

SUMMARY OF CONTENTS

VOLUME 1

- 1 Commitments to Lend
- 2 Documentation and Administration of the Loan Relationship
- 3 The Loan in Default
- 4 The Obligation of Good Faith and Fair Dealing
- 5 Usury and Common Law Theories of Lender Liability
- 5A Guarantors and Lender Liability
- 6 Lenders and Civil Racketeer Influenced and Corrupt Organizations Act Liability

VOLUME 2

- 7 Equitable Subordination
- 8 Fraudulent Conveyances and Preferences
- 9 Liability for Environmental Cleanup
- 10 Lender Liability Under the Securities Laws and Other Federal Statutes
- 11 The Fate of the Borrower's Claims and Defenses When the Bank Fails
- 12 Liquidated, Compensatory, and Punitive Damages
- 13 Litigation Strategies

TABLE OF CASES

INDEX

APPENDIXES: Selected Cases

(The appendixes are on the accompanying CD.)

TABLE OF CONTENTS

About the Author	iii
Preface.....	v
Summary of Contents	vii

VOLUME 1

Chapter 1

Commitments to Lend

¶ 1.01	Introduction	1-1
	[1] Lender Liability Risks	1-1
	[2] Deciding to Grant or Deny Credit—The Business/Legal Interface	1-1
	[3] Purpose of the Written Loan Commitment	1-2
¶ 1.02	Forms of Commitment Letters and Other Indicia of Preliminary Agreements to Lend Money	1-3
	[1] Nonbinding Term Sheet or Letter of Intent	1-3
	[2] Formal Written Loan Commitment	1-5
	[a] Bilateral and Unilateral Agreements	1-5
	[b] Principal Provisions of the Loan Commitment	1-6
	[i] The Parties	1-6
	[ii] Type and Purpose of the Loan	1-6
	[iii] Amount of the Lender's Commitment	1-6
	[iv] Interest and Other Compensation to Lender	1-7
	[v] Repayment and Prepayment	1-7
	[vi] Subordination of Other Debt	1-8
	[vii] Collateral	1-8
	[viii] Guaranties or Other Assurances of Payment	1-9
	[ix] Conditions Precedent to Lender's Duty to Advance	1-9
	[x] Commitment Fees and Expenses	1-10.1
	[xi] Period for Acceptance and Effectiveness of Commitment	1-11
	[xii] Boilerplate Provisions	1-11
	[3] Oral Loan Commitment	1-12
¶ 1.03	Elements of Contract Formation	1-14
	[1] Capacity and Authority to Contract	1-14
	[2] Intent to Enter Into a Contract	1-14
	[a] Expression of Intent Not to Be Bound	1-15
	[b] Part Performance	1-16
	[c] Agreement on All Material Terms	1-17
	[d] Complexity of the Transaction	1-17
	[3] Definiteness of All Material Terms	1-18
	[4] Offer and Acceptance	1-20
	[5] Consideration	1-22
¶ 1.04	Breach of the Loan Commitment	1-22
	[1] Breach by Failure to Negotiate or Establish Open Terms in Good Faith	1-22
	[2] Satisfaction or Nonsatisfaction of Conditions Precedent	1-24
	[3] Violation of Legal Lending Limit as Defense to Breach of Commitment ...	1-25
¶ 1.05	Other Lender Liability Risks Arising From Loan Commitments	1-26
	[1] Liability to Third Parties Who Rely on Commitment	1-26

[2]	Liability to Participants for Unauthorized Waiver of Conditions to Closing	1-27
[3]	Regulatory Matters	1-27
[4]	Bankruptcy Implications	1-27
[5]	Solvency Issues	1-28

