trustees of Columbia University, 109 A.D.2d 395, 492 N.Y.S.2d 33 (1st Dept. 1985), JC had served a regular income execution with regard to a judgment for conversion of a joint bank account and also had a support turnover order pursuant to § 5242. JD asserted that, since the payment order exceeded 25% of earnings, AD should not pay the income execution. The court ruled, rather questionably, that the money judgment for conversion of the bank account was for the "support" of JC and could be included in the 50% limit imposed by § 5241(g).


\textsuperscript{518} CPLR § 5241(g) (fourth sentence).

executions. A support income execution can capture up to 65% of personal earnings. But if it absorbs more than 25%, no other regular income execution can be honored. If, on the other hand, the support income execution captures, say, 23% of earnings, then the regular income execution may get 2%. Family support obligations have priority over executions on other kinds of debt. So where the family’s income executions are second in time but occupy the 25% or more of wages, ordinary income execution creditors will obtain nothing.

A divorced JD may be paying support voluntarily when served with a regular income execution. May JD claim that the voluntary support payments exhaust the 25% maximum to which JC is entitled, thereby defeating the income execution? The statute requires that a support income execution must exist to soak up the 25% before JC’s regular income execution is blocked. Nevertheless, courts have used the mandate of § 5240 to change the rules to give JD the credit the statute so stingily denied.

A strange collision between CPLR § 5231(b) and Debtor & Creditor Law § 151 can occur. The latter section permits ADs to set off their obligation to JD against JD’s obligation to them, thereby defeating a levy. In Franklin National Bank v. Brita Homes Corp., AD made cash advances to JD on commissions not yet earned. The court ruled that these loans were not earnings and so could not be garnished by an income execution. But when the commissions were earned, presumably AD’s setoff right would defeat the levy. So any JD who can arrange to be paid in advance can render herself judgment proof from income executions. Advance pay is a mere loan, not earnings. The setoff right of the employer assures that JC never gets a dime.

The regular income execution only encumbers 10% of income. But, according, to § 5205(d), 90% of earnings are exempt. "except such part as a court determines to be unnecessary for the reasonable requirements of the judgment debtor and his dependents." If some of the 90% is unnecessary in this way, the judgment creditor can obtain an installment payment order under CPLR § 5226. This permits low-priority creditors to jump to the head of the line. Suppose JC1 has served an income execution and is receiving the 10% of the income permitted by § 5231(b). JC2 might steal a march and obtain an installment payment order that requires JD to pay extra "unnecessary" wages directly to JC2, even though JC1 has not been paid in full.

Putting aside the above point, priorities are different for income executions, compared to non-income executions. Plain vanilla executions are subject to a "first to levy" rule: the officer who first levies establishes priority for all creditors who have delivered executions to that officer. Income

520 CPLR § 5231(b)(iii).
521 CPLR § 5241(h).
523 CPLR § 5231(b)(iii).
525 See also CPLR § 5231(i) ("At any time, the judgment creditor or the judgment debtor may move, upon such notice as the court may direct, for an order modifying an income execution").
526 Midlantic Nat'l Bank/North v. Reif, 732 F. Supp. 354, 358 (E.D.N.Y. 1990); American Express Centurion v. Melia, 155 Misc. 2d 587, 589 N.Y.S.2d 290 (S. Ct. Kings Co. 1992). In Spatz Furniture Corp. v. Lee Letter Service, Inc., 52 Misc. 2d 291, 276 N.Y.S.2d 219 (S. Ct. N.Y. Co. 1966), aff'd, 54 Misc. 2d 359 (1st Dept. 1967), JC consented to a reduction, and so AD reduced withheld amounts paid to JC, which meant that JC’s payout took longer. This was held prejudicial to JC. So AD had to pay, in effect, damages to JC. Had JC moved for a court order reducing the withholding, AD would have avoided this liability.
529 If the advances are contractually mandated, however, they are leviable debts. Publishers Distrib. Corp. v. Independent News Co., 55 A.D.2d 571, 390 N.Y.S. 2d 77 (1st Dept. 1976).
530 CPLR § 5205(d)(2).
531 Emphasis added.
534 CPLR § 5234(b).

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executions are not subject to a first-to-levy rule. Where different officers deliver executions to the debtor at different times, the creditor who first delivered an income execution to an officer has priority.\footnote{535} Priority is also preserved after the officer returns an income execution unsatisfied.\footnote{536} So if the second sheriff receives an income execution after the first sheriff has returned an income execution, the first income execution still has priority, provided a new sheriff receives an income execution from the same \textit{JC} within twenty days of the return.\footnote{537} With simple executions, return means that the associated execution lien is dead.\footnote{538} On the other hand, an income execution dies if a debtor quits his job; a new income execution served on a new employer has priority over the earlier execution directed toward the first employer.\footnote{539}

With regard to income executions for support, a levy pursuant to § 5242 takes priority over any other levy.\footnote{540} If two such levies exhaust the applicable limit on deductions, the levies share pro rata.\footnote{541}

It seems to be assumed that a radical chasm exists between ordinary executions and income executions. But is this distinction justified on the language of the CPLR? Why couldn't a sheriff who has received an income execution levy a bank account? Nothing in the CPLR prevents such a conclusion. An income execution has extra requirements that exceed the requirements of an ordinary execution, but perhaps that means that every income execution is also a regular execution. Nevertheless, income executions have extra disabilities, compared to ordinary executions. Income executions must be served on \textit{JD} twenty days before any levy.\footnote{542} In the case of support income executions, the execution may be issued by the sheriff directly;\footnote{543} this is not true for ordinary executions. So where a sheriff issues a support income execution, this could not also serve as an ordinary execution.

At least one court\footnote{545} and the leading treatise\footnote{546} deny the proposition that income executions are also ordinary executions, mainly in the name of making sense of the entire system. But there is no real need for this denial. For instance, suppose \textit{JC}_1 serves an income execution on the sheriff, and \textit{JC}_2 serves an ordinary execution. The sheriff then levies \textit{AD} with regard to a bank account. The world will not dissolve if the sheriff gives priority to \textit{JC}_1 as the first to deliver an execution.

In \textit{Beneficial Fin. Co. of New York v. Baker},\footnote{547} \textit{JC} served an execution on the sheriff. Thereafter, \textit{JD} assigned his wages\footnote{548} to \textit{SP}, and \textit{SP} notified the employer of the assignment. Nevertheless, \textit{JC}'s execution lien had priority over the voluntary assignment. This could be true only if \textit{SP} did not qualify for the exceptions in either CPLR § 5202(a)(1) or (2), suggesting that somehow income executions are simply different from ordinary executions. But why should this be so? If the preamble of CPLR § 5202(a) applies to create a lien on wages when the execution was delivered to the sheriff, why shouldn't the exceptions to the preamble apply as well?

\footnotesize

\begin{itemize}
\item\footnote{535}{CPLR § 5231(j); see \textit{National Bank v. State Tax Commissioner}, 106 A.D.2d 377, 482 N.Y.S.2d 508 (2d Dept. 1984) (minor misspelling of \textit{AD}'s name in execution did not invalidate \textit{JC}'s priority).}
\item\footnote{536}{\textit{Id.} CPLR § 5230(c), however, makes clear that income executions need not be returned in sixty days, as is true of regular executions. Yet § 5231(j) refers to the return of income executions.}
\item\footnote{537}{\textit{Id.} § 5231(j) (last two sentences).}
\item\footnote{538}{There is some doubt as to this, however. See \textit{supra} text accompanying notes 160-66.}
\item\footnote{539}{Lischer v. Halsey-Reid Equipment, Inc., 63 Misc. 2d 637, 313 N.Y.S.2d 136 (S. Ct. Erie Co. 1970).}
\item\footnote{540}{CPLR § 5242(h).}
\item\footnote{541}{\textit{Id.}}
\item\footnote{542}{\textit{Id.} § 5231(d).}
\item\footnote{543}{\textit{Id.} § 5241(b)(1).}
\item\footnote{544}{\textit{Id.} § 5230(b).}
\item\footnote{545}{Yeh v. Seakan, 119 Misc. 2d 681, 683, 464 N.Y.S.2d 627, 629 (S. Ct. Oneida Co. 1983).}
\item\footnote{546}{\textit{WEINSTEIN ET AL., supra} note 25, ¶ 5202.07 ("With an income execution, the only thing that the sheriff can levy upon is the judgment debtor's paycheck and not his property in general").}
\item\footnote{547}{43 Misc. 2d 546, 251 N.Y.S.2d 556 (S. Ct. Monroe Co. 1964).}
\item\footnote{548}{Wage assignments are not covered by Article 9 of the UCC. UCC § 9-106(d). Rather, they are governed by N.Y. Personal Property Law § 46 \textit{et seq}. Voluntary wage assignments seem to have gone the way of the dinosaur. There has been no reported litigation concerning them for at least twenty years.}
\end{itemize}
H. Executions Liens as Voidable Preferences

One of the things bankruptcy is supposed to do is to prevent unsecured creditors from rushing to the courthouse to obtain judicial liens. A key tool for accomplishing this goal is voidable preference law. To oversimplify, voidable preference law guarantees that any judicial lien attaching to a debtor's property within 90 days of the debtor's bankruptcy petition is a voidable preference. This federal principle has a chilling effect on obtaining a lien under state law, as JD can always defeat the lien by filing for bankruptcy within 90 days.

In order to avoid a preference, the trustee must prove six elements. First, there must be a transfer of debtor property. A "transfer" is defined broadly to include "the creation of a lien." Third, the transfer must be "for or on account of an antecedent debt owed by the debtor." This requirement is guaranteed in the case of a judicial lien, as the debt on which it is based precedes the declaration of the lien. Fourth, the lien must be created when the debtor is insolvent. Fifth, the transfer must occur within 90 days of bankruptcy. Finally, the lien must allow the creditor to get more than she would have received if the lien were never created and the creditor simply took the dividend from a hypothetical liquidation of the debtor's estate instead. This test is automatically met whenever an unsecured creditor becomes secured, if the debtor is insolvent on the day of bankruptcy. If the trustee proves the prima facie case against a judicial lien, no defense will save it from doom.

It would seem that, so long as the judicial lien is more than ninety days old at the time of bankruptcy, JC (if not an insider) will be a secured creditor in the bankruptcy. This assures that JC will always obtain the value of the collateral in question. But things are not so simple. Federal law casts a strange hoodoo on the clock when it is time to figure out when a debtor actually transferred property. The question of when is crucial for no less than three of the six elements of the trustee's prima facie case of voidable preference.

According to Bankruptcy Code § 547(e)(2)(A), a transfer is deemed to occur when it occurs, but only if it is "perfected" within thirty days of the transfer. This thirty-day "grace period" was lengthened in 2005 from the mean-spirited ten-day grace period of the original Bankruptcy Code.

Perfection is defined as follows by Bankruptcy Code § 547(e)(1):

For the purposes of this section:

549 Acme Harvester Co. v. Beekman Lumber Co., 222 U.S. 300, 308 (1911) ("the policy and purpose of the Bankruptcy Act [is] to hold the estate in the custody of the court for the benefit of creditors after the filing of the petition . . . To permit creditors to attach the bankrupt's property between the filing of the petition and the time of adjudication would be to encourage a race of diligence to defeat the purposes of the act and prevent the equal distribution of the estate among all creditors of the same class which is the policy of the law.").


551 11 U.S.C. § 547(b) (preamble).

552 Id. § 101(54)(A).

553 Id. § 547(b)(1).

554 Id. § 547(b)(2).

555 Id. § 547(b)(3). Insolvency is presumed in the ninety day period preceding the bankruptcy petition. Id. § 547(f).

556 Id. § 547(b)(4)(A). There is a one-year period for insiders, which will typically be triggered in intra-family litigation. Id. § 547(b)(4)(B).

557 Id. § 547(b)(5).

558 1 GILMORE & CARLSON, supra note 225, § 2.05. In fact, the debtor is presumed to be insolvent at all times 90 days before the bankruptcy petition. 11 U.S.C. § 547(g). In Barr v. National Aircraft Servs. (In re Cosmopolitan Aviation Corp), 34 B.R. 592 (Bankr. E.D.N.Y. 1983), a judicial lien survived even though created within 90 days of bankruptcy because the trustee did not carry the burden of proof on § 547(b)(5), but given the presumption, the trustee should have prevailed.

559 The trustee has the burden of proof on each of the above elements. 11 U.S.C. § 547(g).


561 Timing of the transfer is important for figuring out whether the transfer was on antecedent debt, whether the debtor was insolvent at the time of the transfer, and whether the transfer was within 90 days of bankruptcy (one year for insiders).
(B) a transfer of a fixture or property other than real property is perfected when a creditor on a simple contract cannot acquire a judicial lien that is superior to the interest of the transferee.

So every transfer must be tested against a hypothetical judicial lien under state law. If the transfer is no good against a subsequent judicial lien, it is an unperfected transfer.

Suppose perfection does not occur within the thirty day grace period. Then, according to Bankruptcy Code § 547(e)(2)(B), the transfer does not occur when it occurs. Rather, it occurs when it is perfected. This can be very bad news for a creditor. It can place a transfer within the ninety day period, even though the transfer occurred earlier.

A New York judicial lien must therefore be tested against yet another hypothetical New York judicial lien. We discover that, under CPLR § 5202(a), an execution lien is created when an execution is delivered to the sheriff. But CPLR § 5234(b) and (c) impose a complex priority rule. Where all creditors have served executions on the same enforcement officer, priority is decided by the order in which the executions are delivered. If we stopped here, we could affirm that execution liens are always self-perfecting transfers, and we would never have occasion to apply the time-deferring rule of § 547(e)(2)(B). But it is also possible for executions to be delivered to different enforcement officers. If this occurs, the first officer to levy establishes priority for her portfolio of creditors, compared to the creditors who served slower, flatfooted officers. For example, imagine the following scenario:

**Twelfth Scenario**

*December 1, 2006: JC1 serves an execution on the federal marshal.*
*January 1, 2007: The start of the preference period.*
*March 1: The marshal levies on the debtor's property.*
*April 1: JD files for bankruptcy.*

Now imagine a hypothetical creditor—JC2. This creditor could serve an execution on the sheriff on December 2. If the sheriff were to levy before the marshal—say on February 28—then JC2 would have priority to any proceeds generated by the sheriff's execution sale. This possibility proves that JC1's execution lien was not perfected until March 1. Only after March 1 does JC2 lose the capacity to get a senior judicial lien. So, according to Bankruptcy Code § 547(2)(B), JC1 received a transfer on March 1, well within the preference period. JC1 therefore has received a voidable preference, even though, under New York law, JC1 has an execution lien on December 1.

