

11 USC § 547(b)(4)(B)
11 USC §550(a)(1)
Deprizio

Official Unsecured Creditors Committee of Suffola, Inc. v.
U.S. National Bank Civ. No 91-1280-JO
Adv. No 89-3077

In re Suffola, Inc. No. 388-02683-S11

1/30/92 Judge Jones aff'g Judges Perris 10/2/90 ruling

DEPRIZIO ADOPTED BY DISTRICT COURT.

The district court affirmed the judgment against the bank for a payment made by the debtor during the extended preference period because an insider had guaranteed the bank's debt. Based on §§547(b)(4)(B) and 550(a)(1) the transfer was a preference as to the guarantor, and the trustee could recover it from the bank as the initial transferee. Judge Jones rejected the "two transfer" theory espoused by many bankruptcy courts and arguments of unfairness raised by the bank.

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U.S. BANKRUPTCY COURT
DISTRICT OF OREGON
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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF OREGON

OFFICIAL UNSECURED CREDITORS)
COMMITTEE OF SUFFOLA, INC.,)
on Behalf of the Estate of)
Suffola, Inc., dba)
Lewis Packing Co.,)

Plaintiff,)

v.)

U.S. NATIONAL BANK, a National)
Banking Association, C/O)
Victoria J. Krisch,)
111 S.W. 5th Avenue, #3500,)
Portland, OR 97204,)

Defendant.)

Civil No. 91-1280-JO
Bkcy No. 388-02683-S11
Adv. No. 89-3077

OPINION AND ORDER

Robert J. Vanden Bos
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Portland, OR 97204
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JONES, Judge:

United States National Bank of Oregon (U.S. Bank) appeals
from the judgment of the bankruptcy court granting judgment in

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favor of Official Unsecured Creditors' Committee of Sufolla, Inc. (Official Unsecured Creditors) in the amount of \$4,322.05.

The Official Unsecured Creditors waive filing a response brief and U.S. Bank waives filing a reply brief. This court has jurisdiction under 28 U.S.C. § 158(a).

Debtor was a borrower of U.S. Bank; U.S. Bank and debtor entered into a loan and security agreement on December 11, 1985. The loan was secured by debtor's collateral. U.S. Bank perfected its security interest on December 19, 1985. The loan was guaranteed by certain shareholders of debtor. The guarantors were "insiders" within the meaning of 11 U.S.C. § 101(31).

On June 9, 1988, debtor filed a petition under Chapter 11. Subsequently, Official Unsecured Creditors brought suit to avoid certain transfers from the debtor to U.S. Bank.

After June 9, 1987, but before March 9, 1988, debtor paid U.S. Bank \$4,322.05. This is the transfer at issue on this appeal. The bankruptcy court found this transfer to be preferential and allowed the trustee to recover against U.S. Bank.

Title 11 U.S.C. § 547(b) provides that transfers to insiders are avoidable if they occur within one year of bankruptcy, while transfers to other creditors are avoidable only if they occur within 90 days of bankruptcy. Section 550(a)(1) enables a bankruptcy trustee to recover transfers avoided under section 547(b).

The issue presented is whether these two sections of the Code permit the trustee to avoid and recover a

transfer made more than 90 days, but less than one year, of the bankruptcy, where the transferee is not an insider although the debtor's obligations to the transferee were guaranteed by an insider.

Appellant's Brief, p. 4.

The bankruptcy court in the present case relied upon Levit v. Ingersoll Rand Fin. Corp. (In re Deprizio), 874 F.2d 1186 (7th Cir. 1989) ("Deprizio") and answered that the one year rule for insiders applied for payments to outside creditors made on loans guaranteed by insiders of the debtor and allowed the trustee to recover against U.S. Bank based upon section 550(a)(1).

U.S. Bank contends that Deprizio should not be followed because the Deprizio court engaged in poor statutory analysis and because Deprizio ignores the Supreme Court's admonitions about dealing with the bankruptcy code. As an alternative basis for reversal, U.S. Bank offers the "two transfer" theory.