Chapter 2

Documentation and Administration of the Loan Relationship

¶ 2.01	Documentation of the Loan Relationship	2-1
[1]	Understanding the Business Deal	2-1
[2]	Use of Forms	2-2
[3]	Totality of the Documents	2-2.1
[4]	Significant Loan Provisions	2-2.1
[a]	Demand Notes	2-2.1
[i]	Pure Demand Note	2-3
[ii]	Impure Demand Note	2-3
[iii]	Danger of Using Demand Notes	2-4
[b]	General Insecurity Clauses	2-4
[c]	Material Adverse Change Clauses	2-5
[d]	Management Change Clauses	2-5
[e]	Events of Default	2-6
[f]	Discretionary Advance Clauses	2-6
[g]	Lockbox Arrangements	2-7
[h]	Jury Waiver Provisions	2-7
[i]	Arbitration Provisions	2-12
[i]	Federal Arbitration Act	2-18
[ii]	Uniform Arbitration Act	2-35
[iii]	Administrative Dispute Resolution Act	2-37
[iv]	Advantages of Arbitration to Lenders	2-37
[v]	Disadvantages of Arbitration to Lenders	2-38
[j]	Forum Selection Clauses	2-40
[k]	Choice-of-Law Provisions	2-42
[l]	Merger Clauses	2-43
[m]	Prohibition Against Oral Modifications	2-43
[n]	Prohibition Against Transfer or Assignment	2-45
[5]	Loan Participation Agreements	2-46
¶ 2.02	Loan Closing	2-47
[1]	Review and Discussion of Documents	2-47
[2]	Oral Modifications	2-47
[3]	Accidental Waiver of Conditions Precedent	2-47
[4]	Lead Lender's Waiver of Conditions Precedent	2-47
¶ 2.03	Administration of the Loan Relationship	2-48
[1]	Memos to the File	2-48
[2]	Dealing With Overdrafts	2-49
[3]	Acceptance of Late Payments	2-49
[4]	Decision to Move the Borrower Out	2-49
[5]	Loan Procedure Manuals	2-50
[6]	Credit Inquiries	2-50
[7]	Use of Consultants	2-50

Chapter 3

The Loan in Default

¶ 3.01	Introduction	3-1
¶ 3.02	Staffing the Workout	3-1
	[1] Transferring the Loan to Workout	3-1
	[2] Retaining Workout Counsel	3-1
¶ 3.03	Learning the Facts	3-2
	[1] Interviewing the Account Officer	3-2
	[2] Reviewing the Loan Documents	3-2
	[3] Evaluating Environmental Risks	3-2
	[4] Evaluating the Lender's Collateral Position	3-3
	[5] Meeting With the Borrower and Guarantors	3-3
¶ 3.04	Formulating a Workout Strategy	3-3
¶ 3.05	Workout Agreement	3-3
	[1] Time Frame	3-4
	[2] Guarantors as Parties to the Workout Agreement	3-4
	[3] Release of All Prior Conduct	3-4
	[4] Including Financial Projections	3-4
	[5] Curing Document Deficiencies	3-5
	[6] Obtaining New Collateral	3-5
	[7] Dealing With Possible Liquidation	3-5
¶ 3.06	Monitoring the Account	3-5
¶ 3.07	Failed Workout	3-7
	[1] Think Twice Before Suing on a Deficiency	3-7
	[2] Bankruptcy Alternative	3-7
	[3] Loan Modifications	3-8
	[4] Mortgage Foreclosure	3-9

Chapter 4

The Obligation of Good Faith and Fair Dealing

¶ 4.01	Introduction	4-1
¶ 4.02	Law of Good Faith and Fair Dealing	4-1
	[1] Obligation of Good Faith Under the Common Law	4-1
	[2] Obligation of Good Faith Under the Uniform Commercial Code	4-5
	[a] General Good Faith Provision	4-5
	[b] Good Faith Defined	4-9
	[c] Nonwaiver Provision	4-10
	[d] Acceleration-at-Will Provision	4-10
	[3] Definitions of Good Faith	4-13
	[4] Determining Good Faith	4-14
	[a] Subjective Standard	4-14
	[b] Objective Standard	4-15
	[c] Mixed Subjective-Objective Standard	4-16
¶ 4.03	When Good Faith Becomes an Issue	4-17
	[1] When the Lender Has Discretion	4-17
	[a] KMC Decision	4-17
	[b] Cases Following KMC	4-18
	[c] Other Cases Involving a Lender's Discretion	4-20
	[d] Cases Upholding the Terms of an Agreement	4-26
	[2] When the Lender Wrongfully Accelerates	4-28

