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The *Rooker-Feldman* Doctrine in the Bankruptcy Context

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Introduction

An unfavorable state court judgment can lead to the losing party seeking a second bite at the apple in federal court, but the *Rooker-Feldman* doctrine blocks second attempts with limited exceptions. The jurisdictional doctrine is derived from two United States Supreme Court cases: *Rooker v. Fidelity Trust Co.* and *District of Columbia Court of Appeals v. Feldman*, where the collective holdings stand for the principle that a state court judgment is conclusive and that the lower federal courts lack jurisdiction to review such judgments.¹ The Supreme Court is the only federal court authorized to review state court judgments.²

The *Rooker-Feldman* doctrine serves as a jurisdictional barrier of entry into federal courts for bankruptcy litigation. The doctrine stays narrow enough not to preclude all state court

¹ See *Rooker v. Fidelity Trust Co.*, 263 U.S. 413, 415 (1923) (holding that the district court modifying the state court judgment "would be an exercise of appellate jurisdiction," thus violating the original jurisdiction of the lower federal courts); *District of Columbia Court of Appeals v. Feldman*, 460 U.S. 462, 482 (1983) (holding that if "claims presented to a United States district court are inextricably intertwined with the state court's denial in a judicial proceeding...then the district court is in essence being called upon to review the state-court decision. This the district court may not do").

² See 28 U.S.C. § 1257; *Rooker*, 263 U.S. 413 (1923); *Feldman*, 460 U.S. 462 (1983).

appeals to the federal judiciary but assists in precluding parties seeking to relitigate the same arguments made in state court. This article addresses key case law in the context of bankruptcy surrounding the *Rooker-Feldman* doctrine. Part I explains potential limitations that arise from the strong preclusive effect that *Rooker-Feldman* can have on state court appeals. Part II outlines the federal exemptions and provision of title 11 of the United States Code (the "Bankruptcy Code") that allow for certain matters from state court to be litigated, while also enabling *Rooker-Feldman* to be a beneficial tool in precluding other state court issues that should be kept out of federal court. Finally, Part III examines a Fifth Circuit decision that presents a prime example of the doctrine in action.

Discussion

I. Potential *Rooker-Feldman* Downsides as too Strong of a Jurisdictional Device

Rooker-Feldman is narrow in that it precludes only appeals by the losing party to a state court judgment when they are attempting to appeal to the federal docket for a favorable reversal.³ Federal district courts are bestowed with "strictly original jurisdiction" and thus, lack the ability to serve as an appellate outlet for a losing party in a state court judgment.⁴ The doctrine was refined and narrowed by the Supreme Court's 2005 *Exxon Mobil Corp. v. Saudi Basic Industries Corp.* ruling where it held the doctrine only applied to lower federal courts.⁵

The Bankruptcy Court for the District of Michigan highlighted that "[t]he Bankruptcy Code was not intended to give litigants a second chance to challenge a state court judgment, nor did it intend for the Bankruptcy Court to serve as an appellate court."⁶ When referring to

³ See *Exxon Mobil Corp. v. Saudi Basic Industries Corp.*, 544 U.S. 280, 284 (2005).

⁴ See *id.* (citing *Rooker*, 263 U.S. at 416 (1923)).

⁵ See *id.*

⁶ *Clark v. Clark (In re Clark)*, 662 B.R. 568, 603 (Bankr. E.D. Mich. 2024).

preclusion, an important distinction to make is the difference between dismissal due to *Rooker-Feldman*, and dismissal on issue or claim preclusion grounds. A *Rooker-Feldman* dismissal, unlike the other two preclusion forms, is not on the merits.⁷

Despite the benefits that the doctrine has as a jurisdictional tool in the context of bankruptcy cases, *Rooker-Feldman* has some limitations, stemming mostly from federal jurisdictional restrictions. The lower federal courts lack appellate jurisdiction; thus they do not hear state court judgment appeals.⁸ There are potential issues with bankruptcy judges or other federal judges disagreeing with the state court judges, and how the doctrine limits further judicial review to resolve the matter. Bankruptcy courts cannot vacate a state court judgment, and relitigate it federally, for the sole purpose of disagreeing with the result.⁹ The *Exxon Mobil* decision explicitly narrowed *Rooker-Feldman* for the purposes of disallowing losing parties a second chance at a favorable judgement in federal court.¹⁰ Thus, *Rooker-Feldman* can be seen to have a limiting impact on the redress an appellant would seek for a wrongly decided verdict.

II. Exceptions to *Rooker-Feldman* in the Bankruptcy Context

Certain federal exemptions and Bankruptcy Code provisions allow courts to hear certain matters, despite *Rooker-Feldman*. Congress can create exceptions to the *Rooker-Feldman* doctrine, when necessary, by granting exclusive jurisdiction to the lower federal courts.¹¹ As a

⁷ See *Jensen v. Foley*, 295 F.3d 745, 747–49 (7th Cir. 2002).

