Bond Case Briefs

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BONDS - ILLINOIS

Land of Lincoln Goodwill Industries, Inc. v. PNC Financial Services Group, Inc.

United States Court of Appeals, Seventh Circuit - August 12, 2014 - F.3d - 2014 WL 3909534

County agreed to issue $2 million in economic development revenue bonds and loan the proceeds to Goodwill for purposes of a development project. The loan was for a period of twenty years. PNC (as successor) purchased the bonds and by so doing funded the loan to Goodwill. The transaction was evidenced by a loan agreement and promissory note, and the loan was secured by a mortgage on the project.

Interest accrued at a fixed rate for the first ten years of the loan period and at a variable rate during the second ten years. The interest rate would automatically revert to a variable rate in the event the bonds were deemed taxable.

The loan agreement imposed a prepayment penalty when prepayment is made "during a period when the unpaid principal balance bears interest, or is scheduled to bear interest, at a fixed rate."

Goodwill subsequently informed PNC that it intended to pay off the balance of the loan. PNC notified Goodwill that it would owe a prepayment charge in excess of $300,000. Goodwill filed suit seeking a declaratory judgment that it owed no such fee under the terms of its agreement with PNC.

Goodwill argued that at no time during the loan will interest accrue at a fixed rate, and consequently at no time will its prepayment trigger a charge. This argument was based on the possibility of a reversion to a variable rate should the bonds be deemed taxable and the 10-year rate adjustment.

The Court of Appeals disagreed, finding that Goodwill's reading loan agreement was contrary to the plain terms of the contract and would render one of its terms – the prepayment penalty – a nullity.