

Bond Case Briefs

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ARS - DELAWARE

RBC Capital Markets, LLC v. Education Loan Trust IV

Supreme Court of Delaware - March 5, 2014 - A.3d - 2014 WL 868668

After the Court of Chancery dismissed action filed by noteholder that alleged educational loan trust had paid excessive fees to issuer of notes in violation of trust indenture, under which noteholder was issued auction rate securities collateralized by student loans owned by trust, noteholder sued trust and issuer for breach on contract and breach of implied covenant of good faith and fair dealing, claiming defendants breached indenture by failing to pay interest lawfully owed to plaintiff. The Superior Court dismissed action for failure to state a claim and as barred by res judicata. Plaintiff appealed.

The Supreme Court of Delaware held that:

- Complaint adequately alleged that interest was actually due and owing to plaintiff, which defendants failed to pay;
- Indenture's no-action clause did not bar plaintiff's breach of contract claim;
- Order issued by Court of Chancery was final decree;
- Record was insufficient to determine whether plaintiff knew, or could have known, of its claim for unpaid interest at time complaint was filed in Court of Chancery; and
- Res judicata did not bar breaches that occurred after complaint in Court of Chancery was filed.

Noteholder's amended breach of contract complaint adequately alleged that interest was actually due and owing to noteholder under indenture of trust, which issuer of notes and educational loan trust failed to pay, as required for noteholder's claim for breach of indenture, under which noteholder was issued auction rate securities collateralized by student loans owned by trust. Complaint alleged interest amount noteholder was due under terms of indenture.

Only where predicate to recovery of unpaid interest or principal is proving breach of legal obligations under trust indenture other than those directly addressing payment of principal and interest will noteholder's claim for principal or interest be subject to indenture's no-action clause.

No-action clause of noteholder's indenture of trust did not bar noteholder's breach of contract claim stemming from unpaid interest under terms of indenture, despite contention that noteholder did not specify precisely how it calculated interest and that documents it used contradicted position that claim was only for interest due. Indenture explicitly allowed noteholder to bring action to recover unpaid principal or interest without first complying with no-action clause, and it was not necessary for noteholder to prove breach of legal obligations under indenture, other than those that directly addressed payment of interest, as predicate to recovery.

Res judicata did not bar portion of noteholder's claim for unpaid interest under indenture of trust that was allegedly due after prior complaint was filed, even if noteholder knew or could have known of its claim for unpaid interest when it filed prior action. Facts underlying claims for unpaid interest had not materialized at time prior action was filed, as indenture and supplemental indenture created separate, recurring obligations for interest payments.