Relevant Statutory Sections

Title 11 U.S.C. § 101(31) defines "insider." U.S. Bank does not dispute that the guarantors, shareholders of debtor, were insiders.

Title 11 U.S.C. § 547(b) provides that

[e]xcept as provided in subsection (c) . . . the trustee may avoid any transfer of an interest of the debtor in property --

- (1) to or for the benefit of a creditor;
- (2) for or on account of an antecedent debt owed by the debtor before such transfer was made;
- (3) made while the debtor was insolvent;
- (4) made --

(A) on or within 90 days before the date of the filing of the petition; or

(B) between ninety days and one year before the date of the filing of the petition

if such creditor at the time of such transfer was an insider; and
(5) that enables such creditor to receive more than such creditor would receive if --
(A) the case were a case under chapter 7 of this title;
(B) the transfer had not been made; and
(C) such creditor received payment of such debt to the extent provided by the provisions of this title.

11 U.S.C. § 547(b).

Section 547(c) provides for certain defenses to the trustee's power to avoid transfers. U.S. Bank concedes that no defenses are available to U.S. Bank under section (c).

Finally, 11 U.S.C. § 550 provides the transferee with liability for transfers avoided by the trustee.

(a) Except as otherwise provided in this section, to the extent that a transfer is avoided under section . . . 547 . . . the trustee may recover . . . from --
(1) the initial transferee of such transfer or the entity for whose benefit such transfer was made

11 U.S.C. § 550.

Deprizio Analysis

Deprizio stated that because a transfer to an outside creditor made within a year of the debtor filing the petition was avoidable as a preference if the debt owed to the outside creditor was guaranteed by an insider of the debtor, the trustee could recover against the outside creditor.

Deprizio stated

[t]he textual argument . . . is simple. Section 547(b) defines which transfers are "avoidable". [sic] No one doubts that a transfer to Lender produces a "benefit" for Guarantor. After § 547 defines which transfers may be avoided, § 550(a) identifies who is responsible for payment: "the initial transferee of such transfer or

that entity for whose benefit such transfer was made." (emphasis added). This gives the trustee the option to collect from Lender, Guarantor, or both, subject to the proviso in § 550(c) that there can be but one satisfaction.

Deprizio, 874 F.2d at 1194.

U.S. Bank's Brief

U.S. Bank correctly submits that Deprizio represents a minority view. See e.g., In re Performance Communications, Inc., 126 B.R. 473, 475 n. 3 & 4 (W.D. Pa. 1991). However, this court notes that "[t]he Deprizio doctrine has been adopted by two other circuits as well as two bankruptcy courts in Oregon." In re Ishaq, 129 B.R. 206, 207 (D. Or. 1991) (Sixth and Tenth Circuits have followed Deprizio, a Seventh Circuit decision). The Ninth Circuit has not addressed the issue.

According to U.S. Bank,

The Deprizio analysis depends upon an overly literal reading of the language of section 550(a). This reading creates a conflict between section 550(a) and section 547(b).

Furthermore, principles endorsed by the Supreme Court for interpreting the statutory bankruptcy scheme, as well as pertinent legislative history, argue against the Deprizio analysis and in favor of the Bank's position that section 550(a) does not modify the preference provisions of section 547(b).

Appellant's Brief, p. 5.

Discussion

Focusing only on U.S. Bank, there was no preference. The fourth requirement was not met. 11 U.S.C. § 547(b)(4). Focusing only on the inside guarantors, there was a preference. The court, however, must focus on the transfer itself. The transfer was a preference.

Moving to § 550 to recover the preference, section 550 allows recovery "to the extent that a transfer is avoided." 11 U.S.C. § 550(a). "Section 550(a) allows recovery 'to the extent that a transfer is avoided' not because a single payment may be many 'transfers,' but because on occasion less than all of a given transfer is 'avoided.'" Deprizio at 1196. Section 550(a)(1) allows the trustee to recover against the initial transferee.

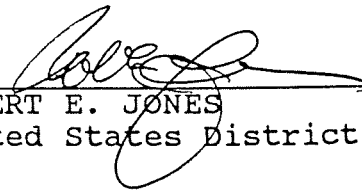
In conclusion, the transfer to U.S. Bank was a preference because U.S. Bank's loan was guaranteed by insiders. The trustee could recover against U.S. Bank because U.S. Bank was the initial transferee.

