

In the United States Bankruptcy Court

for the Northern District of Iowa

DOUGLAS A. CRANE
KAREN CRANE
Debtor(s).

Bankruptcy No. 97-02968-C

Chapter 7

ORDER RE OBJECTION TO EXEMPTION

On January 14, 1998, the above-captioned matter came on for hearing on the Chapter 7 Trustee's objection to exemption. Debtor Karen Crane appeared in person with her attorney, David Nadler. Trustee Harry Terpstra appeared in person. Evidence was presented after which the Court took the matter under advisement. This is a core proceeding pursuant to 28 U.S.C. §157(b)(2)(B).

FINDINGS OF FACT

The facts are largely uncontested. Debtors filed their Chapter 7 Petition on September 25, 1997. On Schedule C (Exempt Property), Debtors claimed wearing apparel and wedding rings exempt under Iowa Code sec. 627.6(1) with a value of \$4,250. On Schedule B (Personal Property), Debtors listed wedding rings with a current market value of \$4,000. No specific value was placed on the wearing apparel.

Trustee learned at the First Meeting of Creditors that the wedding ring of Debtor Karen Crane was a replacement ring. Debtor testified that she had a plain wedding band without a stone at the time of her marriage. Later, Debtors were remodeling their home and the ring was lost while she was working. The ring was never located. She was not able to place a specific value on the wedding ring but estimated that it was in the range of several hundred dollars.

Debtor testified that she eventually purchased the present wedding ring as a replacement for the wedding band. She testified that this ring cost approximately \$2,600. This ring, unlike the wedding band, is a diamond ring consisting of one 7/8 carat diamond set with eight .03 carat diamonds. The ring was appraised by Ginsberg Jewelers at an estate value of \$1,500. Debtor testified that the stones are probably more valuable than the ring. In Schedule B, the .86 carat diamond was valued at \$3,500. The eight small diamonds totaling .25 carats were valued at \$500. The total value of the diamonds in this ring was set at \$4,000.

CONCLUSIONS OF LAW

Trustee bases his objection on Iowa Code sec. 627.6(1) which establishes exemption from execution for wedding or engagement rings. Trustee states that Debtors' ring does not qualify as exempt under sec. 627.6(1) because it is a substitute ring purchased well after the Debtors' wedding.

A debtor in the State of Iowa is not entitled to elect exemptions under 11 U.S.C. §522(d). Iowa Code §627.10. In Iowa, debtors claim "state-created exemptions," and the Court looks to Iowa law to decide whether the exemptions should be allowed. In re Krantz, 97 B.R. 514, 521 (Bankr. N.D. Iowa 1989).

The exemption for wedding and engagement rings is included in Iowa Code sec. 627.6(1) which states:

A debtor who is a resident of this state may hold exempt from execution the following property:

(1) All wearing apparel of the debtor and the debtor's dependents kept for actual use and the trunks or other receptacles necessary for the wearing apparel, not to exceed in value one thousand dollars in the aggregate. In addition, the debtor's interest in any wedding or engagement ring owned and received by the debtor or the debtor's dependents on or before the date of marriage.

Trustee objects to Debtors' exemption of this ring asserting that the statute provides that a wedding ring must be purchased on or before the date of marriage to be exempt. He asserts this ring was purchased after the wedding and is, therefore, not exempt. Debtors claim this ring was purchased to replace a lost wedding band and, therefore, should retain the exempt status provided in the Code. Both parties indicate that they are unable to cite any Iowa authority on this issue. This Court has also been unable to locate any direct authority interpreting this Code section.

Prior to 1988, this statute addressed only exempt wearing apparel and contained essentially the same language as the first full sentence of the present Code section except that the value of the wearing apparel could not exceed \$200. No reference was made in that statute to exempt wedding rings.

Effective May 15, 1988, this section was amended and added the reference to a debtor's ability to exempt a wedding or engagement ring. 1988 Iowa Acts, Ch. 1255, §3. As there is no specific Iowa case law interpreting this exemption, the Court must examine the statute to determine its meaning. In so doing, the Court must confront two rules of construction; the first rule requires that the exemption law be interpreted liberally and, the second requires that the Court apply standard rules of statutory construction to discern the intent of the legislature.

Iowa exemption law is to be interpreted liberally to effectuate the purpose of the statute. In re Caslavka, 179 B.R. 141, 143 (Bankr. N.D. Iowa 1995). The basic purposes of exemption laws are to provide debtors with enough money to survive and afford a means of financial rehabilitation by protecting the family unit from impoverishment. In re Hahn, 5 B.R. 242, 244 (Bankr. S.D. Iowa 1980). While Iowa exemption statutes must be liberally construed, a court applying these principles must be careful not to depart substantially from the express language of the exemption statute or to extend the legislative grant. In re Erickson, 76 B.R. 136, 137 (Bankr. S.D. Iowa 1987).

