DISTRICT OF COLUMBIA COURT OF APPEALS

HEW Federal Credit Union v. Battle

772 A.2d 252 (D.C. 2001) · Decided May 10, 2001

SUMMARY

The District of Columbia Court of Appeals held that a guarantor of a secured loan is a "debtor" under Article 9 of the Uniform Commercial Code even when the guarantor does not own the collateral. Because the creditor failed to provide the guarantor notice of the foreclosure sale, the creditor was barred from recovering a deficiency judgment against her.

CASE DETAILS

COURT	District of Columbia Court of Appeals
WRITING FOR THE COURT	Farrell, Associate Judge; Farrell; Steadman; Washington
JURISDICTION	District of Columbia
DECIDED	May 10, 2001
DISPOSITION	affirmed
PROCEDURAL POSTURE	HEW Federal Credit Union appealed the Superior Court's grant of summary judgment to guarantor Sharon Battle in an action seeking to recover a deficiency balance after disposition of secured collateral.
STANDARD OF REVIEW	The court reviewed the grant of summary judgment.
PRECEDENTIAL VALUE	published precedential opinion
PARTIES	HEW Federal Credit Union v. Sharon Battle

TOPICS

secured transactions · uniform commercial code · commercial litigation · statutory interpretation · remedies

PRACTICE AREAS

commercial law · secured transactions · contract guaranties · civil procedure

QUESTIONS PRESENTED

1. Whether a guarantor of a secured loan who does not own the collateral is a debtor under Article 9 of the Uniform Commercial Code.

2. Whether a creditor must provide that guarantor with reasonable notice of a foreclosure sale under D.C. Code § 28:9-504(3).
3. Whether the creditor's failure to provide the required notice precludes recovery of a deficiency judgment against the guarantor.

HOLDINGS

1. A guarantor who owes payment or other performance of a secured obligation is a debtor within the meaning of D.C. Code § 28:9-105(1)(d), even if the guarantor does not own or have rights in the collateral.
2. A secured creditor must send reasonable notification of the time and place of a public sale, or of the time after which a private sale or other disposition will occur, to a guarantor who may be liable for the deficiency.
3. Under the District of Columbia's absolute-preclusion rule, a secured creditor that fails to provide the required notice of sale forfeits the right to recover a deficiency judgment; recovery is limited to the sale proceeds.

KEY QUOTATIONS

> *““Debtor” means the person who owes payment or other performance of the obligation secured, whether or not he owns or has rights in the collateral, and includes the seller of accounts or chattel paper.”* (772 A.2d at 253-54)

> *“It is simply inequitable, therefore, to permit the secured party, who fixes the amount of the guarantor’s liability in the first step of the collection effort by repossession and sale, to deny in the face of this economic reality that the guarantor is in fact its debtor.”* (772 A.2d at 255)

FACTUAL BACKGROUND

HEW Federal Credit Union loaned Steve M. Rhinehart $30,000 to purchase a Porsche and obtained a security interest in the vehicle. Sharon Battle executed a separate guaranty requiring her to pay Rhinehart's loan obligation if he defaulted, although she did not own the collateral. After Rhinehart defaulted and surrendered the vehicle, HEW repossessed and sold it for $12,000 without giving Battle advance notice of the foreclosure sale, then sued for a deficiency.

PROCEDURAL HISTORY

HEW loaned Steve M. Rhinehart $30,000 secured by a Porsche, and Battle separately guaranteed Rhinehart's repayment obligation. After Rhinehart defaulted, surrendered the vehicle, and HEW sold it without giving Battle notice of the sale, HEW sued Rhinehart and Battle for the deficiency. The Superior Court entered a default judgment against Rhinehart and granted Battle summary judgment because she had not received the notice required by D.C. Code § 28:9-504(3). The Court of Appeals affirmed.

DISPOSITION

affirmed

CASES CITED

- Fleming v. Carroll Publishing Co., 581 A.2d 1219, 1223-24 (D.C. 1990)
- Randolph v. Franklin Investment Co., 398 A.2d 340, 343, 345, 347 (D.C. 1979) (en banc)
- Rhoten v. United Virginia Bank, 221 Va. 222, 269 S.E.2d 781, 784-85 (1980)
- Tropical Jewelers, Inc. v. Nationsbank, N.A., 781 So. 2d 892 (Fla. Dist. Ct. App. 2000) (en banc)
- Gambo v. Bank of Maryland, 102 Md. App. 166, 648 A.2d 1105, 1108 n.4 (1994)
- Ford Motor Credit Co. v. Lototsky, 549 F. Supp. 996, 1003-04 (E.D. Pa. 1982)
- Rushton v. Shea, 423 F. Supp. 468, 469-70 (D. Del. 1976)
- Chase Manhattan Bank, N.A. v. Natarelli, 93 Misc. 2d 78, 401 N.Y.S.2d 404, 412 (N.Y. Sup. Ct. 1977)

INSTRUCTIONS FOR AN AI ASSISTANT