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Rochester MSA Building Company v. UMB Bank, N.A.

United States District Court, D. Minnesota - April 17, 2023 - Slip Copy - 2023 WL 2976057

The Plaintiffs in this case – Minnesota nonprofit corporations that own and operate two public charter schools —borrowed more than $15 million in bond proceeds from the City of Rochester, Minnesota, to finance the improvement and expansion of the schools' facilities.

After Plaintiffs defaulted on promises to maintain minimum levels of cash-on-hand and income available for debt service, they entered a Forbearance Agreement with Defendant UMB Bank, the indenture trustee of the bonds. In that agreement, Plaintiffs accepted new obligations. These new obligations included replacing a financial vendor, retaining and giving some additional authority to an interim business manager, and paying certain fees and expenses UMB incurred in connection with the default.

Plaintiffs brought this case to challenge the reasonableness of fees UMB charged under the Forbearance Agreement. UMB counterclaimed, alleging that Plaintiffs defaulted on their obligations under the Forbearance Agreement and the underlying bond agreements.

The District Court held that:

- The Forbearance Agreement was ambiguous regarding the scope of the authority held by the interim business manager appointed pursuant to the Forbearance Agreement;
- UMB Bank failed to provide Plaintiffs with documentation establishing the reasonableness of its invoiced legal fees;
- Whether a Forbearance Termination Event resulted because of Plaintiffs' nonpayment of the invoiced legal fees remained an open question due to UMB Bank's withdrawal of the charged amount from Plaintiffs' debt service reserve fund (which occurred only 17 days after the invoices were received);
- Summary judgment was not appropriate with respect to the attorneys' fees issue, meaning that the Parties' competing claims on that issue were trial-worthy;
- Plaintiffs' failure to replace its existing financial vendor constituted a Forbearance Termination Event;
- UMB's request that a Rule 54(b) judgment be entered against Plaintiffs for the outstanding principal and interest due under the Bond Documents, as well as an order directing that it was entitled to foreclose on the collateral, would be denied; and
- Entry of judgment under Rule 54(b) was not appropriate due to the fact that Plaintiffs' fee-related claims could result in a setoff against the judgment sought to be made final and the risk of a piecemeal appeals process.

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