COURT OF APPEALS FOR THE FIRST DISTRICT OF TEXAS

FCLT Loans Asset Corp. and Timothy J. Blair, Class Representative v. FirstCity Financial Corporation

FCLT Loans · No. 01-06-00798-CV · Decided June 4, 2009

SUMMARY

The Texas Court of Appeals held that JPMorgan Chase Bank, as successor trustee and contract holder of First City Bancorporation’s employee retirement trust, held legal title to demutualization proceeds arising from Prudential group annuity contracts. The court reversed summary judgment awarding the proceeds to First City Financial Corporation because the trial court had not determined the beneficial ownership of the proceeds under the trust. The case was remanded for further proceedings under the Texas Trust Code.

CASE DETAILS

COURT	Court of Appeals for the First District of Texas
WRITING FOR THE COURT	Jane Bland; Jennings; Hanks
JURISDICTION	Texas
DECIDED	June 4, 2009
DOCKET	01-06-00798-CV
DISPOSITION	reversed_and_remanded
PROCEDURAL POSTURE	Appeal from a summary judgment awarding ownership of interpleaded demutualization proceeds to FirstCity Financial Corporation.
STANDARD OF REVIEW	Summary judgment is reviewed de novo. The reviewing court takes as true evidence favorable to the nonmovant, indulges every reasonable inference in the nonmovant's favor, and resolves doubts in the nonmovant's favor. When all parties move for summary judgment, the court considers the evidence presented by all sides and, if the trial court erred, renders the judgment the trial court should have rendered.
PRECEDENTIAL VALUE	published
PARTIES	FCLT Loans Asset Corp., Timothy J. Blair, Class Representative v. FirstCity Financial Corporation

TOPICS

trust administration · trusts · beneficiary litigation · summary judgment · interpleader

PRACTICE AREAS

trusts · civil procedure · appellate procedure · commercial litigation

QUESTIONS PRESENTED

1. Whether the trial court properly granted summary judgment declaring FirstCity Financial Corporation the owner of the demutualization proceeds.
2. Whether the successor trustee's status as contract holder gave JPMorgan legal title to the interpleaded proceeds.
3. Whether the trial court could determine the ultimate beneficial ownership and proper distribution of the proceeds without affirmative relief and participation by the successor trustee under the Texas Trust Code.

HOLDINGS

1. JPMorgan, as successor trustee and contract holder of the group annuity contracts, is the legal owner of the interpleaded demutualization proceeds as a matter of law; FCLT, Blair, and FirstCity Financial Corporation were not entitled to the proceeds as a matter of law.
2. The trial court was not in a position to determine the beneficial ownership or proper disbursement of the proceeds without affirmative relief from and participation by JPMorgan as successor trustee.
3. The trial court erred in granting summary judgment in favor of FirstCity Financial Corporation and declaring it the owner of the proceeds.

KEY QUOTATIONS

> *“We hold that JPMorgan, as successor trustee, is the legal owner of the interpled demutualization proceeds as a matter of law, and the trial court thus erred in granting summary judgment in favor of FCFC on that issue.”*

> *“Because the trustee’s participation is necessary to determine the appropriate disbursement of the demutualization proceeds, in consideration of the competing parties’ interests and the status of the annuities purchased by the Plan, we deny the parties’ agreed motion to abate this appeal, reverse the judgment and remand the cause to the trial court for further proceedings consistent with this opinion.”*

FACTUAL BACKGROUND

First City established and funded a defined-benefit retirement plan and placed it in a trust administered by First City National Bank of Houston. The bank, acting as trustee, purchased two Prudential group annuity contracts, which named the bank as contract holder. After the bank became insolvent, successor entities and ultimately JPMorgan asserted rights as successor trustee, and Prudential's demutualization generated stock worth more than $17 million in exchange for the policyholder membership interests attached to the contracts. FCLT, FirstCity Financial Corporation, and representatives of former plan participants disputed entitlement to the proceeds.

PROCEDURAL HISTORY

Prudential commenced an interpleader action after FCLT, FirstCity Financial Corporation, and JPMorgan asserted competing claims to proceeds arising from the demutualization of Prudential group annuity contracts. The trial court discharged Prudential, recognized JPMorgan as successor trustee and contract holder, and then granted FirstCity Financial Corporation's motion for summary judgment while denying the motions of FCLT and Blair. FCLT and Blair appealed.

DISPOSITION

reversed_and_remanded

REMAND INSTRUCTIONS

Remand for further proceedings consistent with the opinion, including proceedings under the Texas Trust Code addressing construction of the trust, the competing parties' interests, the status of the annuities, and the appropriate disbursement of the demutualization proceeds. All other pending motions were dismissed as moot.

CASES CITED

- Valence Operating Co. v. Dorsett, 164 S.W.3d 656, 661 (Tex. 2005)
- Provident Life & Accident Ins. Co. v. Knott, 128 S.W.3d 211, 215-16 (Tex. 2003)
- Sci. Spectrum, Inc. v. Martinez, 941 S.W.2d 910, 911 (Tex. 1997)
- FM Props. Operating Co. v. City of Austin, 22 S.W.3d 868, 872 (Tex. 2000)
- Clements v. Minn. Life Ins. Co., 176 S.W.3d 258, 263 (Tex. App.—Houston [1st Dist.] 2004, no pet.)
- Olmos v. Pecan Grove Mun. Util. Dist., 857 S.W.2d 734, 741 (Tex. App.—Houston [14th Dist.] 1993, no writ)
- Hughes Aircraft Co. v. Jacobson, 525 U.S. 432, 439-40, 119 S. Ct. 755, 761 (1999)
- NationsBank of N.C., N.A. v. Variable Annuity Life Ins. Co., 513 U.S. 251, 254, 115 S. Ct. 810, 812 (1995)
- Bank of N.Y. v. Janowick, 470 F.3d 264, 267 (6th Cir. 2006)