SUPREME COURT OF PENNSYLVANIA

Pioneer Commercial Funding Corp. and Bank One, Texas, N.A. v. American Financial Mortgage Corp. and Thomas F. Flatley and Northwest Funding, Inc. and CoreStates Bank, N.A.

579 Pa. 275 (2004) (Pa. 2004) · Decided August 19, 2004

SUMMARY

The Pennsylvania Supreme Court addressed a commercial priority dispute involving a bank's exercise of setoff against a deposit account and a competing claim to the deposited proceeds. The court held that the transaction was a sale-on-credit subject to a security interest, rather than a true bailment involving absolute retention of title, and that the trial court improperly failed to apply governing commercial-law principles. The judgment was vacated and the matter was remanded for further proceedings.

CASE DETAILS

COURT	Supreme Court of Pennsylvania
WRITING FOR THE COURT	Justice Saylor; Chief Justice Cappy; Justice Castille; Justice Nigro; Justice Eakin; Justice Baer
JURISDICTION	Pennsylvania
DECIDED	August 19, 2004
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	CoreStates appealed from a judgment entered after a jury verdict finding it liable for conversion and punitive damages based on its setoff of funds deposited in AFMC's account. The Pennsylvania Superior Court affirmed liability but ordered a retrial on punitive damages. The Supreme Court of Pennsylvania granted CoreStates' appeal.
STANDARD OF REVIEW	The court reviewed the denial of judgment notwithstanding the verdict by examining the record in the light most favorable to Pioneer to determine whether the evidence was sufficient to sustain the bailment theory.
PRECEDENTIAL VALUE	published precedential opinion

PARTIES	CoreStates Bank, N.A. v. Pioneer Commercial Funding Corp., Bank One, Texas, N.A.

TOPICS

secured transactions · uniform commercial code · commercial litigation · conversion · appellate procedure

PRACTICE AREAS

commercial law · secured transactions · banking law · commercial litigation · appellate procedure

QUESTIONS PRESENTED

1. Whether Pennsylvania commercial-law principles governing the priority of a bank's right of setoff over a perfected security interest applied to Pioneer's conversion claim.
2. Whether the transaction involving the second loan portfolio was a true bailment involving Pioneer's retained absolute title or a sale-on-credit transaction subject to Pioneer's perfected security interest.
3. Whether CoreStates was entitled to judgment notwithstanding the verdict based on its lawful right to set off the funds.
4. Whether a new trial was required because the trial court gave the jury legally erroneous and incomplete instructions.

HOLDINGS

1. A plaintiff's characterization of an action as conversion does not make governing commercial-law principles irrelevant; a conversion claim cannot succeed when the defendant's conduct was lawfully justified.
2. As a matter of law, the transfer of the second loan portfolio to AFMC was a sale-on-credit transaction subject to a security interest, not a true bailment involving Pioneer's absolute ownership.
3. CoreStates was entitled to judgment notwithstanding the verdict because Pioneer's interest was, at most, a perfected security interest and did not constitute absolute ownership sufficient to defeat CoreStates' setoff.

KEY QUOTATIONS

> *“Pioneer's styling of the action under the rubric of conversion did not undermine the relevance of governing principles of commercial law, since a claim of conversion cannot be sustained in the face of lawful justification on the part of the asserted tortfeasor.”* (827)

> *“Accordingly, based on the evidence viewed in the light most favorable to Pioneer, we hold as a matter of law, that the transfer of the second loan portfolio to AFMC was in the nature of a sale-on-credit transaction, subject to a security interest, as opposed to a true bailment.”* (832)

> *“The order of the Superior Court is reversed and the matter is remanded for entry of judgment notwithstanding the verdict in favor of CoreStates.”* (834)

FACTUAL BACKGROUND

Pioneer, a warehouse lender, funded mortgage-loan originators and generally retained a security interest in the notes and their sale proceeds. In an unusual arrangement involving RNG and AFMC, Pioneer funded a second loan portfolio, released the notes to AFMC, and permitted AFMC to sell them to Norwest, with the approximately $1.78 million proceeds wired to AFMC's settlement account at CoreStates. CoreStates had imposed debit restraints and later set off the funds against AFMC's approximately $4.5 million overdraft indebtedness after investigating suspected check kiting.

PROCEDURAL HISTORY

Pioneer sued CoreStates, AFMC, Thomas Flatley, and Norwest in conversion and sought punitive damages after CoreStates froze and later set off approximately $1.78 million in proceeds from a mortgage-loan sale deposited into AFMC's settlement account. The common pleas court refused to apply commercial-law priority principles, instructed the jury primarily on whether Pioneer had an ownership interest, and entered judgment for Pioneer after the jury awarded compensatory and punitive damages. The Superior Court affirmed liability but ordered a punitive-damages retrial. The Supreme Court reversed and remanded for entry of judgment notwithstanding the verdict in favor of CoreStates.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Reverse the Superior Court's order and remand for entry of judgment notwithstanding the verdict in favor of CoreStates.

CASES CITED

- Pennsylvania National Bank & Trust Co. v. CCNB Bank N.A., 446 Pa. Super. 625, 667 A.2d 1151 (1995)
- Sherts v. Fulton National Bank, 342 Pa. 337, 21 A.2d 18 (1941)
- Stevenson v. Economy Bank of Ambridge, 413 Pa. 442, 197 A.2d 721 (1964)
- Royal Bank of Pa. v. Selig, 434 Pa. Super. 537, 644 A.2d 741 (1994)
- Ryan Bros., Inc. v. Curwensville State Bank, 382 Pa. 248, 114 A.2d 178 (1955)
- Thomas v. First Nat'l Bank of Scranton, 376 Pa. 181, 101 A.2d 910 (1954)
- Adamski v. Miller, 545 Pa. 316, 681 A.2d 171 (1996)
- Smalich v. Westfall, 440 Pa. 409, 269 A.2d 476 (1970)
- Kirkbride v. Lisbon Contractors, Inc., 521 Pa. 97, 555 A.2d 800 (1989)
- Regions Bank v. Provident Bank, Inc., 345 F.3d 1267 (11th Cir. 2003)
- In re Alabama Land and Mineral Corp., 292 F.3d 1319 (11th Cir. 2002)
- Pittsburgh Nat'l Bank v. United States, 657 F.2d 36 (3d Cir. 1981)
- Commercial Nat'l Bank of Pa. v. Seubert & Assoc., Inc., 807 A.2d 297 (Pa. Super. Ct. 2002)

- Middle Atlantic Credit Corp. v. First Pa. Banking & Trust Co., 199 Pa. Super. 456, 185 A.2d 818 (1962)
- In re Townsend's Estate, 349 Pa. 162, 36 A.2d 438 (1944)
- E.F. Houghton & Co. v. Doe, 427 Pa. Super. 303, 628 A.2d 1172 (1993)

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