- [3] When the Lender Works Outside the Loan Agreement 4-29
 - [a] False Sense of Security 4-29
 - [b] Course of Dealing 4-30
- [4] When the Lender Violates Its Own Policies 4-33
- [5] Breach of Implied Promise Not to Sue in Bad Faith 4-34
- [6] When the Lender Violates Provisions of a Statute 4-34
- ¶ 4.04 Remedy for Breach of the Obligation of Good Faith 4-36
 - [1] Compensatory Damages 4-36
 - [2] Punitive Damages 4-37
 - [3] Bad Faith as an Affirmative Defense to Foreclosure 4-38
- ¶ 4.05 Tort of Breach of the Obligation of Good Faith 4-38
- ¶ 4.06 Avoidance Techniques 4-41
- Exhibit 4.1: Plaintiff’s Opening Statement in KMC Co. v. Irving Trust Co. 4-43

Chapter 5

Usury and Common Law Theories of Lender Liability

- ¶ 5.01 Introduction 5-1
- ¶ 5.02 Interest and Usury 5-1
 - [1] Introduction 5-1
 - [2] Scope of Usury Laws 5-3
 - [3] Intent 5-11
 - [4] Disclaimer of Usurious Intent—Savings Clauses 5-12
 - [5] Devices to Conceal Usury: Substance Over Form 5-14
 - [6] Acceleration Clauses 5-16
 - [7] Loans to Corporations 5-17
 - [8] The Commitment to Lend 5-18
 - [9] Usury in Ponzi Schemes 5-18
 - [10] Usury Savings Clauses 5-19
- ¶ 5.03 Breach of Contract 5-20
 - [1] Breach of Contract Remedy 5-22
 - [a] Remedy of Damages 5-22
 - [b] Equitable Remedies 5-23
 - [2] Actions Constituting Breach of Contract 5-25
 - [a] Concept of Material Breach 5-25
 - [b] Parol Evidence Rule and Statute of Frauds 5-27
 - [c] Refusal to Release Collateral 5-34
 - [d] Unconscionability 5-35
 - [e] Breach of Contract Claims When Applicable Law Provides No Private Right of Action 5-36
- ¶ 5.04 Breach of Fiduciary Duty 5-36
 - [1] Nature of the Fiduciary Relationship 5-36
 - [a] Common Law of Fiduciary Duty 5-36
 - [b] Lender as Fiduciary 5-38.1
 - [c] Common Law Duty to Disclose Information 5-43
 - [2] Lender Liability Case Law 5-44
 - [a] Duty to Disclose When Advising a Customer 5-44
 - [b] Duty to Depositors 5-51
 - [c] Duty to Customers With Adverse or Competing Interests 5-52
 - [d] Duty to Loan Participants 5-56
 - [e] Duty to Construction Borrowers 5-58
 - [f] Duty as Pledgee 5-59

	[g] Duty to Trust Beneficiaries	5-60
¶ 5.05	Alter Ego Liability	5-62
	[1] Disregard of the Corporate Personality	5-62
	[2] Determining the Requisite Degree of Control	5-63
¶ 5.06	Common Law Fraud	5-65
	[1] Fraudulent Misrepresentation	5-65
	[2] Negligent Misrepresentation	5-66
	[3] Constructive Fraud	5-71
	[4] Defenses to an Action for Fraudulent Misrepresentation	5-72
	[a] Elements of the Claim	5-72
	[b] Capacity of the Defendant	5-76
	[c] Statutes of Frauds	5-76
	[5] Breach of a Duty to Disclose Information	5-78
	[6] Lender Liability Case Law	5-81
	[a] Fraud Upon Borrowers	5-81
	[b] Fraud by Borrowers	5-85
	[c] Fraud Upon Other Creditors	5-86
	[i] Responses to Credit Inquiries	5-86
	[ii] Providing Information to Loan Participants	5-89
	[iii] Miscellaneous	5-93
	[d] Fraud Upon Sureties and Guarantors	5-95
	[e] Fraud Upon Takeout Purchasers	5-96
	[f] Fraud by Third Parties	5-96
	[7] Damages	5-97
	[8] Credit Inquiry Avoidance Techniques	5-98
	[9] Statutes of Limitation	5-99
¶ 5.07	Duress	5-100
	[1] Relationship Between Bargaining Power and Coercion	5-100
	[2] Economic Duress	5-101
	[3] Remedy When Duress Is Proven	5-102
	[4] Lender Liability Case Law	5-102
¶ 5.08	Interference Torts	5-104
	[1] Interference With Contractual or Prospective Business Relations	5-104
	[2] Lender Liability Case Law	5-106
	[a] Breach of Loan Commitment as Tortious Interference	5-106
	[b] Obtaining Secured Position as Tortious Interference	5-107
	[c] Exercise of Control as Tortious Interference	5-109
	[d] Conversion	5-109
	[3] Interference With Corporate Governance	5-109
¶ 5.09	Defamation	5-111
	[1] Truth as an Absolute Defense	5-113
	[2] Defense of Privilege	5-114
¶ 5.10	Negligence	5-115
	[1] Duty to Exercise Reasonable Care	5-115
	[2] Lender Liability Case Law	5-116
	[a] Under the Uniform Commercial Code	5-116
	[b] Under the Common Law	5-116
	[c] Lender Negligence and SBA Guaranties	5-128
¶ 5.11	Prima Facie Tort	5-128.2
¶ 5.12	Estoppel and Waiver	5-131
	[1] Introduction	5-131
	[2] Equitable Estoppel	5-131