While the court is cognizant that Deprizio has the effect of penalizing creditors who obtain guarantees, this is an issue for Congress, not the courts.

The other arguments proffered by U.S. Bank in support of reversal are not persuasive.

The court, after a de novo review, finds no error. Accordingly, the judgment of the bankruptcy court is AFFIRMED. This appeal is DISMISSED.

DATED this 28th day of January, 1992.



ROBERT E. JONES
United States District Judge

11 USC § 547(b)
11 USC 547(c)(4)
guarantor
insider
new value
preference

Creditors' Committee v. U.S. Nat'l. Bank, Adv. No. 87-0698
In re Suffola, Inc. Case No. 388-02683-S11

10/2/90 ELP unpublished

The extended preference period of § 547(b)(4)(B) applies to transfers to a non-insider creditor where the debt owed the transferee was guaranteed by an insider (approving the analysis of In re Deprizio Const. Co., 86 B.R. 545, aff'd. 874 F.2d 1186 (7th Cir. 1989)).

For the purpose of § 547(c)(4), the guarantor gave new value each time the transferee extended new credit. The record was inadequate to determine whether all essential elements of the new value defense were present.

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UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF OREGON

In Re:) Case No. 388-02683-S11
SUFOLLA, INC., dba Lewis)
Packing Company,)
Debtor.)
-----)
OFFICIAL UNSECURED CREDITORS') Adversary No. 89-3077
COMMITTEE OF SUFOLLA, INC.,)
on behalf of the estate of)
Sufolla, Inc.,)
Plaintiff,)
v.) MEMORANDUM OPINION
UNITED STATES NATIONAL BANK OF)
OREGON, a national banking)
association,)
Defendant.)

The creditors' committee ("Committee) filed this proceeding to recover the value of allegedly preferential transfers. The parties filed stipulated facts and cross-motions for summary judgment.
The lending relationship between the debtor and defendant

1 ("Bank") began in 1985 with an operating credit line secured by
2 inventory and accounts. Insiders guaranteed repayment of the
3 credit line. The Bank increased the operating line to \$7.5
4 million and the debtor expanded the Bank's security interest in
5 June, 1986 to include equipment and machinery (the "Additional
6 Collateral"). The Bank did not file the financing statement for
7 the Additional Collateral until August 26, 1987. The debtor
8 filed chapter 11 on June 9, 1988.

9 The Committee seeks to avoid two transfers to the Bank.
10 The first is the perfection of the security interest in the
11 Additional Collateral. The parties agree the value of the
12 additional collateral was \$200,000 "at all applicable times"
13 (Stipulation of Facts ¶ 11). The second transfer was a payment
14 of \$4,332.05.¹

15 Up to December 1, 1987 the Bank was fully secured. After
16 that point, the parties agree that the Bank was always
17 undersecured. They did not agree on the amount of the deficiency
18 at any particular date. There was a series of advances and
19 repayments which resulted in a principal balance of almost \$9
20 million on September 14, 1987. By the end of 1987 that figure
21 hovered near \$8 million, then decreased to \$5.6 million by the
22 petition date.

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25 ¹ It appears that the \$4,332.05 payment was from
26 proceeds of the sale of some of the Additional
Collateral. If so, the maximum recovery should be
limited by the total value of the Additional Collateral,
which is \$200,000.

1 The Bankruptcy Code bifurcates preference suits between
2 §547², the avoidance of the transfer, and §550, the recovery of
3 the avoided transfer. To avoid a transfer, the plaintiff must
4 show all five elements found in §547(b). The stipulation
5 provides many of the §547(b) requirements. The parties agreed
6 that the transfers at issue were of an interest of the debtor in
7 property:

8 1) to the Bank;

9 2) for an antecedent debt owed by the debtor before the
10 transfer was made;

11 3) made while the debtor was insolvent;

12 4) made between ninety days and one year before the date
13 of the filing of the petition; and

14 5) the transfers enabled the Bank to receive more than it
15 would have received if the case had been filed under chapter 7
16 and the transfer had not been made.