In order to arrive at the conclusion that March 1 is the date of the transfer (because that was the date of perfection and perfection was more than thirty days after the lien was created on December 1), I imagined JC2 who (1) served an execution on an officer other than the federal marshal and (2) this make-believe sheriff levied before the federal marshal did. Am I allowed to imagine, not only the creation of a subsequent judicial lien, but also a levy pursuant to the creation? To ask the same question in different words, in my fiction, my dream of passion, may I force my soul so to imagine a subsequent perfected judicial lien, or am I limited to imagining the creation of an unperfected execution lien (which would be potentially but not necessarily senior to JC1's actual judicial lien)? Unfortunately, the Bankruptcy Code does not spell out any limitations on what a bankruptcy trustee may imagine in testing JC1's judicial lien. Nevertheless, several New York bankruptcy courts have limited the imaginary exercise to the creation of a competing judicial lien. They have not permitted the bankruptcy

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563 What if a transfer is never perfected? Since voidable preferences are pre-bankruptcy transfers, Bankruptcy Code § 547(e)(2)(C) provides that the unperfected transfer is deemed made slightly before the bankruptcy petition.
564 See Musso v. Ostashko, 468 F.3d 99, 102 (2d Cir. 2006) ("the so-called 'strong arm' provision of the Bankruptcy Code--gives the bankruptcy trustee the rights of a hypothetical perfected judgment lien creditor as of the petition date") (emphasis added). Although this remark concerns Bankruptcy Code § 544(a), not voidable preference law, both concepts require the imagination of attributes of a hypothetical judicial lien.
trustee to imagine a levy following that creation.\footnote{565} Another court, however, has ruled that an execution lien is unperfected until the sheriff levies; therefore any judicial lien is invalid if the levy is within 90 days of bankruptcy. \footnote{566}

In fact, even if the bankruptcy trustee’s imagination is too impoverished to conceive of a levy, the bankruptcy trustee can still show that execution liens are unperfected until the time of levy. In New York, we do not even need to imagine a competing levy. An alternative scenario goes as follows. Suppose on February 28, JC\(_2\) obtains a turnover order requiring the debtor or a third party to turn property over to the sheriff, and suppose this turnover order is filed with the clerk on the same day. Such an equity lien is guaranteed priority over JC\(_1\) at any time before the sheriff levies on behalf of JC\(_1\). CPLR \(\S\) 5234(c) makes clear that the filing of a turnover order establishes priority for JC\(_2\). JC\(_2\)’s senior judicial lien is a self-perfecting one. Therefore, by simply imagining equity lien creation (without any subsequent lien perfection), I can show that JC\(_1\)’s execution lien is not perfected.

The matter stands differently with income executions. Here CPLR \(\S\) 5231(j) makes clear that the first creditor to serve any enforcement officer with an income execution establishes priority. True, an ordinary income execution falls to an income execution for a domestic support obligation. But the perfection test of \(\S\) 547(e)(1)(B) requires that I imagine a creditor suing for breach of a simple contract. This limit on my imagination precludes me from finding JC\(_1\) unperfected when JC\(_1\) serves an income execution.\footnote{567} Therefore, so long as the income execution is served more than ninety days before bankruptcy, the creditor in question has not received a voidable preference.

Where JC is an intra-family creditor seeking to enforce a support obligation, the lien arising from an income execution may not be a voidable preference, even if JC serves the execution within the preference period. After 2005, JC’s claim for a domestic support obligation is entitled to the highest possible bankruptcy priority for unsecured creditors—higher even than administrative claims.\footnote{568} If the debtor has sufficient unencumbered assets to pay this highest of all the priorities, then JC has not received a voidable preference. Under the hypothetical liquidation test of \(\S\) 547(b), if JC were to surrender her judicial lien and enter into a hypothetical chapter 7 liquidation, JC might still receive a 100\% dividend. Accordingly, the judicial lien might not be preferential. Such a finding does not even require a level of assets sufficient to cover JC’s priority. JC will have the highest right of distribution. So what JC loses by surrendering the judicial lien JC gets back under her \(\S\) 507(a)(1) priority. This means that a bankruptcy trustee can never undo a judicial lien for a domestic support obligation.

Income executions in New York are not voidable preferences, if the sheriff has served the employer more than 90 days before a debtor’s bankruptcy petition. This was the holding of Ridder v. Saratoga Hospital (In re Ridder).\footnote{569} The court ruled that JC did not receive a voidable preference, even though actual payments and services performed by JD occurred during the preference period.\footnote{570}


\footnote{568} 11 U.S.C. \(\S\) 507(a)(1).

\footnote{569} 647 F.2d 342 (2d Cir. 1981).

\footnote{570} The avoidance action was brought by JD, not the bankruptcy trustee, pursuant to Bankruptcy Code \(\S\) 522(h). Debtors are able to bring voidable preference cases to recover exempt property only if they have not made voluntary transfers of the property in question. 11 U.S.C. \(\S\) 522(g)(1)(A). The wages were exemptible under Bankruptcy Code \(\S\) 522(d)(5)—a wild card that allows any type of property to be exempted. In 1981, however, the New York legislature would prohibit New York debtors from choosing federal exemptions. Today, debtors wishing to challenge garnishments as voidable preferences must assert the cash exemption in New York Debtor & Creditor Law \(\S\) 283. Price v. Manufacturers & Traders Trust Co. (In re Price), 266 B.R. 572, 574 (Bankr. W.D.N.Y. 2001). Or they could show that bank accounts contain wages from the un garnished portion. McMahon v. Nourse (In re McMahon), 70 B.R. 290 (Bankr. N.D.N.Y. 1987). But only wages earned within 60 days before the garnishment are properly exempted. CPLR \(\S\) 5205(d)(2); In re Wrobel, 268 B.R. 342 (Bankr. W.D.N.Y. 2001). Meanwhile, nothing in CPLR \(\S\) 5205 would sustain an exemption in the 10% of wages actually paid over to the sheriff.
Although many have attacked this position, it is perfectly correct. JD's "job" is what Article 9 would call an account (if Article 9 applied to wages). The fact that the account is contingent on JD's work does not change the fact that the account existed as soon as JD was hired. When JC delivered the income execution to the sheriff prior to the preference period, JC obtained a property interest in that account at that time. In fact, the levy is quite irrelevant to the analysis. JC's lien depends on delivery to the sheriff, not on the levy. Properly, this result should hold even if the sheriff never serves the debtor or the employer with the income execution.

Furthermore, suppose the sheriff serves JD, as CPLR § 5231(d) requires, and JD makes voluntary payments to the sheriff. The voluntary payments are transfers of debtor property within the 90 day preference period, but it is also true that JC has a judicial lien on the employment contract which is valid in bankruptcy, provided the income execution was delivered to the sheriff before the preference period. As a result, every dollar voluntarily paid to the sheriff releases a dollar of wages encumbered by the judicial lien. As a result, JD's payment to the sheriff, a prima facie voidable preference, is defended by Bankruptcy Code § 547(b)(1), which excuses preferences if contemporaneous with the release of a lien. The only case on this subject, however, misses this point.

Once the bankruptcy commences, failure of the creditor to take voluntary affirmative steps to halt the "continuing levy" of garnishment violates bankruptcy's automatic stay provision. For this the creditor could be liable in damages. The garnishment itself, though a valid lien on the debtor's pre-petition property, dissolves of its own accord under the authority of Local Loan v. Hunt. In that case, a voluntary wage assignment was proclaimed automatically dissolved in the name of bankruptcy's fresh start principle, even though the assignment was valid under Illinois law. And if pre-petition voluntary wage assignments dissolve from post-petition wages, surely an involuntary assignment (i.e., a garnishment) does too.

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572 Article 9 disavows jurisdiction over wage assignments. UCC § 9-106(d).
573 David Gray Carlson, Security Interests in the Crucible of Voidable Preference Law 1995 U. ILL. L. REV. 211, 238. The reasoning in Riddervold, however, is different. There Judge Henry Friendly ruled that, when AD paid the sheriff after the levy, AD was not transferring JD's property. Rather, after the levy, JC owned the wages. 647 F.2d at 346 ("service of the income execution on the employer in effect works a novation whereby the employer owes 10% of the employee's salary not to the employee but to the sheriff for the benefit of the judgment creditor"). This is untenable as stated. Imagine that JD pays JC the amount of the judgment on the side. Properly, this payment cancels the levy. The 10% payable to JC should now be paid to JD. On Judge Friendly's reasoning, since JC owns the wages outright, payment to JC would not affect JC's continuing right to receive 10% of the wages.
575 "First to deliver" is the rule for income executions, but it is not necessarily the rule for ordinary non-income executions. With regard to the latter, JC might serve an execution to the sheriff first, but JC might still have priority if JC serves an execution on a federal marshal who is the first to levy. CPLR § 5234(b). As a result, the execution lien is unperfected prior to levy, for the purposes of § 547(e)(2)(a).
576 1 GILMORE & CARLSON, supra note 225, § 3.02. Release of valid liens is defined in Bankruptcy Code § 547(a)(2) to be new value.
577 In re Lawrence, 18 B.R. 360 (Bankr. E.D.N.Y. 1982).
578 11 U.S.C. § 362(a)(2) (forbidding "the enforcement, against the debtor or against property of the estate, of a judgment obtained before the commencement of the case under this title"). On a creditor's duty under Bankruptcy Code § 362(a) to put the debtor back into possession of property, see 1 GILMORE & CARLSON, supra note 225, § 13.09 (2000).
580 292 U.S. 234 (1934).
II. Equity Liens

In ancient times, the writ of execution was deemed the "legal" remedy for a money judgment. Equitable remedies existed, but these were subject to the rule that equity disdained to intervene if a legal remedy proved adequate. So, unless the sheriff returned an execution unsatisfied, or nulla bona, or unless the property was "equitable" (inherently not subject to execution), the equitable remedies were not available.582

If the execution was indeed nulla bona, the creditor could file a "creditor's bill in equity." The creditor's bill was a grab-bag of equitable remedies, including the right to a turnover order directing JD or AD to pay or to surrender property to the sheriff, the right to have a receiver appointed to liquidate property, the right to discovery against JD or AD in order to locate JD's loot, and restraining orders, prohibiting JD or AD from transferring JD's property.

When New York adopted the Field Code in 1848, a series of provisions introduced many of the above ideas under the rubric of a supplementary proceeding.583 As with the creditor's bill, a supplementary proceeding was initially possible only if the execution were returned nulla bona. In 1935, however, the legislature abolished the requirement of the execution nulla bona.584 Today it is possible for judgment creditors to proceed directly to the equitable remedies.

A. Creation

Heretofore we have considered mainly the execution lien. Yet CPLR § 5202(b) also provides liens in connection with "the securing of an order for delivery of, payment of, or appointment of, a debt owed to the judgment debtor or an interest of the judgment debtor in personal property. . . " Strangely, when these equity liens come up against levies pursuant to executions, the equity lien's priority depends on when the order "is filed."585 If a sheriff levies property after the judgment creditor has "secured" an order from a judge but before the county clerk "files" the court order, the sheriff has priority. Or if JC1 "secures" an order first, but the clerk "files" JC2's order first, JC2 prevails.586 This gap is no doubt the result of legislative negligence.

Once created, the equity lien is vulnerable to "a transferee who acquired the debt or property for fair consideration and without notice of such order."587 This vulnerability exists whether or not the property is capable of delivery. In this sense, the equity lien is weaker than the execution lien, where the sheriff has levied property capable of delivery. Following such a levy, bona fide transferees for value do not take free of the execution lien. This is no doubt because a levy of such property implies dispossession of JD–a warning to anyone who seeks a transfer from JD. With equity liens, however,

582 "Proceedings supplementary to execution are remedies in equity for the collection of the creditor's judgment, and were intended as a substitute for the creditor's bill, as formerly used in chancery. In such cases it was the settled rule that unless the creditor had exhausted all his remedies at or in case he was not a position to avail himself of all the ordinary remedies which courts of law gave for the enforcement of judgments, the bill in equity could not be maintained and would be dismissed." Importers & Traders' Nat'l Bank v. Quackenbush, 143 N.Y. 567, 571, 38 N.E. 728 (1894). As a practical matter, if the judgment debtor did not contest the bill, inquiry into the adequacy of the legal remedy was waived. Cohen, Supplementary Proceedings, supra note 6, at 1013.

583 The Field Code was displaced by the Throop revision of the Code of Civil Procedure in 1876, which in turn was overthrown by the Civil Practice Act in 1920. Isadore H. Cohen, Attachment of Property Fraudulently Transferred in New York: The Influence of Abstractions on the Rights of Creditors, 49 Colum. L. Rev. 501, 516 (1949) [hereinafter cited as Cohen, Property Fraudulently Transferred]. The CPLR went effective on September 1, 1963.


585 CPLR § 5234(c).

586 See CPLR § 5234(c) (second sentence) ("where two or more such orders affecting the same interest in personal property or debt are filed, the proceeds of the pp or debt shall be applied in the order of filing"). An untenable suggestion appears in the leading treatise: perhaps an order to a third party under § 5225(a) is merely a judgment against the third party, which must be enforced by execution. Weinstein et al., supra note 25, ¶ 5225.06a. The language of § 5225(b) is clearly injunctive; if AD violates it, she is in contempt of court. CPLR § 5210. Besides, if the property is not capable of delivery, execution culminates in a paper levy, which is not enforced by the sheriff but rather must be enforced by a turnover proceeding. See supra text accompanying notes 185-215. So the suggestion ends up, in this context, requiring two turnover proceedings instead of one.