	[3] Promissory Estoppel	5-134
	[4] Waiver	5-136
¶ 5.13	Privacy	5-138
¶ 5.14	Unfair and Deceptive Practices	5-152

Chapter 5A

Guarantors and Lender Liability

¶ 5A.01	Introduction	5A-1
¶ 5A.02	Guarantor's Right to Raise Lender Liability Claims and Defenses	5A-9
¶ 5A.03	Lender Liability at the Contract Execution Stage	5A-12
¶ 5A.04	Subsequent Alteration of the Borrower's Contract	5A-18
¶ 5A.05	Impairment of Collateral	5A-20
¶ 5A.06	Notice to Guarantor	5A-24
¶ 5A.07	Lender's Satisfaction of Security Interest	5A-26
	[1] Former UCC Article 9	5A-26
	[2] Revised UCC Article 9	5A-32
¶ 5A.08	Effect of Bankruptcy on Guarantor's Liability	5A-32
¶ 5A.09	Assignment of Note to Coguarantor	5A-33

Chapter 6

Lenders and Civil Racketeer Influenced and Corrupt Organizations Act Liability

¶ 6.01	Introduction	6-1
¶ 6.02	Statutory Framework	6-1
	[1] Operative Provisions	6-1
	[2] Statutory Definitions	6-2
	[3] Other Key Statutory Provisions	6-3
¶ 6.03	Application of Racketeer Influenced and Corrupt Organizations Act to Lenders ...	6-4
	[1] Prime Rate Cases	6-4
	[2] Control Over the Debtor	6-5
	[3] Breach of Commitments to Lend	6-7
	[4] Attempts at Avoiding or Limiting Loss	6-8
	[5] Limited Partnership Loans	6-10
	[6] Bank Mergers and Takeovers	6-11
	[7] Selling Notes or Participation Interests in Loans	6-11
	[8] Fraudulent Inducements	6-12
	[9] Bank Failures	6-13
	[10] Securities Brokerage Failures	6-13
	[11] Operation of Trust Departments	6-14
	[12] Miscellaneous Cases	6-14
¶ 6.04	Judicial Interpretations of Key Racketeer Influenced and Corrupt Organizations Act Provisions	6-16
	[1] Pattern of Racketeering Activity	6-16.1
	[a] Sedima, SPRL v. Imrex Co.	6-17
	[b] Post-Sedima, SPRL Decisions	6-17
	[c] HJ, Inc. v. Northwestern Bell Telephone Co.	6-21
	[d] Relationship Between the Predicate Acts	6-25
	[2] Enterprise	6-25
	[a] What Constitutes a RICO Enterprise	6-25
	[b] Requiring a Person/Enterprise Dichotomy	6-30

