Ameriquest Mortgage Co. v. Hanson

2008 | Cited 0 times | Court of Appeals of Minnesota | March 17, 2008

This opinion will be unpublished and may not be cited except as provided by Minn. Stat. § 480A.08, subd. 3 (2008).

Affirmed

Considered and decided by Minge, Presiding Judge; Larkin, Judge; and Stauber, Judge.

UNPUBLISHED OPINION

Appellant challenges a district court order reinstating and reforming a previously-satisfied mortgage, arguing that the district court was clearly erroneous in finding that there was a mutual mistake. Because appellant failed to demonstrate that the district court's findings were clearly erroneous and because there is substantial evidence to support the district court's findings, we affirm.

FACTS

Respondent Ameriquest Mortgage Company brought this action in Wabasha County district court seeking reformation of a mortgage appellant Margret Hanson granted to respondent in connection with financing certain real property located in Wabasha County. On May 24, 2002, appellant closed on two separate loans, each secured by mortgaging separate pieces of real property. One loan was for $70,500 (L-A) and financed certain property in Wabasha County. The other loan was for $72,750 (L-B) and financed certain property in Goodhue County.

The mortgages prepared to secure the two loans transposed legal descriptions of the real estate. As a result, the mortgage (M-1) securing L-A mistakenly used the legal description of the Goodhue County property, and M-1 was filed in Goodhue County. The mortgage (M-2) securing L-B mistakenly used the legal description of the Wabasha County property and was filed in Wabasha County.

On February 24, 2003, appellant refinanced L-B pursuant to an agreement with Argent Mortgage Company, LLC, a subsidiary of Ameriquest. The refinancing transaction (L-C) amount was $97,500 and refers to the Goodhue County property which was originally financed by L-B. The mortgage (M-3) securing L-C used the legal description for the Goodhue County property and was filed in Goodhue County. Argent disbursed the proceeds for L-C to pay off (refinance) L-B, to pay almost $10,000 of various debts of appellant, and to provide appellant $4,786.13 in cash.

As a result of L-B being paid off with L-C proceeds, on April 23, 2003, respondent filed a satisfaction of the M-2 mortgage originally associated with L-B. Because mortgage M-2 mistakenly described Wabasha County property and was filed in Wabasha County, the satisfaction was filed in Wabasha County. With this filing, the real estate record showed two mortgages (M-1 and M-3) on the Goodhue County property, M-1 secured a satisfied note, the Wabasha County property became unencumbered, and the debt on L-A that had been secured by mortgage M-1 became unsecured. Appellant subsequently defaulted on the note for L-C; Argent foreclosed on the Goodhue County property; and the Goodhue County property was sold at sheriff's auction. In 2004, appellant gifted the unencumbered Wabasha County property to her daughter by a quit claim deed. Although appellant made several payments on L-A after the refinancing, including one after the satisfaction, she eventually defaulted and respondent recognized its precarious situation with respect to the collateral for L-A.

The foregoing facts are summarized on the following grid:

Loan number & mtg. Loan A Loan B Loan C Date May 24, 2002 May 24, 2002 Feb. 24, 2003 Type of loan

Real estate, secured by M-1

Real estate, secured by M-2

Refinance of L-B secured by M-3

Original Principal Amount

$70,500 $72,750 $97,500

Property Intended to be Mortgaged Wabasha County Goodhue County Goodhue County

Legal Description of Property in Corresponding Mortgage Goodhue County Wabasha County Goodhue County

County Mortgage Filed In Goodhue County Wabasha County Goodhue County

County Mortgage should have been Filed in Wabasha County Goodhue County Goodhue County

Intended Status of Mortgages after L-C Unaffected by L-C Paid off and satisfied by L-C

Replace L-B Foreclosed

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Actual Status of Mortgages

Satisfied on April 23, 2003 but debt not paid off. Subject of appeal. Paid off with proceeds from 708 Loan