17 The Bank defends on two fronts. First, because the Bank
18 is not an insider, it argues that the extended preference period
19 found in §547(b)(4)(B) is inapplicable. Second, the Bank asserts
20 a new value defense under §547(c)(4) based on the advances made
21 to the debtor after the transfers.

22 The Committee claims that the extended preference period
23 applies because the transfer to the Bank was for the benefit of
24

25 ² All statutory references are to title 11 of the
26 United States Code (11 U.S.C.) unless otherwise
indicated.

1 the insider guarantors. In such a case, the Committee claims it
2 can recover from the Bank as the initial transferee under §550.
3 Finally, the Committee asserts that the guarantors did not
4 provide any new value after the transfers, so the new value
5 defense must fail.

6 The extended preference period is applicable in this
7 case. This court has previously adopted the reasoning set forth
8 in In re Deprizio Construction Co., 86 Bankr. 545 (N.D. Ill.
9 1988), aff'd 874 F.2d 1186 (7th Cir. 1989). Since this court
10 adopted the Deprizio analysis in Morrow v. LaPrade, (In re
11 Latitudes Marine Towing & Salvage, Inc.), Adv. No. 88-0363-S,
12 Case No. 388-00337-S7, slip op. (Bankr. D. Or. Dec. 23,
13 1988) (Sullivan,J), three circuit courts have also employed the
14 extended preference period to allow recovery of a preferential
15 transfer from a non-insider creditor when the transfer benefitted
16 an insider. Those decisions are: Levit v. Ingersoll Rand
17 Financial Corp (In re Deprizio Construction Co.), 874 F.2d 1186
18 (7th Cir. 1989), In re Robinson Bros. Drilling Co., 892 F.2d 850
19 (10th Cir. 1989) and In re C-L Cartage Co., Inc., 899 F.2d 1490
20 (6th Cir. 1990)³.

21 ³ The bank is technically correct that the C.L.
22 Cartage decision is factually distinguishable from
23 Deprizio Construction and Robinson Bros. Drilling in that
24 the lender involved in C.L. Cartage made loans directly
25 to the insiders who relent the loan proceeds to the
26 debtor, thus making the insiders direct rather than
contingent creditors. The debtor then made some payments
directly to the lender and other payments indirectly to
the lender by issuing checks to an insider who endorsed
them over to the lender. As pointed out in the court's
analysis, this distinction is meaningless in determining

1 The Bank urges the court to retreat to the position taken
2 by many courts before 1989 and consider each transfer to be two
3 transfers rather than one. The two transfer analysis would
4 consider the transfer at issue as a direct transfer to the Bank
5 and an indirect transfer to the insider. The courts using this
6 approach have prevented recovery from the non-insider, holding
7 that only the indirect transfer to the insider is avoidable if
8 made outside the 90 day period. See, In re Mercon Industries,
9 Inc., 37 Bankr. 549 (Bankr. E.D. Pa. 1984).

10 The Bank also offers the rationale provided by several
11 courts which have decided that it would be inequitable to permit
12 recovery under §550 from a non-insider for a transfer made more
13 than 90 days before the bankruptcy filing. The circuit court
14 opinions in Levit, Robinson Brothers, and C-L Cartage thoroughly
15 addressed the equitable arguments and rejected them.

16 The Bank relies on legislative history to support its
17 position that certain transferees are protected under §547(c),
18 and that §550 cannot expand the scope of the trustee's avoidance
19 powers. Section 550 permits the Committee to recover the value
20 of the transfers from the Bank as the initial transferee to the
21 extent that the transfers are avoidable. If there are defenses
22 available under §547(c), the transfer will be protected to the
23 extent of the defenses, and will therefore not be recoverable

24
25 the lender's liability for payments received directly
26 from the debtor during the extended insider preference
period because the insiders are "creditors" of the debtor
under both scenarios. 899 F.2d at 1493.

1 from the Bank under §550.