	[i] Section 1962(c)	6-30
	[ii] Section 1962(a)	6-33
	[iii] Section 1962(b)	6-34
	[c] Distinguishing Between the Person and the Enterprise	6-34
[3]	Conduct or Participate	6-37
[4]	Control or Interest	6-40
[5]	Standing/Causation	6-40
	[a] Causation in Fact	6-41
	[i] Section 1962(c)	6-41
	[ii] Section 1962(a)	6-42
	[iii] Section 1962(b)	6-45
	[b] Proximate Causation	6-45
	[c] <i>Brandenburg v. Seidel</i> : Lack of Causation in Fact and Proximate Causation Examined	6-46.1
	[d] Additional Standing Requirements	6-46.2
[6]	Interstate Commerce	6-48
[7]	Conspiracies	6-48
¶ 6.05	Other Racketeer Influenced and Corrupt Organizations Act Issues	6-52
	[1] Mail and Wire Fraud	6-52
	[2] Aiding and Abetting Liability	6-54
	[3] Vicarious Liability	6-55
	[4] Statute of Limitations	6-57
	[5] Standard of Proof	6-61
	[6] Pleading Fraud With Particularity	6-61
	[7] Jurisdiction	6-63
	[8] Arbitration of Racketeer Influenced and Corrupt Organizations Act Claims	6-63
	[9] Forum Selection Clauses	6-63
	[10] <i>Res Judicata</i> and Collateral Estoppel	6-64
	[11] Availability of Equitable Remedies	6-64
	[12] Availability of Contribution or Indemnification	6-66
	[13] Damages and Attorney's Fees	6-66
	[14] Class Action Suits	6-67
	[15] Criminal Forfeiture	6-68
	[16] The Effect of Bankruptcy	6-69
	[17] The <i>In Pari Delicto</i> Defense	6-69
¶ 6.06	Significant U.S. Supreme Court Cases	6-70
¶ 6.07	Conclusion	6-73

VOLUME 2

Chapter 7 Equitable Subordination

¶ 7.01	Introduction	7-1
	[1] The Bankruptcy Code	7-1
	[a] Contractual Subordination	7-1
	[b] Equitable Subordination	7-2
	[c] Burden of Proof on a Claimant	7-3
	[2] Risk to a Lender	7-4
	[3] Appropriate—and Inappropriate—Use of the Remedy	7-4
¶ 7.02	Equitable Subordination Case Law	7-6

[1]	Subordination of Shareholder Claims	7-7
[a]	Undercapitalization and Domination	7-7
[b]	Shareholder Breach of Fiduciary Duty	7-10
[2]	Subordination of Nonshareholder Claims	7-12
[a]	Conduct Warranting Subordination	7-12
[b]	Lender Control Warranting Subordination	7-15
[c]	Risk of Being Deemed an Insider	7-15
[d]	Parameters of Legitimate Lender Action	7-17
[i]	Conditioning Advances on the Pledge of Collateral	7-17
[ii]	Agreements Granting Control	7-18
[iii]	Postpetition Financing	7-20
[e]	Control Subordination Cases	7-21
[3]	Subordination of Innocent Creditors Claiming Penalties	7-26
[4]	Subordination of Innocent Creditors With Claims Other Than Penalties	7-29
¶ 7.03	Avoidance Techniques	7-32

Chapter 8

Fraudulent Conveyances and Preferences

¶ 8.01	Introduction	8-1
¶ 8.02	Law of Fraudulent Conveyances	8-1
[1]	Common Law	8-1
[2]	Uniform Fraudulent Conveyance Act	8-2
[3]	Bankruptcy Code	8-3
[4]	Uniform Fraudulent Transfer Act	8-8
¶ 8.03	Application of Fraudulent Conveyance Law to Lenders	8-10
[1]	Leveraged Buyouts	8-10
[a]	The Gleneagles Decision	8-12
[i]	Structure of the Buyout	8-12
[ii]	Finding of Actual Fraud	8-12.1
[iii]	Finding of Constructive Fraud	8-12.1
[iv]	Valuation of Assets on a Quick Sale Basis	8-12.2
[v]	Total Invalidation of Liens	8-13
[vi]	Defenses Not Available to Lender's Assignee	8-13
[b]	Other Leveraged Buyout Decisions	8-14
[c]	Protecting the Lender in a Leveraged Buyout	8-16
[i]	Insolvency on a Balance Sheet Basis	8-16
[ii]	Insufficient Working Capital	8-18
[iii]	Intent to Incur Debts Beyond Ability to Pay	8-19
[2]	Foreclosure Sales	8-19
[a]	Cases Invalidating Foreclosure Sales	8-19
[b]	The "Middle Ground" Cases	8-19
[c]	Cases Upholding Foreclosure Sales	8-20
[d]	Mortgagee's Position After Avoidance	8-21
[e]	Protective Measures	8-22
¶ 8.04	Lender Liability for Preferential Transfers	8-22
[1]	Lender as an Insider	8-23
[a]	Cases Involving Power to Compel Payment	8-23
[b]	Cases Involving a Close Relationship	8-25
[2]	Lender With an Insider Guaranty	8-25
[a]	The DePrizio Rationale	8-26