587 CPLR § 5202(b).
JD or perhaps AD stays in possession, at least initially. This provides no notice to bona fide transferees. Oddly, suppose JD obeyes a turnover order and hands property capable of delivery over to the sheriff. Though dispossessed, JD still has the power to give better title to a good faith transferee for value. So if the sheriff possesses property capable of delivery by levy, JD is disempowered. If the sheriff possesses turned-over property, JD's power continues.

Suppose, however, that the sheriff holds an auction where X is the buyer. Can X be confident that JD's power to convey free of the lien has finally been laid to rest? There is nothing on the face of the CPLR to give X any such assurance—yet more testimony to the negligence with which the CPLR was drafted.

According to CPLR § 5202, equity liens arise, not when an equitable action is commenced, but when the action terminates with the "securing" of an order. Thus, if JC commences a turnover proceeding and JC manages a levy before the conclusion of the turnover proceeding, JC snatches the laurel wreath of priority from the brow of JC. This is a change from prior law. In Metcalf v. Barker, for example, JC commenced a turnover proceeding with regard to fraudulently conveyed assets eighteen months before bankruptcy. It secured a turnover order five months before bankruptcy. The order was filed within four months of bankruptcy. Under the Bankruptcy Act of 1898, any lien obtained within four months of bankruptcy was null and void. The creditor, however, escaped this avoidance theory because its equity lien was created when the turnover proceeding was commenced, more than a year beyond the fatal four-month period. In modern times, the equity lien would have been judged from the time it was secured or perhaps filed.

Commencement of a turnover proceeding does not create a lien, but it does perpetuate a levy. According to the eighth sentence of CPLR § 5232(b):

At the expiration of ninety days after a levy is made by service of the execution . . . the levy shall be void except as to property or debts which have been transferred or paid to the sheriff . . . or as to which a proceeding under Sections 5225 or 5227 has been brought.

Significantly, the mere bringing of the turnover proceeding extends the execution lien past the ninety days. Where there has been no levy, the turnover order must be "secured" before the creditor has a lien. The rejection of the rule of Metcalf v. Barker for lien creation has a convoluted history. In the nineteenth century, writs of execution could not reach intangible property of the debtor—a limitation abolished in 1952. The only way for a creditor to reach intangible property was by bringing a supplementary proceeding, as the remedy of execution was per se not possible. In such supplementary proceedings, the creditor had a lien at the commencement of the case, or so it was agreed by the end of 19th century.

588 At least when a creditor sought the appointment of a receiver, the supplementary proceeding was deemed commenced when a subpoena was served on the debtor, when a subpoena was delivered to a third party (but the lien bound only property controlled by the third party), or when the debtor received notice that the creditor would seek the appointment of a receiver, whichever was earlier. Former Civil Practice Act § 808.
589 Kitson & Kitson v. City of Yonkers, 778 N.Y.S.2d 503 (2d Dept. 2004); This is indicated by the negative pregnant in the first sentence to § 5234(c); see City of New York v. Panzirer, 23 A.D.2d 158, 259 N.Y.S.2d 284 (1st Dept. 1965).
590 187 U.S. 165 (1902).
591 Bankruptcy Act of 1898, § 67f.
593 For the record, a bankruptcy trustee would prevail for a different reason. In Metcalf, JC obtained a lien on fraudulently conveyed property by commencing an supplementary proceeding. Today, provided the trustee could find some other unsecured creditor who could have avoided the same fraudulent conveyances, the trustee could subrogate to the unsecured creditor, 11 U.S.C. § 544(b)(1), and could recover from JC as a transferee of a transferee. 11 U.S.C. § 550(a)(2); David Gray Carlson, The Logical Structure of Fraudulent Transfers and Equitable Subordination 44 WM. & MARY L. REV. 157, 179-80 (2003).
596 Cohen, Supplementary Proceedings, supra note 6, at 1015-17 (describing the back-and-forth history of equitable lien commencement). Earlier, it was sometimes suggested that equity must treat all creditors equal, so that anyone who intervened in a creditor's bill proceeding shared in the bounty. Comment, Priorities of Creditors Under Judgment creditor's Bills, 42 YALE L.J. 919,
With regard to tangible property, however, courts declared that, if JC₁ commenced a supplementary proceeding, she had a lien. But courts also insisted that, if the sheriff levies for JC₂ before the turnover or receivership order was entered, JC₂ took priority. Of course, in ancient days, JC₁ was not entitled to an equitable remedy unless the legal remedy of execution was impossible; the sheriff's levy for JC₂ therefore undercut JC₁’s entitlement to any equitable relief. How could JC₁ claim the legal remedy was inadequate when JC₂ had successfully executed? When, in 1935, the legislature abolished the requirement of the nulla bona execution, this justification for the priority of the sheriff's levy dissolved. Nevertheless, the priority of JC₁’s levy absurdly continues on.

After 1952, it became possible for the sheriff to levy property not capable of delivery. This new power of the sheriff extended the realm of conflict between the execution and the equity liens. Both tangible and intangible property were now up for grabs. As matters stood on the eve of the CPLR, the creditor who commenced an equity proceeding had a lien, but the lien would fall to an actual levy by the sheriff. Where two creditors each commenced supplementary proceedings, the first to commence the action would prevail. Bona fide purchasers could take free and clear of a receiver until the receiver was actually appointed. No express bona fide purchaser rule existed outside the context of receivership.

The CPLR drops the notion that commencement of the supplementary proceeding is the moment of lien creation. Substantively, the greatest effect of the CPLR’s innovation is to change the rules for two creditors who both seek equitable relief. Today, the first creditor to secure the relief and have the order filed by the clerk prevails.

Deferral of lien creation from commencement to the conclusion of a supplementary proceeding is regrettable. Of considerable interest, then, is a recent case that ignores CPLR § 5202(b) in favor of

903 (1933).
597 Doubt was expressed on that score. First National Bank v. Shuler, 153 N.Y. 163, 172, 47 N.E. 262, 264 (1897) (“But in respect of chattels, subject to be taken on execution, the mere commencement of the action creates no lien as against other creditors, and if any lien whatever exists, it is so incomplete and imperfect that it is subject to be overreach by a subsequent levy in favor of other creditors, made before the appointment of a receiver”) (citations omitted).
598 Davenport v. Kelly, 42 N.Y. 193 (1870); Van Alstyne v. Cook, 25 N.Y. 489 (1862) (equity action started at 2 p.m.; levy occurred at 5 p.m.; see Kitchen v. Lowery, 127 N.Y. 53, 60, 27 N.E. 357, 3581 (“the commencement of an action in the nature of a creditor’s bill creates a lien upon the choses in action and equitable assets of the judgment debtor. It does not create a lien upon his tangible personal property subject to levy by an execution, unless he procures a receiver to be appointed.”); Note, Priorities Among Judgment Creditors Pursuing Statutory and Equitable Remedies in New York, 29 COLUM. L. REV. 504, 510 (1929) (“It would seem therefore that . . . manual seizure is the acme of vigilance”).
600 Distler & Shubin, supra note 8, at 494.
603 Former Civil Prac. Act § 808 (last sentence). This provision was somewhat complex. Former § 807 provided that a receiver could require a debtor's property upon being appointed. Section 808 then imposed a “relation back” rule to the beginning of the proceeding. The bona fide purchaser protection occurred only in § 808, meaning that no bona fide purchaser protection existed after the receiver's appointment. Isadore H. Cohen, Collection of Money Judgments in New York: Third Party Orders, 35 COLUM. L. REV. 1196, 1209 (1935) [hereinafter cited as Cohen, Third Party Orders].
604 A concurring Court of Appeals judge once suggested that bona fide purchasers took free and clear of turnover orders. Lynch v. Johnson, 48 N.Y. 27, 33 (1871) (Earl, J., concurring).
605 CPLR § 5202(b).
606 See CPLR § 5234(c) (second sentence).
607 So, for example, the result in Hubbard v. J.P. Lewis Co., 128 A.D. 416, 112 N.Y.S. 1050 (4th Dept. 1908), would surely be different. In Hubbard, JC₁ commenced a supplementary proceeding seeking appointment of a receiver. Before the receiver was appointed, AD (who had been served with notice of the supplementary proceeding) paid JD. Thereafter, JC₂ had the receivership extended to JC₁’s judgment. See CPLR § 5228(b) (“[w]here a receiver has been appointed, the court, upon motion of a judgment creditor, upon such notice as it may require, shall extend the receivership to his judgment”); Bostwick v. Mench, 40 N.Y. 383, 389-90 (1869) (where a receivership is extended to JC₂, JC₁ still has priority). The effect of the extension was that JC₂ had a lien as of the day he commenced the action seeking the extension. Since AD had paid after JC₁’s commencement (but before JC₂’s extension), the receiver could require AD to pay the receiver the amount of JC₁’s judgment. Beyond that, AD had the right to pay JD free and clear of JC₂. In other words, commencement of the supplementary proceeding was the moment of lien creation. Under the modern CPLR, commencement of the supplementary proceeding does not create a lien, and so AD would have escaped liability altogether.
the non-statutory idea of *in custodia legis*. In *Clarkson Co. v. Shaheen*, JUDICIAL LIENS ON PERSONAL PROPERTY

X responded by claiming the transfer was in good faith and for a fair consideration. While the District Court pondered the bona fides of X, it required X to hand over the equity shares to an officer of the court. Thereafter, the sheriff, on behalf of JC, levied the shares. On these facts, if the matter were governed by the CPLR alone, JC should have prevailed, as JC levied before JC obtained a turnover order. The court nevertheless held for JC; the shares were *in custodia legis* at the time of the levy. Therefore, the court officer held the property in trust for JC. The most JC could have was the surplus.

The *Clarkson* court emphasized that the moment of *in custodia legis* was when X actually delivered certificated shares to an officer of the court. But this seems unnecessary to the decision. Once the *Clarkson* court had jurisdiction over the person of X, the property that X held was already *in custodia legis*. In general, jurisdiction over the person possessing property is jurisdiction over the property itself.

Does *Clarkson* simply override CPLR § 5202(b)? One limitation is that *in custodia legis* is a doctrine wherein different courts respect each other’s power over person and property. So, in *Clarkson*, where a state sheriff sought to levy from a federal receiver, *in custodia legis* established the dignity of the federal court against the state court. Where a state sheriff tries to levy property as to which a turnover proceeding has commenced in New York state court, *in custodia legis* might not apply because there are not two courts competing for jurisdiction. Rather, there is only one court, disappointingly misgoverned by the terms of the CPLR.

**B. Scope**

When a creditor secures a turnover order or receivership, does the creditor have a lien on all of a debtor's property, or only on the property to which the order refers? According to § 5202(b), where a creditor has secured a turnover order or receivership with regard to a debtor or an interest of the judgment debtor in personal property, a creditor's interest in the debt or the property is superior to the rights of a transferee. The emphasized word "the" testifies in thunder against the generality of the lien on all JD's property. If this reading is correct, then a turnover against AD encumbers the debt owed or property held by AD. A turnover order against JD can be general in nature, but if limited to specific assets, the lien would presumably be limited as well.

If this is so, then the CPLR accords with a distinction that anciently existed. Prior to the CPLR, liens were created with the commencement of a supplementary proceeding. Where the proceeding was aimed at AD who owed a debt or held JD's property, then the lien was limited to that debt or that property. Where commencement was against JD, then the lien was general in nature.

**C. Debt v. Property**

footnotes:

608 16 F.2d 126 (2d Cir. 1933).
609 The *Clarkson* court does not discuss the form this levy took. Stock certificates are property capable of delivery. CPLR § 5201(c)(4). But, where the stock is in the "lawful possession of a pledgee," no levy by seizure is permitted. CPLR § 5232(b). Paper levies have been upheld, but only for the fallow purpose of generating poundage fees for the sheriff. See supra text accompanying notes 298-310.
610 CPLR § 5234(c). Actually, not only had JC commenced a turnover proceeding but JC was the first to levy. The lower court therefore concluded that JC’s levy continued to be valid after the 90 day expiration period, even though JC’s turnover proceeding was commenced before the levy. 540 F. Supp. 636 (S.D.N.Y. 1982).
611 Taylor v. Sternberg, 293 U.S. 470, 473 (1934) (bankruptcy estate *in custodia legis* the minute a bankruptcy petition is filed, even though a state receiver had physical possession); Kline v. Burke Constr. Co., 260 U.S. 226, 229 (1922) ("Where the action is in rem the effect is to draw to the federal court the possession or control, actual or potential, of the res, and the exercise impairs, and may defeat, the jurisdiction of the federal court already attached. The converse of the rule is equally true, that when the jurisdiction of the state court has first attached, the federal court is precluded from exercising its jurisdiction over the same res to defeat or impair the state court's jurisdiction.") (emphasis added).
612 For the Full Faith and Credit worth of this lien, see supra text accompanying notes 647-60.
613 Distler & Shubin, supra note 8, at 486.
In the context of execution liens, the New York Court of Appeals has attempted to obliterate the difference between debts garnishable under § 5201(a) and property leviable under § 5201(b).614 Yet this distinction has refused to be obliterated.615 Just as it lives on in the realm of the execution lien, so it lives on in the realm of the equity lien.