2 The Bank's attempt to blur the language of the applicable
3 Code sections by focusing on transfers and transferees should be
4 rejected, just as such arguments were rejected in Levit, Robinson
5 Brothers, C-L Cartage and Latitudes Marine.

6 The Bank's contention that the transfers at issue are not
7 preferential because they do not fulfill all the requirements of
8 § 547(b) as to the guarantors in this case is not well taken.
9 Section 547(b)(4)(B) permits the trustee to avoid a transfer made
10 to or for the benefit of a creditor referred to in §547(b)(1),
11 between ninety days and one year before the date of the filing of
12 the petition, if such creditor at the time of the transfer was an
13 insider. All the elements of §547(b) which refer to "such
14 creditor" must be fulfilled as to the insider for the extended
15 preference period to apply.

16 First, the Bank argues that the insiders were insolvent.
17 Therefore, the transfers to the Bank did not benefit the insiders
18 even though it may have decreased their contingent liability on
19 the guaranty. The Bank reasons that because the insiders were
20 insolvent they were judgment proof, so a decrease in their
21 exposure on the guaranties was of no benefit to them.

22 The conclusion that a person is judgment proof does not
23 follow from their insolvency. A judgment can be satisfied from
24 future earnings regardless of how the person's net worth appears
25 on a balance sheet. A person is benefitted by the reduction in
26 the amount of their insolvency. At most, if the guarantors were

1 so hopelessly insolvent that \$200,000 was not enough to make a
2 perceptible difference on their liabilities, the degree of the
3 guarantors' insolvency could be an issue of fact which would
4 require further development. Generally, a decrease in
5 liabilities is a benefit to the insider, and fulfills §547(b)(1).
6 In re V.N. Deprizio Const. Co., 86 Bankr. 545, 553 (N.D. Ill
7 1988), aff'd 874 F.2d 1186 (7th Cir. 1989).

8 The parties agree that §547(b)(2) and (3) have been
9 satisfied. Next, the Bank argues that the Committee has not met
10 §547(b)(5) by proving that the transfers enabled the guarantors
11 to receive more than they would receive if: (1) the case were a
12 case under chapter 7; (2) the transfers had not been made; and
13 (3) the guarantors received payment of such debt to the extent
14 provided in a chapter 7 distribution.

15 The Bank's position is that only the Bank received a
16 payment as a result of the transfers, and the guarantors received
17 nothing. In addition, the Bank argues that the guarantors would
18 receive nothing in a chapter 7 because their claims would be
19 disallowed under §502(c)(1)(B) as contingent at the time of
20 allowance, or their claims would be reduced because of the
21 transfers to the Bank, so they would receive less under a chapter
22 7 because of the transfers rather than more.

23 These arguments also fail. First, the guarantors did
24 receive a reduction in their debt to the Bank as a result of the
25 payments to the Bank. Second, the legislative history of
26 §547(b)(5) states "if the claim would have been entirely

1 disallowed, for example, then the test of paragraph (5) will be
2 met, because the creditor would have received nothing under the
3 distributive provisions of the bankruptcy code." (H. Rept. No.
4 95-595 to accompany H.R. 8200, 95th Cong., 1st Sess. (1977) pg.
5 372). The analysis contemplated by §547(b)(5) compares the
6 percentage of the creditor's claim that would have been paid
7 under chapter 7 absent the transfer at issue with the percentage
8 the creditor received as a result of the transfer. To the extent
9 that the transfer transformed an unsecured claim into a secured
10 claim, that amount of the Bank's unsecured claim was satisfied,
11 and the same amount of the guarantors' contingent claim was also
12 satisfied in full.

13 The parties agreed that the transfer allowed the Bank to
14 receive more than it would have received in a chapter 7 and the
15 transfer had not been made. The unsecured creditors would not
16 have received 100% of their claims in a chapter 7, and according
17 to the disclosure statement, probably would have received
18 nothing. Based on principles of subrogation, the guarantors in
19 effect received on their contingent claim whatever the Bank
20 received as a result of the transfer. The guarantors received up
21 to a \$200,000 reduction in their contingent claim, which is more
22 than the \$0 they would have received in a chapter 7 had their
23 claim been disallowed as contingent, or allowed as unsecured.

