NO. 25-1303

In The

United States Court Of Appeals

For The Fourth Circuit

BOBBY EUGENE GODDARD,

Debtor – Appellant,

v.

MICHAEL BRANDON BURNETT,

Trustee – Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NORTH CAROLINA AT RALEIGH

BRIEF OF APPELLANT

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UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

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- In civil, agency, bankruptcy, and mandamus cases, a disclosure statement must be filed by **all** parties, with the following exceptions: (1) the United States is not required to file a disclosure statement; (2) an indigent party is not required to file a disclosure statement; and (3) a state or local government is not required to file a disclosure statement in pro se cases. (All parties to the action in the district court are considered parties to a mandamus case.)
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No. 25-1303 Caption: Bobby Goddard v. Michael Burnett

Pursuant to FRAP 26.1 and Local Rule 26.1,

Bobby Goddard
(name of party/amicus)

who is appellant, makes the following disclosure:
(appellant/appellee/petitioner/respondent/amicus/intervenor)

1. Is party/amicus a publicly held corporation or other publicly held entity? ☐ YES ☑ NO

2. Does party/amicus have any parent corporations? ☐ YES ☑ NO
If yes, identify all parent corporations, including all generations of parent corporations:

3. Is 10% or more of the stock of a party/amicus owned by a publicly held corporation or other publicly held entity? ☐ YES ☑ NO
If yes, identify all such owners:

4. Is there any other publicly held corporation or other publicly held entity that has a direct financial interest in the outcome of the litigation? ☐YES ☑NO
If yes, identify entity and nature of interest:

5. Is party a trade association? (amici curiae do not complete this question) ☐YES ☑NO
If yes, identify any publicly held member whose stock or equity value could be affected substantially by the outcome of the proceeding or whose claims the trade association is pursuing in a representative capacity, or state that there is no such member:

6. Does this case arise out of a bankruptcy proceeding? ☑YES ☐NO
If yes, the debtor, the trustee, or the appellant (if neither the debtor nor the trustee is a party) must list (1) the members of any creditors' committee, (2) each debtor (if not in the caption), and (3) if a debtor is a corporation, the parent corporation and any publicly held corporation that owns 10% or more of the stock of the debtor.

7. Is this a criminal case in which there was an organizational victim? ☐YES ☑NO
If yes, the United States, absent good cause shown, must list (1) each organizational victim of the criminal activity and (2) if an organizational victim is a corporation, the parent corporation and any publicly held corporation that owns 10% or more of the stock of victim, to the extent that information can be obtained through due diligence.

Signature: /s/Travis Sasser Date: 04/09/2025

Counsel for: Bobby Goddard

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES

Page(s)

Cases

Statutes

Rules

Other Authotiries

STATEMENT OF JURISDICTION

The Bankruptcy Court denied confirmation of the chapter 13 plan on June 14, 2024. Mr. Goddard sought leave for an Interlocutory Appeal which was granted on October 21, 2024 by the District Court. The District Court affirmed the Bankruptcy Court on March 13, 2025. Mr. Goddard timely appealed to this Court pursuant to Fed. R. App. P 4(a)(1)(A) and 28 U.S.C. § 1291.

STATEMENT OF ISSUE

Whether the Bankruptcy Court erred in denying confirmation under 11 U.S.C. § 1325(a)(3)[1] when the chapter 13 plan provided for the retention of three financed vehicles and the plan satisfied the requirements of § 1325(b).

STATEMENT OF THE CASE

Mr. Goddard filed chapter 13 on September 1, 2023. (JA26) At the time of the filing, Mr. Goddard owned a financed 2015 Chevrolet Corvette, a financed 2021 GMC Sierra 1500 and a financed 2022 Genesis G70. (JA35, JA101 and JA110) On January 4, 2024, Mr. Goddard filed a plan where he proposed to retain the three vehicles and pay the liens through trustee disbursements. (JA129) On February 12, 2024, the Trustee objected to confirmation of the plan pursuant to § 1325(a)(3). (JA138) The Trustee asserted that the vehicles were not needed. An evidentiary

[1] Henceforth, all references to a Bankruptcy Code section will omit the use of Title 11. For example, 11 U.S.C. § 1325(a)(3) shall be referred to as § 1325(a)(3) or section 1325(a)(3).

