SUPREME COURT OF MINNESOTA

Shaw Acquisition Co. v. Bank of Elk River

639 N.W.2d 873 (Minn. 2002) · No. C2-00-1803 · Decided March 7, 2002

SUMMARY

The Minnesota Supreme Court held that, in the foreclosure of a split-priority mortgage, an intervening mechanic's lien must be satisfied from foreclosure-sale proceeds after the mortgagee receives the amount secured in the first-priority position, but before the junior portion of the mortgage. The court affirmed summary judgment for Shaw Acquisition Company, relying on common-law priority principles and concluding that Minn. Stat. §§ 580.10 and 580.225 did not clearly abrogate those principles.

CASE DETAILS

COURT	Supreme Court of Minnesota
WRITING FOR THE COURT	Page, Justice
JURISDICTION	Minnesota
DECIDED	March 7, 2002
DOCKET	C2-00-1803
DISPOSITION	affirmed
PROCEDURAL POSTURE	The Bank appealed from summary judgment entered in favor of Shaw Acquisition Company, a mechanic's lien claimant. The Minnesota Court of Appeals affirmed, and the Minnesota Supreme Court granted review.
STANDARD OF REVIEW	Statutory construction is reviewed de novo. The summary-judgment ruling was also reviewed under the applicable de novo standard.
PRECEDENTIAL VALUE	Published precedential opinion of the Supreme Court of Minnesota
PARTIES	The Bank of Elk River v. Shaw Acquisition Company, d/b/a Stewart Lumber Company

TOPICS

mechanics liens · foreclosure · mortgages · construction law · statutory interpretation

PRACTICE AREAS

real estate · construction law · commercial litigation · remedies

QUESTIONS PRESENTED

1. Whether, under Minn. Stat. §§ 580.10 and 580.225, a mechanic's lien in the second-priority position may be satisfied from foreclosure-sale proceeds after the mortgagee has received satisfaction of the senior portion of a split-priority mortgage but before the junior portion of that mortgage is satisfied.
2. Whether the Bank's foreclosure-sale bids created a surplus available to satisfy Stewart Lumber's mechanic's lien.
3. Whether the Bank could redeem from the junior portion of its split-priority mortgage.

HOLDINGS

1. When a mortgage has split priorities, an intervening mechanic's lien may be satisfied from foreclosure-sale proceeds after the mortgagee has received satisfaction of the mortgage advances holding first priority, before the mortgagee receives satisfaction of its junior mortgage advances.
2. The parties' stipulation, adopted as the district court's findings and judgment, controlled the priority arrangement applied to the foreclosure proceeds.
3. A construction lender seeking priority for future advances should enter into a written construction loan agreement making the advances obligatory.
4. The court declined to decide whether a split-priority mortgagee may redeem from the junior portion of its mortgage because the issue was not squarely presented and the record did not establish that the Bank actually redeemed.

KEY QUOTATIONS

> *"When property is sold under the execution of the power of sale, the proceeds of the sale stand in place of the property sold."* (639 N.W.2d at 877)

> *"The rights of the parties, as they before existed, are not transposed by the sale, and the court will apply the fund in accordance with their rights as they existed in respect to the land."* (639 N.W.2d at 877)

> *"After Stewart Lumber has received satisfaction for its mechanic's lien, the Bank may claim satisfaction for the portions of its mortgages in the third-priority positions."* (639 N.W.2d at 877)

> *"The solution under Minnesota law for a construction lender seeking to protect itself from the loss of its mortgage's priority is to enter into a written construction loan agreement making all advances obligatory."* (639 N.W.2d at 878)

FACTUAL BACKGROUND

Allied Mortgage gave the Bank mortgages on two adjoining properties, but the parties did not enter into written construction loan agreements. The Bank made some advances before the mechanic's lien attached and additional advances afterward; under the parties' stipulation adopted by the district court, the later advances were junior to

Stewart Lumber's mechanic's lien. The Bank later purchased both properties at foreclosure sales by bidding the full mortgage indebtedness, and Shaw sought to satisfy its lien from the foreclosure-sale proceeds.

PROCEDURAL HISTORY

Shaw Acquisition commenced a mechanic's lien foreclosure action in district court. The parties stipulated to the priority of the Bank's mortgage advances and Shaw's mechanic's lien, and the district court entered judgment adopting that stipulation. After the Bank purchased the properties at mortgage foreclosure sales, Shaw sought payment from the foreclosure proceeds. The district court granted Shaw summary judgment, the court of appeals affirmed, and the supreme court affirmed.

DISPOSITION

affirmed

CASES CITED

- Shaw Acquisition Co. v. Bank of Elk River, 627 N.W.2d 365, 369 (Minn. App. 2001)
- Sorenson v. St. Paul Ramsey Med. Ctr., 457 N.W.2d 188, 190 (Minn. 1990)
- Finlayson v. Crooks, 47 Minn. 74, 79, 49 N.W. 398, 400 (1891)
- Home Lumber Co. v. Kopfmann Homes, Inc., 535 N.W.2d 302, 304 (Minn. 1995)
- Carlson v. Headline, 100 Minn. 327, 330, 111 N.W. 259, 260 (1907)
- Ness v. Davidson, 49 Minn. 469, 477, 52 N.W. 46, 47 (1892)
- Hage v. Drake Marble & Tile Co., 145 Minn. 113, 115, 176 N.W. 192, 193 (1920)
- Brown v. Crookston Agric. Ass'n, 34 Minn. 545, 546, 26 N.W. 907, 907 (1886)
- Model Home Bldg., Inc. v. Turnquist, 258 Minn. 53, 56, 102 N.W.2d 717, 719 (1960)
- L.M. Sullivan Co. v. Essex Broadway Sav. Bank, 117 N.H. 985, 380 A.2d 1087, 1089 (1977)
- Ly v. Nystrom, 615 N.W.2d 302, 314 (Minn. 2000)
- Bloom v. Am. Express Co., 222 Minn. 249, 253, 23 N.W.2d 570, 573 (1946)
- Landers-Morrison-Christenson Co. v. Ambassador Holding Co., 171 Minn. 445, 449, 214 N.W. 503, 505 (1927)
- State v. Maidi, 520 N.W.2d 414, 420 (Minn. App. 1994), aff'd, 537 N.W.2d 280 (Minn. 1995)
- National City Bank of Minneapolis v. Lundgren, 435 N.W.2d 588, 591-92 (Minn. App.), rev. denied (Minn. Mar. 29, 1989)
- Axel Newman Heating & Plumbing Co. v. Sauers, 234 Minn. 140, 145, 47 N.W.2d 769, 772 (1951)
- Erickson v. Ireland, 134 Minn. 156, 158, 158 N.W. 918, 919 (1916)