If the res in question is a debt, the creditor must proceed under § 5227, which presupposes that the proper party to enjoin is AD.616 If, however, the res is also property, then a court must determine who possesses this property.617 If JD possesses it, JD is the proper party to enjoin under § 5225(a), and JC may proceed by motion. If AD possesses property, then AD should be enjoined pursuant to § 5225(b), which requires a "special proceeding."618 Because under ABKCO Industries, Inc. v. Apple Films, Inc.,619 the difference between debt and property has been largely (but not entirely) erased, CPLR § 5225(b) and § 5227 are "essentially interchangeable."620

The Second Circuit had occasion to address these issues in Alliance Bond Fund, Inc. v. Grupo Mexicano Desarrollo S.A.621 In this case, JD, a Mexican entity, was a subcontractor in a toll road project in Mexico. The project failed, and the contractor could not pay JD. The Mexican government intervened and intimated that it perhaps might issue notes directly to JD or perhaps to the contractor, who would use them to pay JD. Whether the Mexican government had actually committed itself to do this was in dispute.

When JD defaulted on notes issued under a New York indenture, JC commenced a diversity suit in federal court. Prior to judgment, JC alleged that JD planned to assign its rights (whatever they might be) to Mexican creditors. JC requested from the District Court a preliminary injunction to prevent the dissipation of this asset.

Provisional remedies in federal court are governed by Federal Rules of Civil Procedure 64 and 65. Rule 64 incorporates state law by reference, with regard to pre-judgment attachment. Concluding that state law would not support an injunction, the District Court instead issued a preliminary injunction under Rule 65,622 only to be reversed by the United States Supreme Court, on the antiquarian ground that, in 1789, the year of the Judiciary Act, a court of equity would not have given a like injunction.623 The Supreme Court, however, took no position on whether attachment under New York law would have sustained a similar injunction. Had it condescended to examine the matter,624 it would have found that pre-judgment attachment under Article 62 of the CPLR to be a close question. Under Article 62,
the court issues an order of attachment only if the plaintiff can show statutory grounds for it. One of the grounds is that "the defendant, with intent to defraud his creditors or frustrate the enforcement of a judgment that might be rendered in plaintiff's favor, has assigned . . . property. . . . or is about to do [so]." In New York, insider preferences are fraudulent conveyances. Plausibly, the desire to prefer Mexican creditors over their American competitors might constitute grounds for attachment, if patriotic affinity is the same as giving preferences to insiders.

If these preferences were fraudulent conveyances, an order of attachment could have issued. If delivered to the sheriff, a lien is created. The sheriff must levy under the order of attachment. The language relevant to our analysis is CPLR § 6214(a):

The sheriff shall levy upon any interest of the defendant in personal property, or upon any debt owed to the defendant, by serving a copy of the order of attachment upon the garnishee, or upon the defendant if property to be levied upon is in the defendant's possession or custody.

The emphasized language indicates that a valid levy has occurred if the defendant (D) possesses or has custody of personal property. In Grupo Mexicano, the availability of attachment devolves to whether D with a claim against AD "possesses" that claim. If possession means dominion or the legal ability to exclude others, then indeed a levy could be achieved by serving an order of attachment on D. While it was never clear in Grupo Mexicano that the Mexican government was an AD, the defaulting contractor certainly was. So at least to this extent, there could have been a levy, provided that D generally "possesses" the accounts receivable that are owed to him.

If attachment was available, would this have sustained the injunction that the Grupo Mexicano majority struck down? A levy under a New York order of attachment has express injunctive effect only with respect to a garnishee. If a levy occurs, the "garnishee is forbidden to make of suffer any . . . assignment [of] such property." Astonishingly, the New York legislature forgot to provide injunctive effect when D is levied directly. Nevertheless, under CPLR § 6313, a court is expressly authorized to issue a temporary restraining order against D if P can show "immediate and irreparable injury, loss or damages will result unless [D] is restrained before a hearing can be had . . . " This should easily add

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625 CPLR § 6201(3).
627 A near miss is CPLR § 5229:

In any court, before a judgment is entered, upon motion of the party in whose favor a verdict has been rendered, the trial judge may order examination of the adverse party and order him restrained with the same effect as if a restraining notice had been served upon him after judgment.

This provisional remedy is available to federal courts under Rule 64. Sequa Cap. Corp. v. Nave, 921 F. Supp. 1072 (S.D.N.Y. 1996). But it requires the entry of a verdict. Brookhaven Anesthesia Assoc. v. Flaherty, 798 N.Y.S. 343 (2d Dept. 2004). In Grupo Mexicano, the preliminary injunction was issued months before the plaintiff was granted summary judgment. 190 F.3d at 19.

628 CPLR § 6203.
629 Emphasis added.
630 Benedict v. Ratner, 268 U.S. 45 (1925) (under New York law, a debtor has dominion over a receivable until the account debtor is informed of the assignment); but see Harris v. Balk, 198 U.S. 215 (1905) ("It is not a question of possession in the foreign State, for possession cannot be taken of a debt . . . as tangible property might be taken advantage of").
632 But see Michelsen v. Brush, 233 F. Supp. 868, 871 (E.D.N.Y. 1964) (CPLR § 6214 "contemplates service of the attachment order on the defendant only with respect to property 'in the defendant's possession or custody' . . . and, hence, the duty 'forthwith' to deliver or give such property' extends only to property of the tangible kinds capable of delivery that is in defendant's possession or custody").
633 CPLR § 6214(b) (fifth sentence).
the injunctive consequence that the legislature so negligently forgot to supply.\textsuperscript{635}

By the time \textit{Grupo Mexicano} was remanded from its unedifying stay with the Supreme Court, the District Court had granted \textit{JC} a judgment, so the question of pre-judgment attachment was superseded, and the Supreme Court's advice about the preliminary injunction was useless and moot. The preliminary injunction had become a permanent injunction--a restraining order. The propriety of this injunction was not disputed.\textsuperscript{636} In addition, the District Court ordered \textit{JD} to "irrevocably assign or transfer to [JC] a sufficient amount of toll road receivables or government notes to satisfy the judgment . . . "\textsuperscript{637} On further appeal, the issue became whether this court order was justified as a turnover order under CPLR § 5225 or 5227.

\textit{JD} claimed not because its receivables were "debts," not "property." If so, then \textit{JC} could proceed only under § 5227, which would have required action against the two Mexican \textit{AD}s, neither of whom were present in New York. But \textit{JD}'s argument foundered on the shoals of \textit{ABKCO Industries, Inc. v. Apple Films, Inc.},\textsuperscript{639} which sought to erase the distinction between debts and property. So the \textit{Grupo Mexicano} court analyzed only whether the receivables were property.\textsuperscript{640}

According to CPLR § 5201(b), a judgment can be enforced against property only if it "could be assigned or transferred." The court therefore remanded for a finding on this score. But even if the receivables were assignable, the court declined "the invitation to hold that an asset characterized as property for the purposes of § 5201 is necessarily characterizable as property for purposes of §§ 5225 and 5227 as well."\textsuperscript{641} Rather, the court ruled:

\begin{quote}
A judgment creditor seeking a turnover order therefore must show: First, that the asset it seeks to collect has been made available to judgment creditors by § 5201; and second, that the party against which the creditor has chosen to proceed has the ability to produce the asset.\textsuperscript{642}
\end{quote}

This second requirement seems merely to be a restatement of § 5225(a)'s requirement that "the judgment debtor [be] in possession or custody of money or other personal property. . . ". Therefore, we have the same issue as we had for our analysis of pre-judgment attachment: is a debtor in "possession" of her property not capable of delivery?\textsuperscript{643} The answer must be yes. The premise of \textit{Grupo Mexicano} is that debt is property. Property must have a possessor, if possession means the power to exclude (and not mere manucaption). So defined, who but \textit{JD} is eligible to be the possessor? Certainly not \textit{AD}. For

\textsuperscript{635} A post-\textit{Grupo-Mexicano} court has ruled that, where a creditor is likely to succeed on the merits of a fraudulent conveyance, a preliminary injunction under Rule 65 can issue. Trafalgar Power, Inc. v. Aetna Life Ins. Corp., 131 F. Supp. 2d 341 (N.D.N.Y. 2001). This holding, if correct, reduces the significance of the Supreme Court's antiquarian dalliance in \textit{Grupo Mexicano} to near zero.

\textsuperscript{636} Probably because the court, or even \textit{JC}'s attorney as officer of the court, can issue restraining notices. CPLR § 5222.

\textsuperscript{637} 190 F.3d at 19; see CPLR § 5225(c) ("The court may order any person to execute and deliver any document necessary to effect payment or delivery").

\textsuperscript{638} \textit{JD} claimed not because its receivables were "debts," not "property." If so, then \textit{JC} could proceed only under § 5227, which would have required action against the two Mexican \textit{AD}s, neither of whom were present in New York. But \textit{JD}'s argument foundered on the shoals of \textit{ABKCO Industries, Inc. v. Apple Films, Inc.},\textsuperscript{639} which sought to erase the distinction between debts and property. So the \textit{Grupo Mexicano} court analyzed only whether the receivables were property.\textsuperscript{640}

\textsuperscript{639} 190 F.3d at 20; cf. Gadsby & Hannah v. Socialist Rep. of Romania, 698 F. Suo. 483 (S.D.N.Y. 1988) (where illegal restraining order kept bank accounts in place, a turnover order, which could have been authorized, was denied).

\textsuperscript{640} According to CPLR § 5201(b), a judgment can be enforced against property only if it "could be assigned or transferred." The court therefore remanded for a finding on this score. But even if the receivables were assignable, the court declined "the invitation to hold that an asset characterized as property for the purposes of § 5201 is necessarily characterizable as property for purposes of §§ 5225 and 5227 as well."\textsuperscript{641} Rather, the court ruled:

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AD the debt is the opposite of property; it is liability. Therefore, turnover is possible because, in general, a debtor possesses her general intangible property.

 Unless JD had already conveyed away these accounts receivable, it seems quite clear that JD did possess its accounts receivable and could be compelled to execute assignments to the sheriff. This in turn suggests that pre-judgment attachment would have upheld the preliminary injunction the Supreme Court needlessly struck down.

 The rule that emerges from Grupo Mexicano is that persons over whom a court has jurisdiction can be ordered to fetch property located outside New York. In In re Gaming Lottery Securities Litigation, the court did not hesitate in ordering a judgment debtor to collect an amount due from a Scottish bank and bring the proceeds into New York. It found Grupo Mexicano to be consistent with such an order. Similarly, in Gryphon Domestic VI, LLC v. APP Int'l Fin. Co., a debtor was ordered to deliver certificated shares to a New York sheriff, even though the shares were not located in New York and even though a court in Indonesia ordered the debtor not to do this.

 We must then concede a New York court may order a person over whom it has jurisdiction to bring assets back to New York, but until this is done, is there a lien on the assets not yet located in New York? Ironically, the answer seems to be that, just as the ABKCO court sought to erase the distinction between debt and property, the United States Constitution arguably insists upon preserving it.

 With regard to debts, the leading authority is good old Harris v. Balk, a case overruled for its jurisdictional holding, but not for its proposition about the nature of debt, which it presumably borrowed from state law. In Harris, as every first-year law student knows, the Supreme Court remarked: "The obligation of the debtor to pay his debt clings to and accompanies him wherever he goes." Harris suggests that a turnover order issued in New York against a person subject to its jurisdiction creates a lien on a debt that must be recognized nationally. In Harris, JC was in Maryland, JD and AD in North Carolina. On a Maryland sojourn, AD was garnished on behalf of JC. AD paid up. Upon returning to North Carolina, JD sued AD on the debt and won at all levels of the North Carolina

644 According to CPLR § 5232(a) (fourth sentence), "[a]ll property not capable of delivery in which [JD had] an interest . . . thereafter coming into the possession or custody of such a person . . . shall be subject to the levy." So the CPLR oddly refers to AD has possession of its own obligation to JD.

645 My conclusion is contradicted by Harris v. Balk, 198 U.S. 215 (1905), a case on which I will, with some embarrassment, substantially rely. See infra text accompanying notes 650-63. There, the Court states: "It is not a question of possession in the foreign State, for possession cannot be taken of a debt or of the obligation to pay it, as tangible property might be taken possession of." 198 U.S. at 223. In my view, the word possession implies a power to exclude, not physical grasping of a thing.


649 The Gryphon court distinguished pre-judgment attachment cases:

   The defendants' citations to cases involving attachment are inapposite. Clearly, it would violate the sovereignty of another state if a New York sheriff tried to attach property in another state. However, a turnover order merely directs a defendant, over whom the New York court has jurisdiction, to bring its own property into New York. We find no reason why such an order would offend another state's sovereignty, unless the other state has ordered the defendant not to move its property from that state. . . .

41 A.D.3d 25, 31, 836 N.Y.S.2d 4, 6 (1st Dept. 2007). In fact, garnishment in New York is injunctive in nature. So if a turnover order against a debtor is capable of binding the debtor to bringing property to New York, so is a garnishment, provided, of course, that the New York court has jurisdiction over the person of the garnishee.

650 198 U.S. 215 (1905).

651 World-Wide Volkswagen Corp. v. Woodson, 444 U.S. 286, 296 (1980) ("We recently abandoned the outworn rule of Harris v Balk").


courts. The Supreme Court, however, reversed. Ad's payment to the Maryland sheriff extinguished Jd's claim against Ad, and the North Carolina courts were obliged to give this Maryland fact full faith and credit.

In Harris, Ad actually paid the Maryland sheriff. But the result did not turn on actual payment. If Ad had returned to North Carolina without paying, the debt still would have belonged to the Maryland sheriff, as garnishment is an involuntary assignment of property. Jd would have been dispossessed of this payment intangible and would lack the right to collect it, if the garnishment was large enough in size. This analysis, however, no longer pertains in pre-judgment situations because of Shaffer v. Heitner, but it still holds in the post-judgment venue of Grupo Mexicano.

In Harris, the Supreme Court rejected the notion that debts have a location separate from the debtor. Rather, wherever a debtor is, his debt is there too. But the Harris court hints at a constitutional distinction between debts and property, when it remarks (in contradiction to what I said earlier), "It is not a question of possession in the foreign State, for possession cannot be taken of a debt or of the obligation to pay it, as tangible property might be taken possession of." In other words, according to the Supreme Court, intangible property is impossible. Possession is a word relevant to tangible property only.