hearing was held in Raleigh on March 19, 2024. (JA152) On June 14, 2024, the Bankruptcy Court sustained the Trustee's objection. (JA204) On June 27, 2024, Mr. Goddard filed a Notice of Appeal. On October 19, 2024, the District Court allowed for Interlocutory Appeal. (JA269). On March 13, 2025, the District Court affirmed the Bankruptcy Court. (JA279) On March 25, 2025, Mr. Goddard filed a Notice of Appeal to this Court. (JA298)

SUMMARY OF ARGUMENT

The Bankruptcy Court erred by denying confirmation of Mr. Goddard's chapter 13 plan based on a lack of good faith under § 1325(a)(3) based on the plan providing for the retention of three financed vehicles. The denial of confirmation was an inappropriate application of § 1325(a)(3) where the plan complied with the disposable income requirement of § 1325(b).

STANDARD OF REVIEW

This appeal raises a mixed question of law and fact. The Court reviews *de novo* the legal conclusions of the Bankruptcy Court and the District Court. Factual issues are reviewed based on abuse of discretion.

ARGUMENT

The Bankruptcy Court erred by applying the good faith inquiry of § 1325(a)(3) in a matter exclusively governed by the disposable income calculations of § 1325(b). While bankruptcy judges once had the discretion to determine the reasonable

necessity of secured debt payments, Congress removed that discretion with the passage of BAPCPA for debtors like Mr. Goddard, whose current monthly income exceeds the median. Here, Mr. Goddard provided for the retention and payment of vehicle payments as the law allows him to do. The Bankruptcy Court abused its discretion and erred as a matter of law by denying confirmation of the plan.

I. The history of the good faith requirement and the disposable income calculations of § 1325(b).

A. The good faith requirement

The good faith requirement for a wage-earner's bankruptcy plan confirmation originated in the Bankruptcy Act of 1938. 8 Collier on Bankruptcy ¶ 1325.LH (16th ed. 2023) ("Section 1325(a)(3) is derived from Section 651 of the former Bankruptcy Act."). The historical meaning of good faith "required merely that the plan conform with the provisions, purposes, and spirit of chapter 13." *Id.* In general, "cases finding a lack of good faith under the Bankruptcy Act involved debtor misconduct, such as fraudulent misrepresentations or serious nondisclosures of material facts." *Id.*

The Bankruptcy Code was enacted in 1978 and became effective in 1979. It included § 1325(a)(3), the current requirement that a plan be proposed in "good faith." The legislative history of § 1325(a)(3), however, did not "reveal [the] rationale" behind the language. *Id.* In the years following the Code's passage, "many bankruptcy courts sought to inject a new meaning into the good faith test, imposing quantitative minimum debt-repayment criteria[.]" *Id.* These courts interpreted good

faith to require "substantial" payments to unsecured creditors and categorically denied confirmation to plans with payments they perceived as insubstantial. *Id.*

This categorical "substantial payment" rule was a wrong interpretation of the good faith requirement. It was roundly rejected by the circuit courts. *See, e.g.*, *Deans v. O'Donnell*, 692 F.2d 968, 972 (4th Cir. 1982). And the legislative history of the 1984 amendments to the Code revealed that Congress did not wish for "good faith" to gain a "meaning different than that which it historically had." 8 Collier on Bankruptcy ¶ 1325.LH (16th ed. 2023).

In short, good faith "in section 1325(a)(3) is entitled to its historical meaning." *Id.* "The courts that expanded the good faith test under the Bankruptcy Code seem to have been guided by subjective, rather than legislative, considerations in defining the 'spirit and purpose' of chapter 13, sometimes even at the expense of the express 'provisions' of chapter 13." *Id.* Good faith continues to require what it historically required: a case-by-case determination that a plan conform to the "provisions, purpose, or spirit" of chapter 13. *Deans*, 692 F.2d at 972. It is not a vehicle for adding court-made categorical rules on top of statutory requirements.

