

Press Release

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FOR IMMEDIATE RELEASE

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COURT URGED TO STRIKE DOWN WASHINGTON IOLTA PROGRAM (*WLF v. Legal Foundation of Washington*)

The Washington Legal Foundation (WLF) today asked the U.S. Court Supreme Court to agree to review and to strike down Washington State's IOLTA (Interest on Lawyers' Trust Accounts) program on the grounds that the program violates the constitutional rights of Washington citizens. IOLTA is a program under which Washington (and all other states) require many professionals to turn over interest generated by their clients' trust funds to a fund used to finance legal aid organizations.

WLF has battled IOLTA programs in the courts for many years, and the issue of whether those programs violate private property rights is now ripe for final resolution by the Supreme Court. The federal appeals court in San Francisco last November issued a ruling upholding the Washington IOLTA program, while the federal appeals court in New Orleans last October issued a ruling striking down the Texas IOLTA program. In today's filing, WLF asks the Supreme Court to review the Washington ruling; Texas officials are expected to seek Supreme Court review of the Texas IOLTA ruling in the near future. The Supreme Court is highly likely to grant review; it very often does so for the purpose of resolving conflicting lower-court decisions.

In its brief filed today in *Washington Legal Found. v. Legal Found. of Washington*, WLF argued that the IOLTA program violates the Fifth Amendment rights of Washington citizens by taking their property without just compensation. WLF's brief noted that a 1998 Supreme Court decision, *Phillips v. Washington Legal Found.* (which arose in connection with the Texas IOLTA litigation), determined that interest earned on IOLTA accounts belongs not to the state but to those whose funds generated the interest. WLF argued that, in light of the *Phillips* ruling, the government may not confiscate interest earned on IOLTA accounts without compensating the owners of that interest income.

Established in 1984, the Washington IOLTA program initially applied only to client trust

funds being held by attorneys. The Washington Supreme Court recently expanded the program to cover real-estate-closing professionals as well. Under the expanded rule, nonlawyers licensed by the court to draw up legal documents to effectuate real estate closings (known as "Limited Practice Officers" or "LPOs") must turn over interest earned on funds held in connection with the closings to the Legal Foundation of Washington ("LFofW"), a nonprofit corporation established by the court to administer the Washington IOLTA program. WLF's lawsuit focuses in particular on the application of the IOLTA program to LPOs.

Besides WLF, other plaintiffs in the lawsuit are Allen Brown and Greg Hayes (two Washington citizens who regularly engage in real estate transactions and object to the diversion of their interest income to LFofW), and Dennis Daus and Dian Maxwell (two LPOs who object to being forced to participate in the IOLTA program).

IOLTA programs have become increasingly popular with the organized bar in recent years as a method of funding legal services programs that are unable to obtain funding from state legislatures. The Washington program requires attorneys and LPOs to place all client trust funds into interest-bearing checking accounts. An attorney or LPO who so desires may establish a separate account for a client so that all interest earned accrues to that client. But if doing so is administratively infeasible -- either because the funds being held are too small in amount or are being held for too short a time period -- then the attorney or LPO is required to place the funds into a special IOLTA account, and all interest earned on that IOLTA account must be forwarded to the LFofW, which in turn distributes the funds to a variety of nonprofit organizations that provide legal services.

IOLTA programs, now in existence in all 50 states, have become a major source of funding for legal services groups. In recent years, between \$100 and \$150 million per year has been raised through IOLTA programs nationwide, between \$2.5 and \$4.0 million per year in Washington alone.

In their petition for Supreme Court review, WLF and the other plaintiffs argue that while the entire Washington IOLTA program is unconstitutional, the LPO portion of the program is particularly objectionable, since it so obviously increases the costs of real estate transactions.

WLF prepared its petition with the *pro bono* assistance of Harvard Law Professor Charles Fried, former Solicitor General of the United States and former Justice on the Massachusetts Supreme Judicial Court; Donald B. Ayer and Cynthia L. Bauerly of the Washington, D.C. office of Jones, Day, Reavis & Pogue; and James J. Purcell of Seattle, Washington.

WLF is a public interest law and policy center with supporters in all 50 states, including many in Washington. It devotes a substantial portion of its resources to promoting economic liberty and a limited and accountable government.

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For further information, contact WLF Chief Counsel Richard Samp, (202) 588-0302.