	[b] Avoiding the One-Year Preference Period	8-29
	[3] Lender Paid in Ordinary Course of Business	8-30
	[4] Set-Offs	8-31
Exhibit 8.1:	Uniform Fraudulent Conveyance Act	8-33
Exhibit 8.2:	Uniform Fraudulent Transfer Act	8-36
Exhibit 8.3:	Bankruptcy Code Provisions Applicable to Fraudulent Transfers and Preferences	8-43

Chapter 9

Liability for Environmental Cleanup

¶ 9.01	Introduction	9-1
¶ 9.02	Comprehensive Environmental Response, Compensation, and Liability Act/ Superfund Amendments and Reauthorization Act of 1986	9-1
	[1] Potentially Responsible Parties	9-2
	[2] Response Costs	9-3
	[3] Strict, Several, and Joint Liability	9-5
	[4] Defenses to Liability	9-5
	[5] State Equivalents	9-8
	[6] Threat to the Lender	9-8
	[a] Diminution of Property Value	9-8
	[b] Insolvent Borrower and Contaminated Property	9-8
	[i] Dischargeability of the Claim	9-8.1
	[ii] Impact of the Automatic Stay	9-9
	[iii] Abandonment of Hazardous Sites	9-11
	[iv] Cleanup as Administrative Expense	9-11
	[c] Lender as Owner or Operator	9-12
	[d] The EPA Rule	9-20.1
	[e] The Asset Conservation, Lender Liability, and Deposit Insurance Protection Act of 1996	9-24
	[7] Protective Measures	9-27
	[a] Environmental Audit	9-27
	[b] Loan Documentation	9-28
	[i] Representations and Warranties	9-28
	[ii] Indemnity Provisions	9-29
	[c] Insurance	9-29
	[d] Participation in the Borrower's Business	9-36
	[e] Activities in the Event of Default	9-37
	[f] FDIC Guidelines	9-37
	[g] The Brownfields Economic Redevelopment Initiative	9-39
¶ 9.03	Resource Conservation Recovery Act	9-42
	[1] Civil and Criminal Fines and Penalties	9-42
	[2] Threat to the Lender and Protective Measures	9-44
¶ 9.04	Restrictions on Land Development	9-46
¶ 9.05	Superlien Statutes	9-48
¶ 9.06	Common Law Nuisance Actions	9-49
	[1] The Common Law	9-49
	[2] Cases	9-50
¶ 9.07	Toxic Torts	9-51
¶ 9.08	State Environmental Laws and Federal Lead-Based Paint Regulations	9-51
Exhibit 9.1:	FDIC Guidelines for an Environmental Risk Program	9-57

Chapter 10

Lender Liability Under the Securities Laws and Other Federal Statutes

§ 10.01	Introduction	10-1
§ 10.02	Overview of the Securities Laws	10-1
	[1] Securities Act of 1933	10-1
	[a] Section 12(1): Actions for Sale of Unregistered Securities	10-1
	[b] Section 11: Actions for Misstatements or Omissions in a Registration Statement	10-2
	[c] Section 12(2): Actions for Fraud in the Sale of Securities	10-3
	[2] Securities and Exchange Act of 1934, Section 10(b) and Rule 10b-5	10-5
	[3] Blue Sky Laws	10-6
	[4] Private Securities Litigation Reform Act of 1995	10-7
	[5] Securities Litigation Uniform Standards Act of 1998	10-12.1
	[6] Electronic Filings, Web Sites, and Hyperlinks	10-14
§ 10.03	Major Concepts	10-15
	[1] What Is a Security?	10-15
	[2] What Is a Material Fact?	10-23
	[3] Who Has the Duty to Disclose?	10-23
	[4] Disclosure Using Electronic Media	10-24
§ 10.04	Major Theories of Liability and Their Requirements	10-25
	[1] Primary Liability as a Seller or Purchaser of Securities	10-26
	[2] Control Person Liability	10-26
	[3] Aiding and Abetting and Secondary Actor Liability	10-27
	[4] Conspiracy Liability	10-29
	[5] Agency Liability	10-29
§ 10.05	Particular Factual Patterns Implicating Lenders Under the Securities Laws	10-30
	[1] Lender Provides the Funds for the Purchase of a Particular Security	10-30
	[2] Lender Funds a Limited Partnership or Other Investment Vehicle	10-31
	[3] Lender Passively Continues a Lending Relationship With a Failing Borrower	10-32
	[4] Lender Actively Monitors the Activities of the Borrower	10-34
	[5] Lender Sells Participations in a Loan	10-35
	[6] Lender Sells Securities Obtained From the Borrower	10-36
	[7] Lender Provides Credit Information	10-37
	[8] Lender Fails to Adequately Disclose Environmental Liability Under Securities Laws	10-37
§ 10.05A	Sarbanes-Oxley Act of 2002	10-39
	[1] Introduction	10-39
	[2] Requirements of Particular Concern to Lenders	10-41
	[3] Additional Requirements Imposed by the States	10-42
§ 10.06	Suggestions for Avoiding Securities Law Liability	10-42
§ 10.07	Lender Liability Under Other Federal Statutes	10-43
	[1] Liability Under the Internal Revenue Code	10-43
	[2] Liability Under the Fair Labor Standards Act	10-44
	[3] The Bank Holding Company Act and the Thrift Institutions Restructuring Act	10-45
	[4] Government Liability Under the Federal Tort Claims Act	10-52
	[5] Lender's Duty Under the WARN Act	10-54
	[6] Liability for Borrower's State Taxes	10-57