The Supreme Court has recognized that language in the Bankruptcy Code carries over meaning from language in the Bankruptcy Act. Last term, in *Harrington v. Purdue Pharma, L.P.*, 603 U.S. 204, 223 (2024), the Court made clear that "[w]hen Congress enacted the present bankruptcy code in 1978, it did not write on

a clean slate." And in *Taggart v. Lorenzen*, 587 U.S. 554, 560 (2019), the Court said that "[w]hen a statutory term is obviously transplanted from another legal source, it brings the old soil with it." And "pre-code practice may sometimes inform our interpretation of the code's more ambiguous provisions." *Id.* Thus, the term "good faith" in the Bankruptcy Code should be given the same meaning it had under the Bankruptcy Act: the plan must conform to the provisions, purpose, or spirit of chapter 13. "When a Chapter 13 debtor calculates his repayment plan payments exactly as the Bankruptcy Code… allow him to…that exclusion cannot constitute a lack of good faith." *Ranta v. Gorman*, 721 F.3d 241, fn 15 (4th Cir. 2013).

B. The disposable income calculations of § 1325(b)

From 1938 to 1984, there was no disposable income requirement for plan confirmation. In 1984, § 1325(b) was added to require a debtor to devote hi disposable income to paying unsecured creditors once an objection to confirmation was raised. The amount of a debtor's disposable income was dealt with by the provisions of § 1325(b), not the general good faith requirement of § 1325(a)(3). In calculating this disposable income, however, the courts maintained discretion over whether certain expenses were "reasonably necessary" for the support of the debtor. *In re Alexander*, 344 B.R. 742, 746 (Bankr. E.D.N.C. 2006).

But in 2005, this discretionary power was replaced by a bright-line statutory test for debtors, like Mr. Goddard, whose income was above the median. *Id.*

Congress amended the Code with the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 ("BAPCPA"). *Id.* at 745. BAPCPA standardized § 1325(b)'s definition of disposable income. *Id.* at 747 ("The concept of disposable income as the bankruptcy system knew it has changed."). Now, disposable income is calculated by subtracting "reasonably necessary" expenses from the debtor's current monthly income. 11 U.S.C. § 1325(b)(2). And reasonably necessary expenses are in turn calculated by the "means test." *Bledsoe v. Cook*, 70 F.4th 746, 747 (4th Cir. 2023).

The means test is a formula contained in "subparagraphs (A) and (B) of section 707(b)(2)." 11 U.S.C. § 1325(b)(3). The piece of that formula most relevant here is § 707(b)(2)(A)(iii)(l) which lets a debtor deduct from his disposable income the amount of his average monthly payments to secured creditors due in the next sixty months. And there is no limit or qualification on the kinds of secured debts that can be deducted. *In re Welsh*, 711 F.3d 1120, 1135 (9th Cir. 2013). Notably, § 707(b)(2)(A)(iii)(II), which is incorporated by section § 1325(b)(3), does not permit a deduction for secured debt arrears where the collateral is not necessary for the support of the debtor and the debtor's dependents. "[W]hen Congress includes particular language in one section…but omits it in another section of the same Act, the Court generally takes the choice to be deliberate." *Barterwerfer v. Buckley*, 598 U.S. 69, 77 (2023). Congress knows how to restrict a means test deduction on collateral that is not necessary. It chose not to do so as to future secured debt payments.

Thus, under BAPCPA's means test, bankruptcy judges no longer have discretion to determine which expenses—even which kinds of secured debt payments—are reasonably necessary. As the Supreme Court has said, the means test "[s]upplants the pre-BAPCPA practice of calculating debtors' reasonable expenses on a case-by-case basis, which led to varying and often inconsistent determinations." *Ransom v. FIA Card Services*, 562 U.S. 61, 65 (2011).

II. The reasonable necessity of a certain expense is determined only by the disposable income calculations of § 1325(b), not by the good faith inquiry.

So, what standard governs the determination of whether a certain expense is reasonably necessary? Only the bright-line statutory rules of § 1325(b) enacted by BAPCPA. With these bright-line standards, Congress removed the reasonable necessity determination from the good faith inquiry. The bankruptcy court and district court in this case incorrectly held that both the disposable income calculations in § 1325(b) *and* the good faith inquiry determine whether certain expenses are reasonably necessary. But the correct rule is that only § 1325(b) governs the reasonably necessary issue.