24 The Bank suggests that the payment to the Bank reduced
25 the guarantors' contingent claim, so they would receive less in a
26 chapter 7 because of the payment. This position misses the

1 point. A preferential transfer is presumed to reduce the claim
2 of the creditor benefitted by the transfer. To accurately
3 analyze the effect of the transfer for purposes of §547(b)(5),
4 the court should look at the amount of the claim that the
5 guarantor would have without the transfer, and compare the
6 percentage of that claim that was fulfilled as a result of the
7 transfer with the percentage of the claim that the creditor would
8 have received if the case had been a case under chapter 7, and
9 the transfer had not been made. Section 547(b)(5) has been met
10 as to the guarantors.

11 The final issue is whether the new value defense of §
12 547(c)(4) applies in this proceeding.⁴ Summary judgment in favor
13 of either party requires no genuine issue of material fact
14 regarding the following elements, all of which must be present to
15 establish the defense.

16 (1) The preferential transfer must be to or for the
17

18 ⁴ Subsection 547(c)(4) provides:
19 (c) The trustee may not avoid under this
20 section a transfer-
21 (4) to or for the benefit of a
22 creditor, to the extent that, after
23 such transfer, such creditor gave
24 new value to or for the benefit of
25 the debtor-
26 (A) not secured by an
otherwise unavoidable
security interest; and
(B) on account of which
new value the debtor did
not make an otherwise
unavoidable transfer to or
for the benefit of such
creditor;

1 benefit of a creditor. There can be no dispute that the Bank's
2 perfecting its security interest was for the Bank's benefit.
3 This element has been established.

4 (2) After the preferential transfer, "such creditor"
5 gave new value. The parties agree that, after the Bank perfected
6 its interest, it advanced over \$1,320,000 to the debtor.
7 Therefore, if the Bank is the "such creditor," then this element
8 of the defense has been shown. The Creditors' Committee argues
9 that the guarantors, rather than the Bank, are the "such
10 creditors" which must provide the new value.

11 Assuming that the guarantors are the "such creditors"
12 which must provide the new value, I find that they have done so.
13 Section §547(a)(2) defines new value as "money or money's worth
14 in goods, services or new credit," except a debt substituted for
15 an existing obligation. Courts have found an increase in a
16 guarantor's liability sufficient to meet those requirements. See
17 In re Kumar Bavashi & Associates, 906 F.2d 942, 947 (3rd Cir.
18 1990); In re Sider Ventures & Servs. Corp., 33 B.R. 708, 712
19 (Bankr. S.D.N.Y. 1983); aff'd 47 B.R. 712 (D.C.N.Y. 1985). The
20 reasoning of those cases is that a guarantor provides money's
21 worth in the form of new credit by virtue of the increase in the
22 guaranteed obligation. The guarantors' exposure on the
23 guaranties increases simultaneously with each advance made to the
24 debtor. Therefore, the guarantors were, in essence, extending
25 new credit to the debtors each time the Bank made a new advance.
26 The increase in liability is not an obligation substituted for an

1 existing obligation. The requirement that "such creditor" gave
2 new value has been met.

3 (3) The new value was given to or for the benefit of the
4 debtor.

5 There is no dispute that the new advances were paid to
6 the debtor. The Committee does not dispute that the debtor
7 benefitted by the advances. This element of the defense has
8 therefore been established.

9 (4) The new value was "not secured by an otherwise
10 unavoidable security interest."

11 Perfection of the Bank's security interest in the
12 Additional Collateral occurred on August 26, 1987. The parties
13 have stipulated that on December 1, 1987, "the amount of the
14 debtor's obligation to the Bank became greater than the value of
15 the Collateral.⁵ At no time after December 1, 1987, was the
16 amount of Sufolla's obligation to the Bank equal or less than the
17 value of the Collateral." The parties also agree that after that
18 date, the Bank advanced \$1,320,936.35 to the debtor.

19 The Bank apparently believes those facts lead to the
20 inescapable conclusion that all advances made after December 1,
21 1987 were not secured by anything but the avoidable interest in
22 equipment. Memorandum in Support of Defendant's Motion for
23 Summary Judgment at 7. I am unable to draw such a conclusion.