[7] Right to Financial Privacy Act	10-58
[8] Federal Consumer Protection Statutes	10-59
¶ 10.08 Guaranteed Student Loan Program	10-60
¶ 10.09 Liability for Using Statutes Found Unconstitutional	10-70
¶ 10.10 Government Forfeiture of Property	10-73
¶ 10.11 Interagency Guidance on Subprime Lending	10-77
¶ 10.12 The Gramm-Leach-Bliley Financial Services Modernization Act of 1999	10-80.1
[1] Introduction	10-80.1
[2] Financial Holding Companies and Financial Subsidiaries	10-84
[3] Privacy	10-86
[4] Insurance	10-99
¶ 10.13 The Electronic Signatures in Global and National Commerce Act	10-104
[1] Introduction	10-104
[2] Scope	10-104
[3] Exceptions	10-105
[4] Preemption	10-105
[5] Consumer Consent	10-106
[6] Validity of Electronic Contracts	10-106
[7] Record Retention	10-107
[8] Agency Rulemaking	10-107
[9] Transferable Records	10-109
¶ 10.14 USA PATRIOT Act	10-110
[1] Introduction	10-110
[2] Know Your Customer	10-112
[3] Relationship to Other Laws	10-117
¶ 10.15 Servicemembers Civil Relief Act	10-119
¶ 10.16 Unfair and Deceptive Acts or Practices	10-123
¶ 10.17 Federal Agency Preemption of State Banking Law	10-129
¶ 10.18 Federal Rules on Disposal of Consumer Information	10-143
¶ 10.19 Internet Banking	10-145

Chapter 11

The Fate of the Borrower's Claims and Defenses When the Bank Fails

¶ 11.01 Introduction	11-1
[1] The Setting	11-1
[2] The Origin of the D'Oench, Duhme Doctrine	11-1
[3] Federal Codification of D'Oench, Duhme: Section 1823(e)	11-2
[4] The Federal Holder in Due Course Doctrine	11-2
¶ 11.02 Case Law Under D'Oench, Duhme	11-3
[1] Claims and Defenses Barred by D'Oench, Duhme	11-3
[2] Claims and Defenses Not Barred by D'Oench, Duhme	11-9
[3] Transactions Not Covered by D'Oench, Duhme	11-12
[4] Innocent Borrowers and D'Oench, Duhme	11-13
[5] Banking Authority Knowledge of Borrower's Claims and Defenses	11-14
¶ 11.03 Case Law Under Section 1823(e)	11-15
[1] The Relationship Between Section 1823(e) and D'Oench, Duhme	11-15
[2] The Meaning of "Agreement" Under Section 1823(e)	11-16
[3] Meaning of "Official Record" Under Section 1823(e)	11-21
[4] Meaning of "Asset" Under Section 1823(e)	11-22

[5] Meaning of “Minutes of Said Board” Under Section 1823(e)	11-23
[6] Transactions Covered by Section 1823(e)	11-23
[7] Transactions Not Covered by Section 1823(e)	11-24
¶ 11.04 Federal Holder in Due Course	11-24
¶ 11.05 Bankruptcy: The Borrower’s Best Chance	11-28
¶ 11.05A Receivership: The Bank’s Best Chance	11-30
¶ 11.06 Expansion to New Entities	11-31
¶ 11.07 FDIC Statement of Policy and Guidelines	11-32
Exhibit 11.1: FDIC Guidelines for Use of D’Oench and Section 1823(e)	11-35