Soon after BAPCPA's passage, a bankruptcy judge in the Eastern District of North Carolina explained how the new disposable income standards wholly replaced the good faith inquiry. *See In re Alexander*, 344 B.R. 742 (Bankr. E.D.N.C. 2006). In *Alexander*, the trustee argued that the debtors violated the good faith requirement

by not making "substantial" payments to unsecured creditors. *Id.* at 745. But the court made clear that if the debtors correctly calculated their disposable income under § 1325(b), the amount of their payments would not violate good faith. *Id.* at 752. "So long as the debtor calculates the projected disposable income with specific reference to the new definition of disposable income and commits that projected disposable income to pay unsecured creditors for the applicable commitment period, she is in good faith compliance with the Code." *Id.* The court concluded that, "[o]nce again, Congress demonstrated a determination to replace judicial discretion under general standards with precise rules-based calculations." *Id.* "The very specific language of section 1325(b)(2) displaces any such use of chapter 13 'good faith', even assuming that phrase has any relevance to minimum payments after the 1984 amendments." *Id*. At 751.

The Ninth Circuit has also held that the reasonable necessity of an expense is determined only by the § 1325(b) calculations, not the good faith inquiry. *In re Welsh*, 711 F.3d 1120 (9th Cir. 2013). In *Welsh*, a chapter 13 debtor proposed a plan with a disposable income calculated at $218.12 per month. *Id.* at 1123. This amount, under § 1325(b), constituted the monthly amount paid to the unsecured creditors every month. The trustee argued that the plan was not proposed in good faith because the debtors were making a "miniscule" monthly payment while "living in a $400,000 home" and "making payments on various luxury and unnecessary items." *Id.*

The Ninth Circuit, however, held that this argument was "foreclosed by the disposable income calculation mandated by BAPCPA." *Id.* at 1133. It explained that "in the BAPCPA, Congress chose to remove from the bankruptcy court's discretion the determination of what is or is not 'reasonably necessary.'" *Id.* (citations omitted). And in BAPCPA, Congress "did not see fit to limit or to qualify the kinds of secured payments" that can be deducted from disposable monthly income. *Id.* at 1135. The court concluded that "it would not be justified in imposing such a limitation under the guise of interpreting good faith." *Id.* (citations and quotation marks omitted).

Importantly, this Court recently agreed with the Ninth Circuit's analysis in *Welsh*. *Bledsoe v. Cook*, 70 F.4th 746, 750 (4th Cir. 2023). In *Bledsoe*, a debtor deducted the actual cost of monthly mortgage payments from the disposable income calculation. *Id.* at 747. The trustee argued, for reasons not relevant here, that they could only deduct the Local Standards amount for their mortgage deduction, not their actual payment. *Id.* The court disagreed. In so doing, the court recognized that its understanding of § 1325(b)'s disposable income calculations allow debtors to "make secured payments on luxury or comfort items" even if "little disposable income" remains for unsecured creditors. *Id.* (citing *Welsh*, 711 F.3d at 1130) (quotation marks omitted). While some may "object" to "limiting a bankruptcy court's discretion to decide which debt payments are reasonable," this objection "sounds in public policy." *Id.* Because Congress in BAPCPA "made a conscious

effort" to remove the power of bankruptcy judges to determine "what is or is not reasonably necessary," the court "decline[d] to interpret the statute to restore the very power Congress removed." *Id.*

Bledsoe does not mention the good faith inquiry of § 1325(a)(3) because the trustee did not bring a good faith objection to the plan. The Bankruptcy Court below distinguished it from this case on that basis alone. *In re Goddard*, 662 B.R. 223, 227 (Bankr. E.D.N.C. 2024). This reads *Bledsoe* as implicitly authorizing a judge to use the good faith inquiry to determine what expenses are reasonably necessary. But this makes no sense. *Bledsoe* unequivocally says that Congress in BAPCPA "'cabin[ed] the discretion of bankruptcy judges' by removing the power to determine 'what is or is not reasonably necessary.'" *Id.* at 750 (quoting *Welsh*, 711 F.3d at 1130) (some quotation marks removed). And "the means test 'supplant[ed] the previous practice of calculating debtors' reasonable expenses on a case-by-case basis.'" *Id.* (quoting *Ransom*, 562 U.S. at 65). Good faith is the ultimate "amorphous notion" "requir[ing] the use of discretion." *In re Caldwell*, 851 F.2d 852, 858 (8th Cir. 1988) (citations omitted). *Bledsoe*'s sweeping language would ring hollow indeed if it meant that BAPCPA limited all a bankruptcy judge's discretionary tools *except* the good faith inquiry. No, *Bledsoe* is best read as recognizing that the means test replaces *all other standards* for determining reasonable necessity, including good faith.

