

Community Property

Spring 2005

Professor Schwartz

Two Hour Exam

Question One

Allocate One Hour -- 50 percent of exam grade

The following events occurred in California.

Hinkley owned a lucrative pet supply company. In 1995 he invested some of his savings in a loft in San Francisco. He made a down payment of \$50,000 and financed the \$450,000 balance with a loan from Bank secured against the property.

Hinkley met Wanna through match.com in 1996. They were married in 1997 and Wanna moved into the loft with Hinkley. Wanna had a good job in Petaluma and she soon discovered that she hated the daily commute. In 1998, she and Hinkley purchased a cottage in Petaluma for \$500,000, taking title as joint tenants. They made a \$100,000 down payment from their joint account. In order to qualify for a mortgage of \$400,000 from Credit Company, Wanna and Hinkley were required to provide earnings statements, income tax records, and a statement regarding the financing of the San Francisco loft. Wanna frequently stayed in the cottage during the week, coming back to San Francisco on weekends and holidays.

During the marriage, Wanna and Hinkley deposited their incomes into a joint account. They used funds from the account to pay the mortgages on both properties, although Wanna used most of a \$100,000 inheritance from her mother to add an extra bedroom and bathroom to the cottage.

In 2000, Wanna paid a surprise visit to Hinkley at his office and warehouse. Hinkley was experimenting with a new organic dog food and had just given a large serving of the test product to two Doberman Pinschers. Wanna startled them when she entered and they attacked her, causing her to suffer injuries requiring a two-month hospitalization. After Wanna was released, she never returned to the loft, but went to stay in Petaluma. Hinkley, who was preoccupied with the development of the prototype dog food, barely noticed her absence. In 2002, Hinkley marketed his new dog food, which market analysts correctly predicted to be worth a fortune.

In 2003, Wanna filed for divorce. The hospital bill had not been paid.

1. What are the respective rights of Hinkley and Wanna in the San Francisco loft?
2. What are the respective rights of Hinkley and Wanna in the Petaluma cottage?
3. What are the respective rights of Hinkley and Wanna in the organic dog food?
4. What rights does the Hospital have against Hinkley and Wanna for payment of Wanna's medical bills?

Question Two

Allocate One Hour -- 50 percent of exam

Bobby and Wykeisha were married in Columbia, a common-law state, in 1979. They separated in 1981, and Wykeisha moved to California, where she found employment as a social worker. In 1982, Bobby told Wykeisha that their divorce was final and she told Bobby she never wanted to see him again.

Wykeisha became engaged to Hollander. Shortly before their marriage ceremony at San Francisco City Hall in 1984, Wykeisha and Hollander orally pledged to each other that all income and assets acquired during marriage would be community property.

In 1987, Wykeisha's father died and she received \$100,000 from his life insurance policy. She invested \$80,000 of the cash in a limited partnership that operated a chain of health clubs. Wykeisha attended semi-annual meetings but otherwise acted in the capacity of a silent partner. The health clubs were an enormous success and by 2002 her investment had tripled.

In 1989, five years after Hollander and Wykeisha were married, an old friend repaid Hollander \$30,000 he borrowed from Hollander in 1981. Hollander, who had never expected to see the money again, was elated. With the help of Wykeisha, who contributed the remaining \$20,000 of the insurance proceeds she received from her father, Hollander immediately invested the \$50,000 in a coin and stamp store that he purchased as a sole proprietorship. He put in long hours to make it a success. Hollander had some luck with estate sales and by 2002 the business was worth \$150,000.

In 2000, Wykeisha's employer purchased for her and continued to pay all premiums on a \$500,000 life insurance policy. The policy designates her surviving husband as the beneficiary.

In 2002, Wykeisha died in a work-related accident. Her will left all her community property to her two children and all her separate property to the Red Cross, a national charity.

Bobby resurfaced and could prove that he and Wykeisha were never divorced.

Considering the competing claims by the other interested parties, what are Hollander's rights with respect to:

- a. Wykeisha's investment in the health club chain.
- b. The coin and stamp store.
- c. Wykeisha's life insurance proceeds.