Chapter 12

Liquidated, Compensatory, and Punitive Damages

¶ 12.01 Liquidated Damages	12-1
[1] Introduction	12-1
[2] Lender Liability Case Law	12-2
[a] Loan Commitment Fees	12-2
[b] Prepayment Charges	12-3
[c] Late Fees	12-7
[d] Remedies	12-8
¶ 12.02 Compensatory Damages	12-9
[1] Rule of Foreseeability as Applied to Borrowers	12-9
[a] Damages Limited to the Cost of Other Financing	12-9
[b] Damages in Excess of the Cost of Other Financing	12-11
[c] Remedy of Specific Performance	12-12
[2] Rule of Foreseeability as Applied to Lenders	12-12
[3] Lost Profits Damages to an Existing Business	12-14
[4] Lost Profits Damages to a Start-Up Business	12-16
[a] General Prohibition Against Lost Profits Damages	12-16
[b] Exception for Provable Damages	12-17
[c] Exception for Loss of a Particular Contract	12-18
[d] Lost Profits in a Real Estate Investment	12-18
[e] Standard When the Defendant Acted in Bad Faith	12-20
¶ 12.03 Punitive Damages	12-20
[1] Breach of the Covenant of Good Faith and Fair Dealing	12-20
[2] Supreme Court Cases and Their Progeny	12-20
[3] Tort Injury in Lender Liability Cases	12-32
¶ 12.04 Treble Damages	12-40
[1] Racketeer Influenced and Corrupt Organizations Act Statutes	12-40
[2] State Deceptive Trade Practices Acts	12-40

Chapter 13

Litigation Strategies

¶ 13.01 Introduction.....	13-1
¶ 13.02 Knowing the Case	13-1
[1] Reviewing All Relevant Documents	13-1
[2] Preparing a Master Chronology	13-3
[3] Interviewing All Witnesses	13-3
[4] Formulating a Strategy	13-4
[a] Settling Damaging Cases	13-4
[b] Formulating a Defense	13-5

¶ 13.03	Preparing Witnesses for Testimony	13-5
	[1] Coordinating the Testimony	13-5
	[2] Sensitizing the Lender's Witnesses to the Legal Issues	13-6
¶ 13.04	Offensive Lender Strategy	13-7
	[1] Possible Dishonesty of the Borrower	13-7
	[2] Causes of the Borrower's Financial Failure	13-7
	[3] Lender Suits Against Third Parties	13-8
¶ 13.05	Pretrial Litigation	13-9
	[1] Motions to Dismiss for Failure to State a Claim or for Summary Judgment	13-9
	[2] Motions to Dismiss for Lack of Standing	13-11
	[3] Motions to Strike Jury Demands	13-11
	[4] Motions to Dismiss on Grounds of Res Judicata or Release	13-14
	[a] Res Judicata	13-14
	[b] Release	13-16
	[5] Motions to Change the Forum	13-17
	[a] Forum Selection Clauses	13-17
	[b] Forum Non Conveniens	13-18
	[6] Discovery Motions	13-19
	[7] Motions in Limine	13-20
	[8] Enjoining Borrower's Use of Unencumbered Assets Pending Judgment ...	13-20
¶ 13.06	The Trial	13-21
	[1] Opening	13-21
	[2] Telling the Lender's Story	13-22
	[3] Telling the Borrower's Story	13-22
	[4] Expert Witnesses	13-22
	[5] Jury Instructions	13-23

Table of Cases

Index

Appendixes

Selected Cases

(The appendixes are on the accompanying CD.)

Appendix A	Breach of Commercial Loan Commitments and Related Agreements
Appendix B	Good Faith in Commercial Transactions
Appendix C	Common Law Theories of Lender Liability
Appendix D	Fraudulent and Negligent Misrepresentation of Credit Information
Appendix E	Equitable Subordination
Appendix F	Securities Laws and Other Federal Statutes
Appendix G	Lenders and Civil Racketeer Influenced and Corrupt Organizations Act Liability
Appendix H	Borrower's Claims and Defenses When Its Bank-Lender Fails