⁸ See 28 U.S.C.S. §§ 1331–1332, 1334.

⁹ See *In re James*, 940 F.2d 46, 52 (3d Cir. 1991).

¹⁰ See *Exxon Mobil*, 544 U.S. at 283–84 (explaining how lower federal courts were extending the doctrine "far beyond the contours of the *Rooker* and *Feldman* cases, overriding Congress' conferral of federal-court jurisdiction" before this decision).

¹¹ See *Carmona v. Carmona*, 603 F.3d 1041, 1051 (9th Cir. 2010) (citing *In re Gruntz*, 202 F.3d 1074, 1078–79 (9th Cir. 2000) (finding that Congress can expressly utilize parts of the Bankruptcy Code for *Rooker-Feldman* exceptions)).

result, *Rooker-Feldman* does not preclude all federal review.¹² Another way in which Congress can enable federal review is through creating specific bankruptcy exemption enactments. The Supreme Court has said that, "Congress, because its power over the subject of bankruptcy is plenary, may by specific bankruptcy legislation create an exception to that principle and render judicial acts taken with respect to the person or property of a debtor whom the bankruptcy law protects nullities and vulnerable collaterally."¹³

Further, the bankruptcy courts can use Bankruptcy Code provisions to alter state court judgments in specific instances that enable federal review and avoid *Rooker-Feldman* preclusion. The doctrine does not repeal the bankruptcy court's right to enforce the automatic stay in a case, even if there is a final state court ruling.¹⁴ The *Gruntz* Court differentiated between a "core" and "non-core" proceeding in bankruptcy, where non-core proceedings are considered not central to the debtor-creditor restructuring relationship and do not involve a title 11 right of action.¹⁵ The imposition of the automatic stay, however, was determined to be a "core" proceeding and the bankruptcy court concluded that "*Rooker-Feldman* does not allow a state court to interfere with the core administrative functions of an operative bankruptcy."¹⁶ The power of the Bankruptcy Code to avoid *Rooker-Feldman* preclusion is summarized by the Ninth Circuit in saying that "[t]he *Rooker-Feldman* doctrine has little or no application to bankruptcy cases that invoke

¹² *See id.*

¹³ *Kalb v. Feuerstein*, 308 U.S. 433, 438–39 (1940).

¹⁴ *See Gruntz*, 202 F.3d at 1083 (holding that state court alterations of the automatic stay do not bind federal courts).

¹⁵ *See id.* at 1081.

¹⁶ *Id.* at 1083–84 (finding that federal court authority was not precluded for purposes of enforcing the automatic stay).

substantive rights under the Bankruptcy Code, or that, by their very nature, could arise only in the context of a federal bankruptcy case."¹⁷

The presence of fraud in a state court judgment can, depending on the circuit, allow for a lower federal court to review the judgment.¹⁸ Despite not granting federal jurisdiction, the Bankruptcy Appellate Panel for the Sixth Circuit in *In re Singleton* outlined the view that there is an exception to *Rooker-Feldman* in the case the state court judgment was "procured through fraud, deception, accident, or mistake...."¹⁹ The *Singleton* Court made sure to specify, however, that *Rooker-Feldman* still precludes state court judgments that may have been erroneous.²⁰ The Third Circuit found that Great Western's allegations of a "corrupt conspiracy" by certain parties fell within the outlined fraud exception, making *Rooker-Feldman* inapplicable.²¹ The source of Great Western's alleged injuries were the fraudulent actions of the defendant, not of the state court judgment, so *Rooker-Feldman* was found to be inapplicable as preclusive authority.²² Despite affirming the judgment of the district court and dismissing the case, the case was not dismissed on *Rooker-Feldman* grounds.²³

The Ninth Circuit has also affirmed their determination that *Rooker-Feldman* does not bar federal jurisdiction of a state court appeal when "[a] plaintiff asserts as a legal wrong an

¹⁷ *In re Sasson*, 424 F.3d 864, 871 (9th Cir. 2005) (citing Gruntz, 202 F.3d at 1079).

¹⁸ *See In re Singleton*, 230 B.R. 533 (B.A.P. 6th Cir. 1999) (finding that a state court judgment fraudulently obtained would not violate *Rooker-Feldman* if relitigated federally); *Great Western Mining & Mineral Co. v. Fox Rothschild LLP*, 615 F.3d 159 (3d Cir. 2010) (explaining that a state court action involving a "corrupt conspiracy" falls within a *Rooker-Feldman* exception); *Benevidez v. Cty. of San Diego*, 993 F.3d 1134 (9th Cir. 2021) (holding that asserted "legal wrongs" fit within the fraud exception of *Rooker-Feldman*).

¹⁹ *Singleton*, 230 B.R. at 538.