As the Ninth Circuit has said, "[t]he good faith inquiry is not a vehicle to promulgate bankruptcy requirements not already in the Code." *In re Sisk*, 962 F.3d 1133, 1150 (9th Cir. 2020). Courts should not "create additional mandatory provisions under the good faith inquiry because Congress could enact, if it chooses, further conditions for the confirmation of Chapter 13 plans." *Id.* "It should also go without saying that debtors are not acting in bad faith merely for doing what the Code permits them to do." *Id.* And as this court recently said, "general policy considerations can't trump the debtors' substantive rights under the Code." *Trantham*, 112 F.4th at 19.

III. The good faith inquiry continues to apply to matters other than the reasonable necessity of certain expenses.

The bankruptcy court below correctly held that the continued existence of § 1325(a)(3) after 2005 indicates that it remains an inquiry "separate and distinct from the means test and disposable income inquiry." *In re Goddard*, 662 B.R. at 227. Congress has not removed or amended § 1325(a)(3), so the good faith test remains alive and well. But the good faith inquiry is a totality of the circumstances test that considers a host of factors. Sometimes, Congress takes a factor that was once part of the good faith inquiry and instead fashions a bright-line rule, removing that factor from the discretion of the judge. *See Welsh*, 711 F.3d at 1129. That is what has occurred with the reasonable necessity inquiry. While it may have once been a factor in the good faith test, it now is governed by the clear standards of the

means test for debtors whose income is in excess of the median. "When Congress substantively revises a statute's text, we presume its amendment to have real and substantial effect." *Saldana v. Bronitsky*, 122 F.4th 333, 341 (9th Cir. 2024). "A significant change in language is presumed to entail a change in meaning…" *Id*. The bankruptcy court is incorrect to ignore that Congress added § 1325(b) in 1984 and standardized the analysis in 2005.

The bankruptcy court below based its decision on a necessity standard. It found that Mr. Goddard's testimony "did not establish any necessity for all three Vehicles." *Goddard*, 662 B.R. at 228. But this necessity determination is no longer part of the good faith calculus. It is part of the means test alone. Because Mr. Goddard is permitted to retain his vehicles under the means test, the Bankruptcy Court cannot second-guess Congress's policy decisions by manufacturing its own necessity standard "under the guise of interpreting good faith." *Welsh*, 711 F.3d at 1135.

The Code seeks to strike a "careful balance between the interests of creditors and debtors." *Taggart v. Lorenzen*, 587 U.S. 554, 565 (2019). The Code is "meticulous" and "mind-numbingly detailed." *Law v. Siegel*, 571 U.S. 415, 424 (2014). The result here is foreseeable and reflective of Congressional intent to not require or incentivize the surrendering of collateral even if it results in a higher distribution on unsecured claims. It was error for the Bankruptcy Court to replace

the standards of the means test, which reflect the careful balance struck by Congress, with its own standards through the good faith inquiry. After BAPCPA, that discretionary power has been removed from the bankruptcy judges.

CONCLUSION

The debtor has the exclusive and valuable right to propose a plan. *Bullard v. Blue Hills Bank*, 575 U.S. 496, 505 (2015). Plans are flexible. *Hulburt v. Black*, 925 F.3d 154, 158 (4th, 2019). The bar for a finding of bad faith is a high one. *Janvey v. Romero*, 883 F.3d 406, 412 (4th Cir. 2018). That high bar was not met here. The Bankruptcy Court erred as a matter of law and abused its discretion by denying confirmation of the plan where the plan met the pertinent requirements of the Bankruptcy Code and was not an abuse of the provisions, purposes or spirit of the Bankruptcy Code.

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STATEMENT REGARDING ORAL ARGUMENT

Mr. Goddard respectfully requests oral argument. This appeal presents an important issue in Chapter 13 practice. Even if simply focusing on the Eastern District of North Carolina, the impact would be hundreds of cases per year where the judge's trustee routinely raises good faith objections for "high" vehicle payments under §1325(a)(3). Mr. Goddard believes that oral argument would help the Court analyze this issue.

/s/Travis Sasser
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Counsel for Bobby Goddard

CERTIFICATE COMPLIANCE

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