Four years later, the Supreme Court would widen the divide between tangible and intangible property in the oft derided case of Fall v. Eastin where a Washington divorce court ordered a husband to convey Nebraska land to his wife. When he ungalantly refused, the Washington court issued a decree declaring the wife to be a Nebraska freeholder. The husband then conveyed to X a mortgage on, and later a deed in lieu of foreclosure to, the debatable land. In Nebraska, the wife tried to quiet title against X, but the Nebraska court snubbed the Washington decree and held for X, a refusal upheld by the United States Supreme Court.

Fall applies equally well to judicial liens on tangible personal property. According to New York law, the turnover order creates a lien. But if the tangible personal property is located, say, in Nebraska, a Nebraska sheriff could, sans offense to the Constitution, levy the property in question pursuant to a Nebraska judgment. When it comes to judicial decrees declaring Jc in State A to be the owner of real or tangible personal property located in state B, Full Faith and Credit accords Jc neither faith nor credit. In short, Fall suggests a disjunction between liens on intangible property and liens on tangible property not located in New York.

Nevertheless, it is open for Nebraska to recognize a lien on tangible property located in Nebraska. Should Jd in New York be ordered to deliver Nebraska-located property to a New York

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651 198 U.S. at 222 ("If the debtor leave the foreign State without appearing, a judgment by default may be entered . . . and may be sued upon in any other State where the debtor might be found").
652 In Harris, Ad owed Jd $180. Jc claimed $300 from Jd. If Jc claimed less than $180 from Jd, the garnishment would not have entirely extinguished Ad's obligation to Jd. Jd would still have the right to a surplus.
654 198 U.S. at 223.
656 The matter would have been different if the wife had sought confirmation from a Nebraska court. In such a case, the Nebraska court would have been obliged to recognize the judgment of the Washington court, Id. at 12. Any subsequent conveyance by the husband to X would have been void. But where X was already the owner by the time the wife sought enforcement, the Nebraska court was within its rights to deny recognition of the wife's title.
657 Id. ("Plaintiff seems to contend for a greater efficacy for a decree in equity affecting real property than is given to a judgment at law for the recovery of money simply").
658 CPLR § 5202(b).
659 New York courts are inclined to honor foreign attachments when the Constitution does not require it. Oppenheimer v. Dresdner Bank A.G., 41 N.Y.2d 949, 363 N.E.2d 358, 394 N.Y.S.2d 634 (1977) (bank garnished in Germany did not have to pay a second time in New York). In American Fidelity Fire Ins. Co. v. Paste-Ups Unlimited, Inc., 368 F. Supp. 219 (S.D.N.Y. 1973), however, a Washington state lien was dishonored. In American Fidelity, a New York insurance company held a negotiable instrument in New York and was served with a garnishment order in the state of Washington. Various conflicting garnishments and liens were asserted, and so the insurance company interpleaded in New York. There is no reason why the garnishment should not have created a lien,
sheriff, and should JD file for bankruptcy, the bankruptcy trustee will have to test the New York judicial lien by inquiring into whether a Nebraska sheriff would take priority over the New York lien by levying in Nebraska.663 If so, then JC is not a secured creditor in the bankruptcy. Rather, JC’s New York judicial lien falls afoul of the trustee’s status as a hypothetical judicial lien creditor in Nebraska.

Does Fall v. Eastin cohere with Harris v. Balk? Should Fall provide the rule for intangible as well as tangible property? Imagine an alternative history in which, not AD, but JD traveled from North Carolina to Maryland. JD is served with process by JC, The Maryland court enters a money judgment and then issues an injunction à la Grupo Mexicanos, ordering JD to assign all receivables to JC immediately, adding that the assignment shall be deemed accomplished when the turnover order is entered. Meanwhile, JC, back in North Carolina obtains a levy of AD. Is not the Maryland injunction worthy of Full Faith and Credit? The order compelling AD to pay the Maryland sheriff was so entitled. The order compelling JD to assign to the sheriff should be equally entitled. If AD interpleads, as he is well advised to do, I think the interpleader court awards the funds to JC, on the authority of Harris v. Balk. And what distinguishes the case from Fall v. Eastin? Harris reigns over intangible personal property. Fall presides over all other kinds of property. If I am right, the distinction between debt and property, which the New York legislature has sought to preserve and the New York courts have tried to abolish, is enshrined in the Constitution itself.

D. Pledged Property

When JD pledges property to SP in exchange for a loan, JD typically has no right of possession until she pays up. Yet JD may have a valuable equity in the pledged property. We have already seen that execution liens are difficult in this context. If the pledged property is "capable of delivery," the sheriff may not levy it by seizure because she may not interfere with the possession of pledgees.664 Yet since the property is capable of delivery, the sheriff may not paper-levy because such levies are only good for property not capable of delivery. One proposed answer is that JD’s right to a surplus is property not capable of delivery and thus can be garnished. This conclusion divides the thing from SP’s obligation to pay the surplus, if any.665

JC also has the option of obtaining some sort of equity lien on the surplus. A receivership is possible, but a turnover proceeding seems the most logical alternative.666 Can the language of § 5225(b) accommodate JC? The pledgee is "a person in possession of . . . personal property in which the debtor has an interest," as § 5225(b) requires. But JC must also show that JD "is entitled to the possession of such property or that the judgment creditor’s rights are superior to those of the transferee . . . " The first possibility clearly cannot be shown.667 JD has no right of possession against SP. Can JC

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663 A bankruptcy trustee is deemed to be a judicial lien creditor as of the time of the bankruptcy petition. 11 U.S.C. § 544(a)(1). Presumably the trustee has a hypothetical judicial lien as of the bankruptcy petition in all fifty states and other territories of the United States.

664 CPLR § 5232(b).

665 See supra text accompanying notes 294-310.


show that her rights are superior to those of SP?

In this respect, new Article 9 muddies the previously crystalline waters from which New York JCs must drink. According to old UCC § 9-311, "The debtor's rights in collateral may be voluntarily or involuntarily transferred (by way of . . . attachment, levy, garnishment or other judicial process) . . . " Under this language, JC could have shown that JC's right to JD's equity are superior to those of SP (with the proviso, of course, that SP's security interest remain intact). New UCC § 9-401 is less satisfactory. It states, "whether a debtor's rights in collateral may be voluntarily or involuntarily transferred is governed by law other than this article." In other words, Article 9 refuses to say whether JC has access to JD's equity.

Meanwhile, the CPLR is likewise opaque. CPLR § 5201 states that enforcement of a money judgement is possible "against any property which could be assigned or transferred . . . " Can equity in collateral be assigned or transferred? New UCC § 9-401 refuses to say. Yet we learn from UCC § 2-403 that a "purchaser of goods acquires all title which his transferee had . . . " This implies a power to convey the equity in pledged goods. "Equity" in this context would include the right of redemption and the right to receive a surplus if the pledgee forecloses. Similar statements can be found in Article 3 for instruments and Article 8 for securities. So on this basis, we can affirm that § 5225(b) permits access to the equity interest of JD in pledged collateral.

An oddity about § 5225(b), as applied to pledged property, is that, if the court so orders, the pledgee must hand the property over to the sheriff for sale. Now the sheriff could not levy the same pledged property, probably out of a misplaced fear that a levy would compromise perfection of the pledgee's security interest. Somehow that delicate attitude disappears when turnover orders are issued. One way or another, the sheriff ends up getting the pledged property.

E. Fraudulent Conveyance Recoveries

Under § 5225(b), AD can be ordered to turn over JD's property over to the sheriff. But it is likewise true that a transference can be ordered to turn over property in which the debtor has no interest at all--property which JD has fraudulently conveyed? According to § 5225(b), turnover can be had "against a person who is a transferee of money or other personal property from the judgment debtor, where it is shown that the . . . the judgment creditor's rights to the property are superior to those of the transferee . . . ". The glove of this provision well fits the hand of fraudulent conveyance.

Perhaps a creditor get a lien on fraudulently conveyed property earlier than the entry of a turnover order. We have seen that the non-statutory idea of "in custodia legis" might push the date of the lien to the commencement of a proceeding under § 5225(b). But beyond that, must we conclude that, since a debtor who fraudulently conveys property has completely alienated it, a receivership cannot reach the property because the receiver only obtains power over "property in which the judgment debtor..."
A receiver, however, may also "do any . . . act designed to satisfy the judgment." This would include the bringing of a fraudulent conveyance action against the transferee, but any lien would depend upon securing a turnover order under § 5225(b).

Suppose, on the other hand, JD has fraudulently conveyed personal property to X, and JC serves an execution on the sheriff. By virtue of this delivery, does JC have a lien on X's property, received in the fraudulent conveyance? Again, it is tempting to say no. According to CPLR § 5202(a):

Where a judgment creditor has delivered an execution to a sheriff, the judgment creditor's rights in a . . . an interest of the judgment debtor in personal property . . . are superior to the extent of the amount of the execution to the rights of any transferee of the . . . property.

These are the words that create the execution lien. But they apply only to property in which the debtor has an interest. Ex hypothesi, JD has no interest in property she has conveyed away, even if creditors have the right to reach that property now owned by a transferee.

Nevertheless, New York's fraudulent conveyance statute (the Uniform Fraudulent Conveyance Act) provides:

Where a conveyance or obligation is fraudulent as to a creditor, such creditor, when his claim has matured, may, as against any person . . .

b. Disregard the conveyance and attach or levy execution upon the property conveyed.

This language, which precedes the enactment of the CPLR, suggests somehow that the execution delivered to the sheriff by JC pursuant to a judgment against JD does indeed encumber X's property. Otherwise, how could the sheriff levy upon it?

One riposte might be that the execution lien encumbers only the property of JD. But where JD has fraudulently conveyed to X, X holds the property in trust for creditors of JD. The sheriff, as agent of such a creditor, rightfully dispossesses X, who has no beneficial interest and therefore a duty to hand over the property to creditors. So the execution lien does not encumber X's property when the execution is delivered to the sheriff. Rather, the sheriff's possession is what creates the lien. This represents the moment when JC's equity interest in X's property becomes a "legal" interest—a judicial lien.

Yet it must be admitted that, where JD conveys real property to X prior to JC's judgment, docketing a judgment against JD creates a lien against JC. This is so even though the docketing lien, created under CPLR § 5203(a), attaches to "an interest of the judgment debtor [not X] in real property, against which property a money judgment may be enforced . . ." Here the objection is that JD has no interest after conveying to X. Yet the courts think JC has a lien on X's property all the same. Given this analysis, why shouldn't an execution encumber X's personal property with a lien when JC delivers it to the sheriff?

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676 CPLR § 5228(a).
677 Id.
679 Emphasis added.
680 New York enacted the Uniform Fraudulent Conveyance Act in 1925. L. 1925 ch. 254, effective April 1, 1925.
681 Thus, in Thurber v. Blanck, 50 N.Y. 80 (1872), the Court of Appeals said:

In the case of personal chattels, the sheriff seizes property and takes it into his possession and renders himself liable to an action by the claimant. He acquires by such seizure a specific lien . . .

Id. at 86. The Thurber court goes on to make a different rule for liens on intangible property, engendering the some rather sarcastic criticism in Cohen, Property Fraudulently Transferred, supra note 582, at 510-13.
682 Carlson, Real Property, supra note 10.
683 See Blue Giant Equipment Corp. v. Tex-Ser, Inc., 92 A.D.2d 630, 459 N.Y.S.2d 948 (3d Dept. 1983) (restraining notice served on X deemed effective, even though 5222(b) is keyed to "property in which [X] knows or has reason to believe the judgment debtor . . . has an interest . . ."). In Rich v. New York White Line Tours, Inc., 266 A.D. 752 41 N.Y.S.2d 283 (2d Dept. 1943), JD made
The analysis assumes (erroneously, in my opinion) that when JD fraudulently conveys to X, JD actually conveys nothing and is still the owner. In other words, a fraudulent conveyance is no conveyance. This regrettable conclusion is completely unnecessary, however. JD alienates everything to X in a fraudulent conveyance. X, however, holds in trust for JD’s creditors. The first creditor to avail herself of the trust (by the sheriff’s seizure or by obtaining a turnover order or like judicial declaration) should have priority to X’s trust.

No modern case exists in which the sheriff is asked to levy the property of X directly. Perhaps suspecting constitutional problems, judgment creditors are utilizing turnover procedures, which guarantee to X notice and a hearing before X’s property is "taken" to satisfy JD’s debt to JC. Under such a procedure, JC has a lien only after the court orders X to turn over the loot.

F. Injunctions that Do Not Create Liens

According to § 5203(b), an equity lien arises from the securing of an order for

(a) the delivery of a debt owed to the JD;
(b) the payment of a debt owed to the JD;
(c) delivery of an interest of the JD in personal property;
(d) the appointment of a receiver of a debt owed to the JD;
(e) the appointment of a receiver of an interest of the JD in personal property.

Missing from the list are certain other injunctions authorized by the CPLR. For example, a court can order JD to make installment payments, but, other than the leading treatise, no one has suggested that such an order puts a lien on the assets of a debtor. Most notably, a court (or the judgment creditor’s attorney as officer of the court) can issue a restraining notice to any person except the employer of JD. According to § 5222(b), the effect of serving a notice is that the recipient is forbidden to transfer any property or pay any debt in which JD has an interest. Nothing is said about creating a lien on the property held or debt owed by the recipient of the notice. If the recipient transfers or pays, she is in contempt of court, but JC cannot pursue the property now in the hands of a third party.

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a fraudulent conveyance to X. JC2 sought to set it aside. The lower court ruled that JC1 had priority because JC1 served an execution and therefore has an equitable lien on X’s property. On appeal, the court held that JC’s lien died when sheriff returned the execution unsatisfied.

For ancient cases, see Rinchey v. Stryker, 28 N.Y. 45 (1863) (levying sheriff unsuccessfully sued for trespass of chattels); Hall v. Stryker, 27 N.Y. 596 (1863) (same).