The relevant section of the exemption statute is of recent origin. Unlike much of the property exempted in the statute, this section was not particularly intended to provide a fresh start to a debtor. It is apparent that passage of this provision was a policy decision by the Iowa legislature to exempt items which may not have significant monetary value but do have significant sentimental or emotional value. From this standpoint, wedding and engagement rings purchased prior to marriage are significantly different in character than other property exempted in Chapter 627.1.

In other words, the Court must liberally apply the statute in a manner consistent with its purpose. The purpose of this statute is to preserve to a debtor an item of sentimental value purchased prior to the wedding. This purpose differs substantially from the traditional concept of a "fresh start". The exemption of a wedding or engagement ring has little, if anything, to do with the economic fresh start of a debtor. It is the wedding or engagement ring which was owned and received by the debtor before the marriage which is provided the exempt status because of its sentimental value. While a replacement ring may, in some sense, commemorate the original engagement or wedding of the debtor, it is not fair to conclude that it holds the same level of emotional bond as the original ring which was lost. In re Dillon, 113 B.R. 46, 50 (Bankr. D. Utah 1990).

To glean the parameters of the statute as intended by the legislature, the Court must apply standard rules of statutory construction. In making this determination, the Court must apply the statutory maxim that the polestar of statutory construction is legislative intent. Iowa Dept. of Revenue v. Iowa Merit Employment Commission, 243 N.W.2d 610, 614 (Iowa 1971). The ultimate goal of a court is to ascertain and to give effect to the intention of the legislature. Kohrt v. Yetter, 344 N.W.2d 245, 246 (Iowa 1984). The goal of statutory construction is to ascertain the intent of the legislature and give it the effect intended by the legislature if at all possible. Isacson v. Iowa State Tax Commission, 183 N.W.2d 693, 695 (Iowa 1971); Hearst v. Iowa Dept. of Revenue & Finance, 461 N.W.2d 295, 299 (Iowa 1990).

In determining legislative intent, the Court must consider the language of the statute and the objects which are sought to be accomplished by the legislation. Slager v. HWA Corp., 435 N.W.2d 349, 352 (Iowa 1989). The Court must look "to what the legislature said, rather than what it should or might have said." State v. Hesford, 242 N.W.2d 256, 258 (Iowa 1976). The Court must give the words used in the statute their ordinary meaning. Id. The Court must avoid legislating in its own right and placing upon statutory language a skewed, impractical or absurd construction. Doe v. Ray, 251 N.W.2d 496, 501 (Iowa 1977). With these rules in mind, the Court will examine this statute to discern the meaning and limits placed upon this statute by the Iowa legislature.

Iowa Code sec. 627.6(1) places limits on the wedding ring exemption by setting a date before which the property must be acquired. Instead of speaking in terms of a maximum value, this section speaks in terms of a specific date prior to which an item of property must have been purchased. The exemption statute as a whole utilizes different methodologies to limit exempt property. In most instances, it is simply a maximum dollar value. However, in several sections, it also limits the exemption by providing that the item of property must be acquired within a particular time frame prior to the filing of a bankruptcy petition. It periodically speaks in combinations of both. In this instance, it requires that a particular item of property must be purchased prior to the wedding of the parties.

This temporal limitation is a critical part of sec. 627.6(1) and it is not logical to conclude that this restriction was merely advisory. The legislature clearly understood the significance of placing various types of limitations in this statute. The legislature also understood that it was placing a temporal limitation on this exemption in lieu of a dollar value. To eliminate this time limitation through judicial interpretation would leave this section with no limitation. It would be identical to ignoring dollar limitations in other parts of the exemption statute. Such an interpretation is clearly inappropriate where dollar limitations exist on exemptions and it is equally inappropriate in the present application.

The Court must consider public policy implications and place upon the statute an interpretation consistent with those considerations. If all of the respective limitations in the statute are not given statutory effect, substantial potential for abuse of the exemption statutes is created. As there is no

specific dollar value contained in this section of the statute, the only limitation on the amount of property exempted is through the date limitation imposed. Removal of this limitation by authorizing exemption of replacement or substitute jewelry would create the potential for substantial property to be diverted into jewelry under the guise of exempt property.