²⁰ *See id.*

²¹ *See Great Western*, 615 F.3d at 161.

²² *See id.* at 173.

²³ *See id.*

allegedly illegal act or omission by an adverse party."²⁴ *Rooker-Feldman* was found not to bar jurisdiction for the state court appeal because the claims on appeal were based on legal wrongs and were not directly related to challenging the specific decision of the state court.²⁵

Similar to fraud, bankruptcy-specific information incorrectly understood at the state court level can also result in a *Rooker-Feldman* exception. A discharge order interpreted incorrectly as part of a state court judgment is not subject to *Rooker-Feldman* and can be litigated in federal court, per the Sixth Circuit.²⁶

Circuit courts have found that avoidance actions constitute independent claims under the Bankruptcy Code, which fall outside the preclusive reach of *Rooker-Feldman*. The Third Circuit examined this issue and found that *Rooker-Feldman* will not apply when the federal plaintiff is alleging injuries that were not caused by the legal action of the entering of the state court judgment, which would lead to the federal action being unrelated to the "bona fides of the prior [state] judgment."²⁷ Despite losing in state court, the Chapter 11 debtor in *Philadelphia Entertainment* claimed that the revocation of its gaming license for its slot machine business was a fraudulent transfer for which the debtor should have received some value in state court but did not.²⁸ Consistent with *Exxon Mobil*, the Third Circuit found that the federal courts were not conducting appellate review because the appeal was not concerning the "bona fides of the prior judgment."²⁹ Thus *Rooker-Feldman* did not apply because the plaintiff was not complaining of

²⁴ Benevidez, 993 F.3d at 1142 (quoting *Noel v. Hall*, 341 F.3d 1148, 1164 (9th Cir. 2003)).

²⁵ See Benevidez, 993 F.3d at 1142.

²⁶ See *Isaacs v. DBI-ASG Coinvestor Fund, III, LLC (In re Isaacs)*, 895 F.3d 904, 911 (6th Cir. 2018) (citing *Hamilton v. Herr*, 540 F.3d 367, 373–74 (6th Cir. 2008)).

²⁷ See *Philadelphia Entertainment & Dev. Partners, LP v. Dep't of Revenue (In re Philadelphia Entertainment & Dev. Partners, LP)*, 879 F.3d 492, 500 (3d Cir. 2018).

²⁸ See *id.* at 502.

²⁹ See *id.* at 500.

the legal injury caused by the state judgment.³⁰ Instead, the plaintiff was alleging that the gaming license revocation was a fraudulent transfer and thus should be avoided.³¹

III. *In re Gilani* as a Case Study on *Rooker-Feldman* Application

A Fifth Circuit decision displays the continued ways in which the federal judiciary utilizes the doctrine to preclude state court actions. *In re Gilani* presents a "paradigm" *Rooker-Feldman* situation where a state court judgment for breach of contract against the debtor precluded him from seeking relitigation in federal court, which he sought to bring to combat what he thought was a "void [state court] judgment."³² The Fifth Circuit outlined that it "did not matter whether a federal district or appellate court agreed or disagreed with the state-court judgment."³³ Regardless of the possibility of a wrongfully decided outcome, the Fifth Circuit concluded that the proper course of action was for state appellate court review instead of the federal courts.³⁴ Therefore, the Circuit affirmed the district court decision to dismiss the debtor's motion on jurisdictional grounds.³⁵

Conclusion

The *Rooker-Feldman* doctrine is a key jurisdictional device to limit the federal appellate review of state court judgments that has safeguards in place for exceptions, when necessary. The doctrine limits the opportunities for a losing party to get a second chance to garner a judgment in their favor, when there was a fully determined state judgment. The doctrine further serves as a jurisdictional tool by promoting judicial economy of the federal docket. Without *Rooker-*

³⁰ *See id.*

³¹ *See id.* at 495.

³² *See Gilani v. Wynn Las Vegas, L.L.C. (In re Gilani)*, No. 23-40477, 2024 U.S. App. LEXIS 2049, at *6 (5th Cir. 2024).

³³ *See id.* at *6.

³⁴ *See id.*

³⁵ *See id.* at *8.

Feldman, there may be an increased amount of litigation in federal court by the losing party seeking another chance at a favorable verdict. Additionally, the hierarchy of the federal courts is preserved through adhering to *Rooker-Feldman* and its exceptions, as the Supreme Court serves as the federal court with permission for reviewing finalized state court appeals.³⁶ Finally, the narrow nature of *Rooker-Feldman* serves to keep out of the lower federal courts state court judgments that are final and adjudicated, yet allow for certain necessary bankruptcy litigation to occur in the lower courts within the exceptions.³⁷

³⁶ See 28 U.S.C. § 1257.

³⁷ See *Exxon Mobil*, 544 U.S. at 284.