Save Way Oil Co. v. 284 Eastern Parkway Corp., 115 Misc. 2d 141, 453 N.Y.S.2d 554 (S.Ct. Kings Co. 1982) (fraudulent conveyance law "tread[s] on thin constitutional ground [and] must be employed with the strictest adherence to statutory requirements").

A receiver can be authorized to "administer, collect, improve, lease, repair or sell real or personal property." CPLR § 5228(a).

If JC1 has obtained the appointment of a receiver, JC2 is not necessarily entitled to a different receiver, but may have the receivership "extended" to JC2, with JC1 having first priority. CPLR § 5225(b).

CPLR § 5226.

WEINSTEIN ET AL., supra note 25, ¶ 5202.15.

Section 5226 orders are the mode for reaching wages and other exempt income above and beyond the 10% limit on income executions. See supra text accompanying notes 529-32. Oddly, a creditor can obtain appointment of a receiver to receive income, Edelman v. Edelman, 83 D.A.2d 622, 441 N.Y.S.2d 529 (2d Dept. 1981), in which case a lien is created.

CPLR § 5222(a). A pre-judgment restraining notice is also possible upon court order, but only if the plaintiff has received "a verdict or decision." CPLR § 5229.

In *International Ribbon Mills, Ltd. v. Arjan Ribbons, Inc.*, however, the Court of Appeals ruled otherwise. In this forgotten case, *JC* served a restraining notice on the debtor. Shortly after, *JD* made an assignment for the benefit of creditors. *JC* then sought a turnover against the assignee pursuant to § 5225(b). Obviously, a turnover was appropriate only if *JC* already had a lien on the assignee's property that was senior to the rights of the assignee.

Judge Charles Breitel ruled that, by virtue of the restraining notice, *JC* was senior to the assignee. He so ruled even as he acknowledged that early drafts of CPLR § 5222 had expressly granted creditors a lien, a provision later deleted. The thrust of his analysis is the truism that an assignee takes the same rights as the assignor had. Since the assignee was enjoined from making conveyances, the assignor was likewise enjoined. The only way to escape the injunction was for the assignee to pay *JC* the amount of *JC*’s judgment.

If logic holds sway, this ruling cannot be contained to assignments for the benefit of creditors. All assignments convey only the rights of the debtor; any assignee is subject to the restraining notice since *JD* was so restrained.

Oddly, Judge Breitel overruled his own opinion for the Appellate Division in *City of New York v. Panzirer*. There, *JC* served a restraining order on *AD*, who held proceeds from the sale of *JD*’s business. *JC* also commenced a turnover proceeding. *JC* obtained a levy before the turnover order was procured. Judge Breitel, citing the very legislative history he dismissed in *International Ribbon*, wrote:

> The result, then, is that in order for a judgment to attain status in the ranking of priorities there must either be a levy, an order directing delivery of property, or the appointment of a receiver. Any other measures taken by the judgment creditor, no matter how diligent, on an absolute or comparative basis, do not suffice to qualify for priority.

While *International Ribbon* holds that a restraining notice gives rise to a lien, the Court of Appeals soon stated the opposite (albeit in dictum) in *Aspen Industries, Inc. v. Marine Midland Bank*. Astonishingly, it cited *International Ribbon* as authority for its dictum, even though *International Ribbon* holds the dead opposite.

Still, one can find recent examples where a lien emerges from § 5222 nevertheless. In *Kates v. Marine Midland Bank, N.A.*, *JC* served a restraining notice on *AD*, a trustee of *JD*. After the restraining notice, *AD* made an advance distribution to *JD*. It then sought to set off its loan to *JD* against *JC*’s levy. The court did not permit the setoff, although setoffs are generally good against levies. Is this not attributing the power of a lien to the lowly restraining notice?

Similarly, in *Rafkind v. Chase Manhattan Bank, N.A.*, the SEC had enjoined a bank from paying a bank account. Admittedly, the injunction had a federal origin, but Judge John Martin cited CPLR § 5201(b) to the effect that “[a] money judgment may be enforced as to any property which...”
could be assigned or transferred . . . " Judge Martin reasoned that, since JC, could not bring a turnover proceeding against the bank under § 5227, the SEC was senior. If this is correct, then restraining notices generally have a lien effect on bank accounts. Judge Martin's decision, however, is open to the criticism that, just because the bank could not pay its debt does not mean that JD cannot transfer the ownership of it. The restraining notice served on the bank binds the bank, not JD.703

A different sort of injunction which has been denied lien status is one in connection with selling shares in a cooperative apartment. Such shares are considered personal property.704 If they represent the debtor's principal residence, they are exempt property under CPLR § 5206(a)(1). According to § 5206(e), a creditor is invited to commence a special proceeding for the sale of the shares if they exceed $50,000 in value. If the homestead were real estate, there would tend to be a judicial lien arising from the docketing of the judgment in the local county where the real estate is located.705 But where the homestead is in personal property, the special proceeding, which culminates in a court order, should be viewed as a turnover order. In other words, if a court orders the sale of cooperative shares, a lien arises when the court actually orders the sale. In In re Pandeff,706 however, the court ruled otherwise. It relied on the premise that the order in question was not among those referred to in § 5202(b). This decision must be viewed as wrongly decided. Section 5206(e) empowers the court to order a sale. A lien is a power of sale. The court order directing a sale must therefore be a lien if syllogism still has bite in the state of New York.707 If this order was 90 days old by the time of the debtor's bankruptcy petition,708 then the creditor should have been deemed a secured creditor in JD's bankruptcy.

Prior to the CPLR, the Court of Appeals, in Wickwire Spencer Steel Co. v. Kemkit Scientific Corp.,709 held that service of a subpoena on JD or third party constituted commencing a supplementary proceeding, thereby creating a lien on the debtor's assets. Wickwire was controversial, because the only reference to subpoenas was in former Civil Practice Act 808, which presupposed the appointment of a receiver. Section 808(1) and (2) provided that the title of a receiver to the debtor's property related back to the service of a subpoena either on the debtor or on a third party.710 Yet there was no receiver in Wickwire. The Wickwire court drew from the receivership statute a state policy that commencement of a supplementary proceeding should be associated with the creation of a lien, and that serving a subpoena on JD or AD was tantamount to starting a supplementary proceeding. After the enactment of the CPLR, however, it has not proved possible to claim that the subpoena is a lien-significant event.711

III. Exempt Property

A. Monetary Exemptions

Like all states, New York exempts certain personal property "from application to the satisfaction of a money judgment."712 Most items of exempt tangible property are of negligible value. The real money is in the intangibles—pensions, trust funds and the like. Almost all the reported cases involve, in effect, cash. The courts have had little occasion to address exemptions of tangible property such as the family bible, a team of oxen or other items the CPLR deems worthy of exemption.

When it comes to the monetary exemptions, the debtor may not only protect exempt cash flow

705 CPLR § 5203(a).
707 Perhaps syllogism went out in 1896. Whitney v. Davis, 148 N.Y. 256, 261, 42 N.E. 661, 663 (1896) ("We do not stop to examine that syllogism for flaws. Assuming its correctness, we reject the result.").
708 Otherwise it is a preference under Bankruptcy Code § 547(b).
709 292 N.Y. 139, 54 N.E.2d 336 (1944).
710 Distler & Shubin, supra note 8, at 484-91.
712 CPLR § 5205(a).
but may also exempt proceeds of the cash. In *Yates County National Bank v. Carpenter*, the debtor used an exempt military pension to buy a house. The Court of Appeals ruled that the source of the purchase money made the house exempt:

[W]here the receipts from a pension can be directly traced to the purchase of property, necessary or convenient for the support and maintenance of the pensioner and his family, such property is exempt under the provisions of this statute. Where such moneys can be clearly identified and are used in the purchase of necessary articles, or are loaned or invested for purposes of increase or safety, in such form as to secure their available use for the benefit of the pensioner in time of need, we do not doubt but that they come within the meaning of the statute; but where they have been embarked in trade, commerce, or speculation, and become mingled with other funds so as to be incapable of identification, or separation, we do not doubt but that the pensioner loses the benefit of the statutory exemption.

Consistent with this sentiment, courts agree that the income exemptions survive at least when deposited in checking accounts, even commingled bank accounts. If monetary exemptions can be traced into non-exempt assets, may tangible exemptions be traced into money? There is a good argument that the answer is no. CPLR § 5205(b) exempts choses in action stemming from the destruction of exempt property. The exemption continues for one year after collection. Similarly, the real estate exemption safeguards the cash proceeds of real estate for one year after a judicial sale. The fact that a proceeds theory was expressly provided in these instances suggests that it exists nowhere else but these instances. But then, if this were true, then *Carpenter* would seem to be overruled by the enactment of the CPLR. Yet courts routinely protect bank accounts and the like if exempt funds are deposited in them. At least where money exemptions are concerned, the rule of tracing still holds sway.

1. Trusts

Spendthrift trusts are exempt in New York, so long as they are not self-settled. But the CPLR extends protection of even self-settled spendthrift trusts if they qualify as tax deferred retirement accounts within the meaning of ERISA. In this respect, the legislature need not have bothered, as

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713 119 N.Y. 550, 23 N.E. 1108 (1890).
714 See CPLR § 5205(e).
715 119 N.Y. at 555-56, 23 N.E. at 1109.
717 In re Colbaugh, 250 B.R. 162 (Bankr. W.D.N.Y. 2000) (tracing rule presumed all withdrawals within sixty days of bankruptcy are withdrawals of exempt wages; the leftovers are presumed to be non-exempt cash).
718 This provision foresees that the sheriff might levy exempt property wrongfully, in which case she is guilty of the tort of conversion. Conklin v. McCauley, 41 A.D. 452, 58 N.Y.S. 879 (2d Dept. 1899) (marshal  levied piano). The exemption does not apply, however, if a non-debtor sustained the loss and then assigned the insurance proceeds to a debtor. In re Kleinman, 172 B.R. 764, 775 (Bankr. S.D.N.Y. 1994). It does not apply to New York's bankruptcy only exemptions. CPLR § 5205(b) requires the injured property to be "exempt from application to the satisfaction of a money judgment." Since cars are bankruptcy-only exempt but fully subject to money judgments, § 5205(b) did not technically apply. In re De Vries, 76 B.R. 917 (Bankr. N.D.N.Y. 1987); In re Lauterbach, 74 B.R. 627 (Bankr. N.D.N.Y. 1987).
719 CPLR § 5205(b) (last sentence).
720 Id. § 5206(e).
721 Id. § 5205(c)(1). Where a partnership contributes the funds to a trust for the benefit of a debtor-partner, the trust is not exempt because it is self-settled. Lerner v. Williamsburg Savs. Bank, 87 Misc. 2d 685, 386 N.Y.S.2d 906 (S.Ct. Queens Co. 1976). The trust in *Lerner* was a Keough Plan, which since 1987 is exempt even if self-settled. L. 1987, ch. 108. Not all trusts are spendthrift trusts. Anti-alienation language must appear in the trust instrument before it can be considered spendthrifted. In re McNiel, 193 B.R. 654 (Bankr. E.D.N.Y. 1996).
722 CPLR § 5205(c)(2). Profit sharing plans that are not related to "illness, disability, death, age, or length of service" do not fall under § 5205(c)(2). In re Lowre, 252 B.R. 614 (Bankr. W.D.N.Y. 2000) (self-settled spendthrift trust not exempt). Canadian ERISA-like accounts are not exempt. In re Orndrey, 227 B.R. 211 (Bankr. W.D.N.Y. 1998). ERISA qualification can be lost for highly technical reasons. In re Feldman, 171 B.R. 731 (Bankr. E.D.N.Y. 1994), a self-employed person with no employees wrote a "top heavy" plan--a plan that granted non-key employees too few benefits. Even though the debtor had no employees at all, the purely hypothetical terms of the plan prevented the ERISA plan from being exempt. The court nevertheless granted the debtor some time to amend the plan and regain the exemption. Id. at 739. But would not the trustee's hypothetical judicial lien on the day of the
federal law preempts the justified hostility of state law to self-settled trusts of this sort.\textsuperscript{723} New York also follows the federal lead by making ERISA property accessible if JC holds a "qualified domestic relations order."\textsuperscript{724} Undoubtedly, New York would have been preempted if it dared to legislate otherwise.\textsuperscript{725}

Section 5202(c) exempts the principal of trusts. Income of an exempt trust can be reached under § 5205(d), which suggests that creditors may obtain at least 10%–plus greater amounts, if "unnecessary for the reasonable requirements of the judgment debtor and his dependents."\textsuperscript{726} Therefore, whereas the corpus of a spendthrift trust is entirely exempt, the income is garnishable in the amount of at least 10% or more, as described below.

Individual retirement accounts, after 1994, are exempt,\textsuperscript{727} even if created by the judgment debtor. According to CPLR § 5205(c)(2) an IRA or Keough plan shall be considered a trust which has been created by or which has proceeded from a person other than the judgment debtor, even though such judgment debtor is (i) in the case of an individual retirement account plan, an individual who is the settlor of and depositor to such account plan, or (ii) a self-employed individual, or (iii) a partner of the entity sponsoring the Keough (HR-10) plan, or (iv) a shareholder of the corporation sponsoring the retirement or other plan or (v) a participant in a section 457 plan.\textsuperscript{728}

By deeming the IRA to be a trust (even though it is not one), the New York legislature has avoided pitfalls faced by debtors in other states, where courts have refused to find an ordinary custodial account to be a trust.\textsuperscript{729}

Can a debtor simply stuff extra funds into an ERISA or IRA account, beyond what tax law
permits to be tax-deferred, claiming that the entire account is spendthrifted? In Tompkins County Trust Co. v. Gowin, 730 a retiree deposited $100,000 into his retirement account. Although the entire account was protected by a spendthrift clause as required by ERISA, the debtor was made to disgorge this amount, as it was not tax deferred under the Internal Revenue Code. Only that part of the ERISA account which is tax deferred is actually exempt. New York also has exceptions for ERISA or IRA contributions that are fraudulent conveyances. 731 More unusually, a judgment creditor can reach any ERISA contribution made ninety days before "the interposition of the claim on which such judgment was entered."732 This latter phrase–interposition of a claim–has been interpreted to mean the service of a summons or complaint that commences a civil action.733 At least one court has declared that CPLR § 5205(c)(5) is preempted by ERISA, 734 under the Supreme Court's broad preemption principle articulated in Mackey v. Lanier Collection Agency & Service, Inc.735 In Mackey, the Supreme Court smashed down Georgia for daring to exempt an ERISA welfare plan. Since ERISA requires retirement plans to be spendthrifted but not welfare plans, the state exemption provision impermissibly intruded on the federal prerogative to govern retirement and welfare matters.