While there is no implication here that the loss of the wedding band and its replacement was anything other than accidental, the analysis remains the same. A wedding band worth approximately \$200 to \$300 has been replaced with a diamond ring with an estimated estate value of \$1,500 and a scheduled value of \$4,000. While the exemption statutes should be given a liberal construction in light of the purpose of the exemption statutes, they must be interpreted consistently with the language of the statute. It is simply not reasonable to conclude that a diamond ring of substantial value should be exempted under this statute at the expense of creditors by judicially interpreting the clear limitation of this section out of existence. Wikle v. Westhem, 642 F.2d 1139, 1140 (9th Cir. 1981).

Finally, the Court must determine whether this section is susceptible to a judicial interpretation which would allow subsequently acquired jewelry to fit within this exemption. This section specifically provides that the wedding or engagement ring must have been owned and received by Debtor before the date of marriage. In making this determination, the Court must avoid judicial legislation by creating rights not intended by the legislature. The language of this statute is clear and unambiguous. Only items purchased before the wedding of the parties are deemed exempt. The legislature could have included the exception sought by Debtors but chose not to do so. This Court is not at liberty to create such an exception under the guise of statutory construction. To do so would not only create an exemption not approved by the legislature but would greatly expand this section. To broaden this exemption by eliminating the time limitation is equivalent to negating the limitation completely. This clearly is not the result intended by the legislature. This section specifically provides that the wedding or engagement ring must have been owned and received by the debtor before the date of marriage. The language of the statute is clear that only those items purchased before the wedding of the parties are deemed exempt. As the language is unambiguous and clear, there exists no room for statutory interpretation.

Ultimately, it is the conclusion of this Court that this section of the exemption statute is clear on its face and contains no ambiguity. The statute requires that a ring be purchased on or before the date of marriage. This limitation is a substitute for dollar limitations contained in many other sections of the statute. As a limitation, it must be given full force and effect. The facts of this case do not allow the ring to qualify as exempt under this section. While a wedding or engagement ring has obvious sentimental value, the same cannot be said, as a matter of policy, of a substitute ring purchased years after the event in question. Public policy requires that valuable property should not be exempted at the expense of creditors without limitation. To allow the substitution of one ring for another of significantly larger value, creates potential for abuse as no dollar limitation is present in this statute.

This Court concludes that to extend this section beyond the clear language of the statute would be to create legislation not intended by the legislature. To do so would create an exemption without limitation in which jewelry of significant value could be substituted for the original engagement or wedding ring at the expense of legitimate creditors. This Court concludes that this would be an unreasonable construction of this section of the statute and is not warranted by existing case law or the clear language of the statute.

Even though this ring does not qualify under the specific exemption asserted by Debtors, this exemption is a part of other exemptions contained in sec. 627.6(1). These include all wearing apparel. This section provides that a debtor may exempt wearing apparel with a value not to exceed \$1,000.

State law, as well as Bankruptcy law, interpreting this section hold that jewelry may be considered wearing apparel. See In re Eden, 96 B.R. 895 (Bankr. N.D. Iowa 1988); Forsyth v. Forsyth, 210 N.W.2d 430 (Iowa 1973); and Neasham v. McNair, 103 Iowa 695, 72 N.W. 773 (1897). While the ring in question does not qualify under Iowa Code sec. 627.6(1) as a wedding or engagement ring owned and received by Debtor before the date of marriage, it does qualify as an item of wearing apparel subject only to the value limitation contained in this section. Though the ring does not qualify as an engagement or wedding ring, it does qualify as a piece of jewelry within the wearing apparel section. Debtor did claim this item under the general exemption of wearing apparel and wedding rings (sec. 627.6(1)) in Schedule C. Debtor placed a current market value in the Schedules of these collective items at \$4,250.

The Court makes no determination as to the current market value of this ring as the only appraisal in the file values it at estate value. The Court does not conclude that this necessarily equates to market value. Therefore, the value of the ring is undetermined as is the value of the wearing apparel. Nevertheless, Debtor is entitled to claim wearing apparel as well as this ring under the general exemption provided in sec. 627.6(1) as long as the value thereof does not exceed the statutory limit provided in sec. 627.6(1) in an aggregate amount not to exceed \$1,000.

WHEREFORE, the Trustee's objection to exemption of Debtor's ring as a wedding ring purchased on or before the date of marriage under Iowa Code sec. 627.6(1) is SUSTAINED and this ring is not exempt under that section.

FURTHER, the ring in question is listed under the Schedule C and is exempt as an item of wearing apparel under Iowa Code sec. 627.6(1) with a total value limitation of \$1,000 including all other wearing apparel.

SO ORDERED this 11th day of February, 1998.

Paul J. Kilburg
U.S. Bankruptcy Judge