24
25 ⁵ The parties have agreed that, for the purpose of
26 the Stipulation of Facts, the definition of Collateral
excludes the equipment which was the subject of the
preferentially perfected security interest.

1 The record is devoid of any reference point which
2 establishes with certainty the extent to which the creditor was
3 unsecured at the time of each advance. The extent to which the
4 advances were unsecured depends upon two variables measured
5 immediately after each advance: the amount of total outstanding
6 debt and the value of the collateral. See §506(a). The
7 stipulation of facts does not set forth the total amount of
8 outstanding debt at the time of each advance. It only reflects
9 the principal balance; accruing interest is omitted. Nor is the
10 value of the collateral shown. That value necessarily varied, as
11 the debtor was both selling and replenishing the collateral.⁶

12 Under such circumstances, there is a genuine issue of
13 material fact regarding the extent to which the advances were
14 unsecured.

15 (5) The debtor did not make an otherwise unavoidable
16 transfer to or for the benefit of such creditor on account of the
17 advances.

18 Most courts which have analyzed this language have

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25 ⁶ The Stipulation of Facts recites that the debtor
26 purchased \$107,643 worth of additional inventory which
became subject to the Bank's security interest. The
timing of those purchases is unknown.

1 concluded that it means the subsequent advance remains unpaid.⁷
2 Matter of Prescott, 805 F.2d 719 (7th Cir 1986), In re Kroh Bros.
3 Development Co., 104 Bankr. 182, 195 (Bankr. W.D. Mo. 1989),
4 aff'd 114 Bankr. 658 (D.W.D.Mo. 1990). The Committee submits
5 that the definition of "benefit" should be read more broadly to
6 encompass money spent which furthers the Bank's interests. The
7 debtor gives as examples money spent by the debtor in maintaining
8 the business operation, preserving the collateral and processing
9 inventory into finished goods.

10 Assuming the more liberal standard suggested by the
11 Committee applied, the record is insufficient to establish how
12 much money was spent by the debtor which benefitted the Bank.
13 Similarly, under the traditional, more restrictive
14 interpretation, the record is insufficient to determine whether
15 the debtor repaid the advances. The parties agree that after the
16 Bank became undersecured it advanced \$1,320,936.35 to the debtor
17 and the debtor paid \$4,454,447.66 to the Bank. The parties
18 further agreed that all of the post-December 1, 1987 payments
19 were from proceeds of the Bank's collateral.

20 The Committee argues that, since the amount of money paid
21 exceeded the money loaned by a factor of three, the new value was
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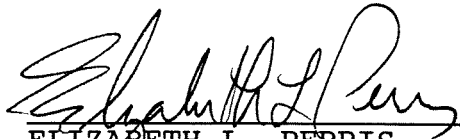
23 ⁷ Although this simplified translation of
24 §547(c)(4)(B) works in most fact situations, it has been
25 rejected when the debtor was not the party that repaid
26 the new value, Matter of Formed Tubes, Inc., 46 Bankr.
645 (Bankr. E.D. Mich. 1985). That factual situation is
not present in this proceeding; any repayments made to
the Bank on account of the new value were made by the
debtor.

1 repaid several times over. The Bank contends that since the
2 source of all payments was the collateral, all payments were
3 applied to retire secured debt. The record is inconclusive
4 regarding how the Bank actually applied the \$4,454,447 payments,
5 and the court cannot speculate on how it might have applied the
6 payments.

7 Since the record supports conflicting inferences on
8 whether the debtor made transfers for the benefit of the Bank on
9 account of the advances, there is a genuine issue of material
10 fact regarding this element.

11 CONCLUSION

12 The extended preference period for insiders applies to
13 the Bank. There is a genuine issue of material fact regarding
14 the new value defense of § 547(c)(4). Accordingly, the cross-
15 motions for summary judgment should be denied.

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18 ELIZABETH L. PERRIS
19 Bankruptcy Judge

20 cc: Robert J. Vanden Bos
21 John Casey Mills
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