There is a contrary argument in favor of § 5202(c)(5), however. If the debtor has made a fraudulent conveyance to an ERISA plan, the ERISA plan never received the beneficial interest in the funds. Rather, the ERISA plan holds the funds in trust for the creditors of the debtor. And given that the ERISA plan never owned the funds, the ERISA preemption rule rests unoffended.736 This should equally apply to transfers within 90 days of the "interposition of the claim."737 CPLR § 5205(c)(5) creates for such payments the same status as does fraudulent conveyance law for payments made by an insolvent debtor.

2. Income
   a. Trust Income

New York provides various income exemptions. These differ from the exemption or trust principal in that "such part as a court determines to be unnecessary for the reasonable requirements of the judgment debtor and his dependents" is not exempt after all. The debtor has the burden to show that the income is indeed necessary for the debtor's reasonable requirements.738

Where the debtor is receiving such exempt income, and where the creditor serves a restraining notice, the debtor does not violate the injunction by spending any of the income.739 Rather, the creditor must seek an installment payment order pursuant to CPLR § 5226. Such an order is subject to the following admonition: "In fixing the amount of the payments, the court shall take into consideration the reasonable requirements of the judgment debtor and his dependents . . . ." This has been declared the proper venue for a court to consider just how much income under § 5202(d) is necessary for the reasonable requirements of the judgment debtor and dependents.740 In such a hearing the debtor has the
burden of proving necessity.741

According to § 5205(d)(1), 90% of income from spendthrift trusts is exempt. Oddly, the exemption can be defeated if a court finds that the income is "unnecessary for the reasonable requirements of the judgment debtor and his dependents." What this implies is that, if all the income is absolutely necessary for support, the creditors can still get 10%.742 On the other hand, if none of the income is necessary creditors can get it all.

Different rules apply if the spendthrift trust falls under ERISA. ERISA income is entirely exempt, and it is not subject to the "unnecessary" clause that undoes the exemption for non-ERISA trusts. The suspension of the "unnecessary" clause is undoubtedly required by the broad preemption rule of Mackey v. Lanier Collection Agency & Service, Inc.743

b. Wages

Ninety percent of income derived from personal services is exempt.744 This dovetails nicely with the statutes governing income executions, which are tied to obtaining 10% of income.745 Technically, the 10% limit is suspended if the income is "unnecessary for the reasonable requirements of the judgment debtor and his dependents." Nevertheless, the income execution rules do not permit the judgment creditor to exceed 10%. How can a creditor gain excess to a surplus over 10%? The answer is that the creditor can dip into the 90% by means of an installment payment order pursuant to § 5226.

It is possible that a creditor might pursue income, but not via an income execution. In Cadle Co. v. Newhouse,746 JD had all his wages deposited in his wife's checking account. JC claimed these deposits were fraudulent conveyances and (presumably) filed a turnover proceeding against AD in order to recover the proceeds of the checking account. JC tried to argue that, since it did not proceed by income execution, it was not subject to the 10% limit, but the court found that § 5205(d)(2) gives an independent reason to limit JC to 10%. What the court failed to note, however, is that § 5202(d)(2) exempts earnings for "personal services rendered within sixty days before . . . an income execution is delivered to the sheriff . . . " Where no income execution is delivered to the sheriff, no earnings are exempt, and JC is entitled to 100% of earnings, if we read § 5202(d)(2) literally.

In spite of the literal words of the CPLR, the court remanded to discover how much of the wages were spent on necessaries. Undoubtedly, the spouse of JD would have personal liability for expenditures "unnecessary for the reasonable requirements of the judgment debtor and [her] dependents."747 The transfer of the "necessary" portion of the wages was transfer of exempt property and therefore not susceptible of recovery as a fraudulent conveyance.748

The wage exemption applies to wages already in a bank account when the bank account is levied,749 but translating this to a bankruptcy case is awkward. The problem is that the exemption is limited to "services rendered within sixty days before, and at any time after, an income execution is

741 Camphill Special School, Inc. v. Prentice, 126 Misc. 2d 707, 483 N.Y.S. 2d 888, 889 (S. Ct. Onondaga Co. 1984). Nevertheless, where JD makes no showing, courts have discretion not to award 100% of salary to JC. Dickens v. Director of Fin. of the City of New York, 45 Misc. 2d 882, 258 N.Y.S. 2d 211 (S. Ct. N.Y. Co. 1965).
743 486 U.S. 825 (1988); see supra text accompanying notes 732-34.
745 CPLR § 5231(b).
746 CPLR § 5204(d).
747 26 Fed. Appx. 69 (2d Cir. 2001).
748 CPLR § 5205(d).
delivered to the sheriff. . . .” 751 In a typical bankruptcy case, no income execution has ever been delivered when the debtor files a voluntary bankruptcy petition. Nevertheless, the bankruptcy trustee, as of the day of the bankruptcy petition, is deemed to have the “rights and powers of (1) a creditor that obtains. . . a judicial lien on all property on which a creditor on a simple contract could have obtained such a judicial lien, whether or not such a creditor exists. . . .” 752 So if we imagine that the trustee has served an ordinary execution to the sheriff on the day of the bankruptcy petition, we can see that the bank account survives the trustee's execution to the extent of the exemption in § 5205(d)(2).

In In re Maidman, 753 the debtor claimed cash (presumably in a bank account) in excess of $50,000, representing 90% of the amount of wages earned within 60 days. This implies that the debtor's take-home pay for the year was about $333,333. The court allowed the debtor to exempt this amount under § 5205(d)(2). Overlooked, however, is the fact that the exemption does not cover amounts that "a court determines to be unnecessary for the reasonable requirements of the judgment debtor and his dependents.” 754 The Maidman court should have required the debtor to prove that the $50,000 was necessary to the debtor's reasonable requirements, a daunting task where the debtor's prodigious wallet was enlarged by $300,000 a year in post-bankruptcy earnings. 756 Incidentally, if we imagine the bankruptcy trustee serves an income execution (on an employer), the trustee could reach only 10% of wages, not the extra amount unnecessary to the debtor's requirements. But the wages have typically been deposited into a bank account. Therefore, in administering the hypothetical lien creditor test, the trustee hypothetically garnishes by serving an ordinary execution on the bank account, and from this garnishment the trustee obtains any amount not traceable to sixty days of wages, 10% of the sixty-day amount and any additional amount not necessary to the debtor's requirements. 757

### c. Bankruptcy-Only Exemptions

Trustees have tried to argue that, in bankruptcy cases, any monetary exemption mentioned in

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751 CPLR § 5205(d)(2). Technically, this implies that wages in a bank account are never exempt, if no creditor has served an income execution on the sheriff. Courts have chosen to ignore this feature of the statute. See supra text accompanying note 748.


754 CPLR § 5205(d) (preamble).

755 Although Rule 4003(c) places the burden of proof on an objecting party to demonstrate that an exemption has not been properly claimed, Courts have uniformly held that once the objecting party presents a prima facie case that the exemption has been improperly claimed, the burden then shifts back to the debtor to come forward with evidence to demonstrate that the exemption is proper.” In re Colbaugh, 250 B.R. 162, 166 n.9 (Bankr. W.D.N.Y. 2000).

756 In the 2005 bankruptcy amendments, Congress pointed toward IRS standards to determine the reasonable expenses of a debtor's household. David Gray Carlson, Means Testing: Bankruptcy's Failed Revolution of 2005, 15 AM. BANKR. INST. L. REV. 223 (2007). These guidelines, designed by the IRS to squeeze debtors out of back taxes, presume very modest expenses are necessary to sustain existence. It will certainly be tempting to a bankruptcy court, and perhaps even state courts, to borrow these guidelines for determining how much in pre-petition wages is exemptible.

757 In In re Colbaugh, 250 B.R. 162 (Bankr. W.D.N.Y. 2000), Judge John Ninio issued the following instruction for debtors wishing to claim bank accounts exempt to the extent of the wages they contain:

[T]his Court will: (1) require a debtor claiming an Earnings Exemption to: (a) provide proof of all earnings from personal services rendered within sixty days of the filing of the petition; and (b) if the Earnings Exemption is claimed in amounts on deposit in a financial institution, provide proof: (i) that the earnings were deposited into the account; and (ii) of the balance on deposit in the account on day sixty-one before the filing of the petition; (2) presume that any amount on deposit in the account at day sixty-one before the filing of the petition are the last amounts out of the account; (3) presume that ten percent of the debtor's earnings for services rendered within sixty days of the filing of the petition are the second to the last amounts out of the account; and (4) presume that any amounts deposited into the account within the sixty days before the filing of the petition from sources other than earnings for personal services rendered within sixty days of the filing of the petition are the third to last amounts out of the account. As a result, the Trustee and a debtor's estate will generally be entitled to the lesser of: (1) the amounts on deposit in the account on day sixty-one, ten percent of the debtor's earnings for services rendered within sixty days of the filing of the petition and all non-earnings deposited into the account within sixty days of the filing of the petition; or (2) the amount on deposit in the account as of the date of filing.

Id. 166-67 (footnote omitted). Missing from this procedure is any acknowledgement that unnecessary funds belong to the trustee.
§ 5205 is limited by New York Debtor & Creditor Law § 282-84. A brief tour of this legislation is therefore necessary.

According to Bankruptcy Code § 522(b)(1), debtors may choose either exemptions under nonbankruptcy law or, alternatively, the miserly federal exemptions set forth in § 522(d). Yet § 522(d)(2) invites state legislators to deprive its citizens of the federal exemption. New York is among the states that have "opted out" of the federal exemptions. Its citizens may only choose the exemptions provided by nonbankruptcy law, including New York statutory law.758

New York's opt-out legislation goes on to authorize bankrupt debtors to take any exemption under CPLR § 5205 (personal property) and § 5206 (real property). It also permits the insurance exemptions described in New York Insurance Law § 3212. And finally, it authorizes "bankruptcy only exemptions." These exemptions are no good against the sheriff, because they are not listed in CPLR § 5205 or § 5206. They include an automobile worth $2400 or less (after liens are considered)759 or certain choses in action not mentioned in CPLR § 5205.760 Whether states are authorized to create bankruptcy-only exemptions not good against the sheriff has been questioned with some cause.761 A recent New York case has upheld the constitutionality of it.762 This constitutional question, however, is beyond our scope. So far, federal courts interpreting New York law are permitting debtors to claim bankruptcy-only exemptions pursuant to New York Debtor & Creditor Law §§ 282 and 283.763

Not only does New York purport to create bankruptcy-only exemptions, but it denies bankrupt New Yorkers some exemptions that would be good against the sheriff. According to Debtor & Creditor Law § 283(1), a debtor must aggregate CPLR § 5205(a) and certain annuity contracts under Insurance Law § 3212. The items in § 5205(a) are tangible items, such as wearing apparel and tools of the trade. The annuities to be aggregated are those purchased by the debtor within six months of bankruptcy.764 Of these items, the debtor may have only $5,000 in total (or $10,000, in joint cases).765

Having limited debtors to $5,000 of the above items, Debtor and Creditor Law § 283(2) goes on to state that, where the debtor does not claim real estate, where the debtor has fully utilized the exemptions in § 5205(a) and annuities subject to the $5,000 limit, and where the value of personal property is less than $5,000, the debtor may have a bankruptcy-only exemption of cash to bring the total exemption up to $5,000. But the cash exemption described must not exceed $2,500. This provision is as confusing as it is unconstitutional. It has also spawned the claim of bankruptcy trustees that the bankruptcy-only cash exemption preempts any other claim to cash arising under § 5205. These claims have been rejected, however. If, for example, the debtor claims a bank account as proceeds of exempt wages, the claim is made under § 5205(d)(2). The $2,500 bankruptcy-only exemption is calculated by reference to § 5205(a) and annuities. It does not preempt the ability of the debtor to claim the bank account.766

758 N.Y. Debtor & Creditor Law § 284.
759 Id. § 282(1). According to subsection (2) various pensions may be exempted, but these are separately exempt in CPLR § 5205(c) and (d) and under federal law.
760 These include awards under a crime victim's reparation law, wrongful death actions belonging to dependents of a deceased person (to the extent necessary for the support of the debtor), personal injury actions (to the extent of $7500, if not related to pain and suffering), and actions for the loss of future earnings (to the extent necessary for support). N.Y. Debtor & Creditor Law § 282(3).
763 Dubroff v. First Nat'l Bank (In re Dubroff), 119 F.3d 75 (2d Cir. 1997).
764 If, however, the annuity is described in Internal Revenue Code § 805(d) or is purchased with proceeds of an annuity bought prior to the six month period, it is not subject to the limitation in question. Unhappily, Internal Revenue Code § 805(d) is no longer in effect. In re Moore, 177 B.R. 437, 440 n.3 (Bankr. N.D.N.Y. 1994). As for the protection of rollover, Moore involved an eve-of-bankruptcy annuity purchased in part by rollover funds, part not. The court permitted the rollover portion to be entirely exempt. Only the non-rollover portion was subject to the $5,000 limit. Id. at 441. Furthermore, the $5,000 cap refers to the principal amount of the annuity, not to income distributions going forward.
d. Miscellaneous Income Exemptions

Payment to JD for support pursuant to an award in a matrimonial action is exempt. Payments under a separation agreement are not, but if the agreement is incorporated in a judgment of divorce, they become exempt.

Proceeds of milk is 90% exempt if the judgment debtor owns the farm on which the milk was produced and if the milk was sold to a licensed dealer. But where milk is sold through a cooperative and where the cooperative holds back proceeds as a kind of capital contribution eventually refundable, the capital contribution loses its exempt status.

Security deposits payable to a landlord or to a utility company are exempt. So is the right of a judgment debtor to accelerate life insurance payments or have the surrender value or to enter into a viatical settlement is exempt. After 1997, New York's state college choice tuition savings program is exempt.

Not all exemptions appear in the CPLR. For instance, the Social Services Law § 137 and § 137-a exempts all public assistance awards from execution. There are also federal exemptions, such as veteran and social security benefits.

e. Son of Sam

Military pay of a non-commissioned officer, musician or private in the armed forces is entirely exempt, unless the judgment creditor is suing for support in a matrimonial action. Nevertheless, in New York State Crime Victims Board v. Wendell, the court held that New York's Son of Sam law overrides this exemption, in the case of retired sergeants. In this case, JD, imprisoned for a violent crime, was nevertheless entitled to retirement pay, which was viewed as not a pension or veteran's benefit (these would have been federally exempt) but rather payment deferred for past services. Military pay can be garnished, insofar as federal law is concerned. However, claimed that the pay was exempt under CPLR § 5205(e). The Wendell court found that § 5205(e) is overruled by the Son of Sam law. That law defines "funds" as "all funds and property received from any source. . . excluding. . . earned income." The retired sergeant's pay, however, was not earned income. Earned income is defined as "income derived from one's own labor." The Wendell court ruled that retirement pay was not earned income because it was "not derived from any current labor. . . " Second, the point of defining "funds" was simply to determine who must notify that State Crime Victims Board that it was paying a convicted felon. The idea was that ordinary employers should not be put to the burden of reporting. This concern did not apply, apparently, in the case of military pensions.
Meanwhile, the court ruled that the Son of Sam law simply repealed all exemptions under § 5205, since the legislative history said in general that criminals should pay the victims of their crimes. While noting that CPLR § 5205 was designed to keep debtors from being paupers, the court observed that, since JD was in prison, the state would be covering the living costs of JD for some decades. Therefore, depriving JD of his pay was thought to be the intent of the legislature.

This result can certainly be questioned. The Son of Sam law achieves two basic purposes. First, it requires those who pay funds to the convict to report the fact to the Crime Victims Board. Second, it gives an extended statute of limitations to victims in order to pursue these funds. It says nothing at all about exemptions. In contrast, CPLR § 5205 states that, where the prisoner obtains a money judgment for any reason, $1000 of the judgment is exempt from Son of Sam judgments. Does not this provision show that § 5205 applies to convicts generally? Perhaps the Wendell decision testifies more to a vigorous hatred of convicted criminals than to legal reasoning according to neutral principles.

B. Non-Monetary Exemptions

Of less concern to litigants are the non-monetary exemptions in tangible things. Many of the items listed are quaint: a church pew, the family bible, a wedding ring, an exhibition at a world's fair, family pictures, and school books. Some are gruesome: dental accessions, wheelchairs, a seeing-eye dog. Would any JC be base enough to execute on such things? Television, of course, is "a practical necessity of modern living." Yet as late as 1976 it was not exempt property in NY. Today, the impecunious debtor may choose which of his many television sets shall be considered exempt.

Some of the items listed must be "necessary" to the debtor. These include fuel for the stove, food for pets and family, working tools, professional libraries and professional furniture.

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786 CPLR § 5205(a)(3). The leading treatise proclaims, "the provision is of dubious utility." WEINSTEIN ET AL., supra note 25, ¶ 5205.15.
787 CPLR § 5205(a)(3).
790 Id. § 5205(a)(3).
791 Id. § 5205(d)(1).
792 Id. § 5205(d)(1); see Manufacturers & Traders Trust Co. v. Pope, 124 Misc. 2d 681, 477 N.Y.S.2d 287 (S. Ct. Erie Co. 1984) (car could not be considered a wheelchair).
793 CPLR § 5205(d)(1).
798 CPLR § 5205(a)(1).
799 Id. § 5205(a)(4). There is a separate exemption for the food necessary for a "team" (presumably of oxen or water buffalo). CPLR § 5205(a)(7). The Advisory Committee waxed indignant over the fact that pre-CPLR law allocated ninety days of food for the team but only sixty for the family. It angrily demanded that the team be deprived of thirty days worth of hay. Weinstein, supra note 1, at 91. Other than this one reform, the drafters of CPLR § Article 52 felt uncomfortable making substantive recommendations as to what property deserves to be exempt. Id. at 89-90.
800 Id.; see McCarthy v. McCabe, 131 A.D. 396, 115 N.Y.S. 829 (3d Dept. 1909) ("It is not all the meat, groceries and vegetables provided for family use, but so much as a prudent man would ordinarily keep on hand for family use").
801 Id. CPLR § 5205(a)(7). A "team" is exempt. This includes a wagon for the oxen to pull. A wagon is still "necessary" if it is awaiting repair for six weeks. Wolf v. Farley, 16 N.Y.S. 168 (Ct. Common Plead N.Y. Co. 1891); see Northern N.Y. Trust Co. v. Buno, 151 Misc. 2d 684, 273 N.Y.S.2d 694 (S.Ct. Jefferson Co. 1934) (motorized truck is not a "team").
Wearing apparel and household furniture must be necessary, complicating the ability of a debtor to preserve the sable wrap and Louis XIV furniture.

Some of the items are subject to a monetary limit. Only books not exceeding fifty dollars are exempt, and even these must be kept and used as part of the family library. Only watches less than $35 are exempt. Tools cannot be worth more than $600. Domestic animals and their food for sixty days cannot exceed $450 in value.

Suppose Fido, the family dog, is levied by the sheriff together with his pet food and yields $500 at an execution sale. Does JD get to keep $450 of the proceeds? We have seen that, for monetary exemptions, courts have indeed permitted JD to have the proceeds thereof. There is a dictum to suggest that proceeds theory should be honored in general. In *Sailors’ Snug Harbor in the City of New York v. Tax Commission of the City of New York*, the court, in a case involving real estate exempt from taxes, said:

> The basic problem is not different in tax cases from other forms of partial exemption, e.g., the exemption from execution afforded a homestead; or household furniture (CPLR 5202, 5206). The usual rule in those situations is that the lien is enforceable to the extent value of property to which the lien attaches exceeds the exemption. If there is a sale the owner is entitled to the amount of the exemption.

Perhaps this is enough to establish a general proceeds principle in New York law, at least when a judicial sale generates the proceeds.

Generally, cars are not exempt from execution in New York, though we have seen that New York purports to grant a bankruptcy-only exemption for cars. Possibly cars are tools of the trade, which are exempt under CPLR § 5205(a)(7). But the car must be entirely central to the trade, such as a taxi to a taxi driver. Mere usefulness of a car to the trade is not enough.

The exempt property listed in CPLR § 5205(a) is nevertheless not exempt against a creditor claiming the purchase price of the item. So, for example, if JD buys a family bible on credit from JC, the sheriff can levy the bible on behalf of JC but not on behalf of any other creditor. In contrast, there is no similar exception with regard to the tangible property listed in CPLR § 5205(h)—wheelchairs, seeing-eye dogs and the like.

The meaning of the purchase money exception has never been explored in the New York courts. One potent question is whether a credit card debt represents the purchase price of property bought with the card. Here the answer must be no. Credit card debt is not debt for the price of an item. Rather, it is a debt to pay back an advance of credit by the credit card issuer. A comparison of CPLR § 5205(a) to Article 9 of the UCC drives home this point. Article 9 defines a "purchase-money obligation" as "an obligation of an obligor incurred as all or part of the price of the collateral or for value given to enable the debtor to acquire rights in or use of the collateral if the value is in fact so used.

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803 Hobby equipment, however, is not furniture at all. In re Sherman, 237 B.R. 551 (Bankr. N.D.N.Y. 1999).
804 Compare Conklin v. McCauley, 41 A.D. 452, 58 N.Y.S. 879 (2d Dept. 1899) (in replevin action against marshal, jury could decide pianos were necessary) with Lader v. Gordon, 88 N.Y.S.2D 758 (1st Dept. 1949) (debtor must prove piano is necessary); see also In re Wattson, 1980 Bankr. LEXIS 4460 (Bankr. S.D.N.Y. 2007) (wine vault, throw rug not "necessary" household furniture).
805 CPLR § 5205(a)(2).
806 Id. § 5205(a)(1).
807 Id. § 5205(a)(7).
808 Id. § 5205(a)(4).
809 See supra text accompanying notes 713-20.
811 26 N.Y.2d at 449, 259 N.E.2d at 912, 311 N.Y.S.2d at 489 (emphasis added and citations omitted).
813 N.Y. Debtor & Creditor Law § 282(1); See supra text accompanying notes 760-62.
815 Id.
816 CPLR § 5205(a) ("except where the judgment is for the purchase price of the exempt property . . . ").
817 Id. § 5205(a)(2).
818 UCC § 9-103(a)(2).
819 See supra text accompanying notes 9, 18-20.
exception invokes only "price of the collateral," not the "enabling loan" portion of the UCC definition. Credit card debt is strictly on the enabling loan side of the UCC definition. Only credit extended by the seller is immune from the exemptions listed in CPLR § 5205(a).

Of course, the merchant who sells the family bible on credit could take a security interest in the bible under Article 9. So could an enabling lender, including a credit card issuer. In either case, the security interest is, of course, good against any of the property listed in § 5205. But where the merchant takes no security interest, the merchant has no lien until the execution is served on the sheriff following a money judgment. Once the lien comes into existence, it is a unique lien that attaches to the family bible, to which no other execution lien could attach.

In addition to the purchase money exception, there is also an exception for judgments obtained by "a domestic, laboring person or mechanic..." So the plumber or the gardener, if she gets a money judgment, could execution on the family bible, the pet dog or the wedding ring (though not the wheelchair or dental work).

These exceptions raise a conceptual difficulty in bankruptcy cases. In bankruptcy, exempt property initially goes into the bankruptcy estate, but the debtor is invited to reclaim exempt property. What if a purchase money claim or a plumber's claim exists, which the property listed in CPLR § 5205(a) could satisfy? Does this interfere with a debtor's right to take exemptions from the bankruptcy estate?

The answer is probably no. Although the bankruptcy trustee could increase the general dividend if she could liquidate the exempt property in order to pay the purchase money lender or the mechanic, there seems to be no provision for it in the Bankruptcy Code. For example, 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..." But JD has never transferred the family bible. She has merely claimed it as an exemption. So there is no prospect for "avoiding" the exemption.

Anomalously, the automatic stay of bankruptcy prevents the mechanic from executing on the family bible but once the exemption is actually granted, the automatic stay no longer applies to the exempt property. The mechanic is now free to pursue the bible. Yet the mechanic's claim may well be dischargeable. One of the effects of discharge is that the mechanic's money judgment is voided. Another is that the mechanic is enjoined against ever enforcing the debt following the discharge. So a timing difficulty arises. If the debtor files for exemptions before the discharge, the mechanic can get the family bible. If, however, the debtor waits till late in the case to ask for the exemption, then the mechanic will lose her claim before she can get the bible. The trustee has some opportunity for gamesmanship. The trustee can proceed to sell the bible, with court permission. This may force the debtor to make the exemption claim, which, if the discharge has not been given, empowers the mechanic to get the bible after all. Such interesting maneuvers have not appeared in any reported case.

Conclusion

In this article, I have surveyed the New York judicial lien on personal property. What is revealed is a cacophony of medieval law and bad policy choices made worse by illogical and unthoughtful case law. Among the unfortunate features of the modern CPLR, first adopted in 1963, is

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819 The Court of Appeals has ruled that the exemption statutes do not imply that security interest on exempt items are against public policy. State v. Avco Fin. Serv., Inc, 50 N.Y.2d 383, 406 N.E.2d 1075, 429 N.Y.S.2d 181 (1980).
821 Id. § 322(b)(1).
822 Id. § 322(a)(2).
823 Id. § 362(c)(1).
824 Id. § 362(a)(1).
825 Id. § 362(a)(2).
826 Id. § 362(a)(2).
827 Id. § 363(b).
the retention of the Statute of Frauds model version of the execution lien, in which the lien is created when an execution is delivered to the sheriff. Conceptually, the law would be simpler if the execution lien were deferred to the time of levy. On the other side of the ledger, the CPLR defers the equity lien until a turnover order or appointment of a receiver has been secured by the creditor. It would have been better if the legislature had perpetuated the pre-CPLR rule that commencement of the equity proceeding—not its conclusion—signals the birth of the lien. Such a decision would have accorded with the notion of in custodia legis, which the Second Circuit has asserted as a principle that supersedes the CPLR. The CPLR also makes insalubrious distinctions between property capable of and not capable of delivery, which creates havoc in the case of pledges. It also distinguishes between debts and property. The New York courts have attempted to obliterate this last distinction, but it lingers on and may even be required under the Full Faith and Credit of the Constitution. Finally, New York has failed to coordinate Article 9 of the UCC with the CPLR. As a result, secured creditors are denied post-lien protection under CPLR § 5202(a)(1) or (2) or under § 5202(b). And Article 9's "two-for-one" proceeds rule makes it impossible for the sheriff to hold a sale of property encumbered by a senior sheriff interest.

None of this can be defended. Yet it can be tolerated. The CPLR is now 45 years old. It may not be admirable or elegant but it is not so bad that commercial lawyers are unable to muddle through it. And this is precisely why the CPLR, in its absurdity, has survived. The best that can be said of the clanking, unsightly machinery of money judgment enforcement in New York is that it has not entirely broken down.