Buyer at foreclosure sale

Owner at start of Litigation

Daughter Buyer at Foreclosure sale

Respondent sought reformation and reinstatement of mortgage M-1 that was satisfied by the April 23 filing, arguing that mortgage M-1 was erroneously drafted and satisfied due to a mutual mistake. After a trial, the district court agreed and ordered the Wabasha County Recorder's Office to record the district court's order determining that L-A was secured by mortgage M-1 on the property in Wabasha County showing an original principal amount of $70,500 and a payoff amount as of August 31, 2007 including outstanding principal interest, charges and expenses of $109,416.80. As a result, mortgage M-1 became a valid encumbrance against the Wabasha County property securing L-A. The district court denied appellant's motion for judgment as a matter of law and her posttrial motions. This appeal follows.

DECISION

The issue is whether the district court erred in entering judgment reforming and reinstating the original mortgage M-1 based on either mutual mistake or unilateral mistake. A district court's findings of fact in a reformation action will not be reversed unless clearly erroneous. Theisen's, Inc. v. Red Owl Stores, Inc., 309 Minn. 60, 66, 243 N.W.2d 145, 149 (1976). But an appellate court will reverse if the facts do not support the legal conclusion as to reformation. See, e.g., Kleis v. Johnson, 354 N.W.2d 609, 612 (Minn. App. 1984).

Generally, a mortgage is discharged when a satisfaction of mortgage is filed and recorded. Minn. Stat. § 507.40 (2006). But a court may use its equitable powers to reinstate a mortgage that has been mistakenly satisfied. See Errett v. Wheeler, 109 Minn. 157, 163, 123 N.W. 414, 415-16 (Minn. 1909) ("There can be no doubt of the authority of a court of equity, in a proper case, to reinstate a satisfied mortgage or other lien upon real estate, when it appears to have been given under mistake, inadvertence, or procured by fraud."). A mortgage can be reformed by a court if the following elements are proved:

(1) there was a valid agreement between the parties expressing their real intentions;

(2) the written instrument failed to express the real intentions of the parties; and (3) this failure was

due to a mutual mistake of the parties, or a unilateral mistake accompanied by fraud or inequitable conduct by the other party. Theros v. Phillips, 256 N.W.2d 852, 857 (Minn. 1977); Fritz v. Fritz, 94 Minn. 264, 266, 102 N.W. 705, 706 (1905). A mutual mistake occurs when "both parties agree as to the [intended] content of the document but that somehow through a scrivener's error the document does not reflect that agreement." Nichols v. Shelard Nat'l Bank, 294 N.W.2d 730, 734 (Minn. 1980). These facts must be established by evidence which is clear and consistent, unequivocal and convincing. Id. The purpose of reformation is not to create a new contract; rather, it is to bring the written instrument into conformity with the intent of the contracting parties. See Jablonski v. Mut. Serv. Cas. Ins. Co., 408 N.W.2d 854, 857 (Minn. 1987).

Here, the district court correctly cites the test for reformation of a written instrument. The requirements for reformation exist because: (1) appellant agreed to grant respondent a mortgage on her Wabasha County property to secure L-A for $70,500 demonstrating that there was a valid agreement between the parties expressing their real intentions; (2) mortgages M-1 and M-2 failed to implement the real intentions of the parties because they contained incorrect legal descriptions; and (3) this failure was due to a mutual mistake of the parties because each party believed that the mortgages contained the proper legal descriptions. This mutual mistake infected the subsequent mortgage satisfaction. Contrary to appellant's suggestion, there is no evidence that respondent intentionally transposed the legal descriptions. Because the facts are supported by the record and are not clearly erroneous, we conclude that the district court did not err in reforming and reinstating mortgage M-1.

Appellant argues that the operative mistake at issue is the mortgage satisfaction, that this mistake was not made when the parties entered into the mortgage, rather the mistake occurred when respondent prepared, executed, and filed the satisfaction in Wabasha County, and that therefore the mistake was not mutual. Appellant continues by arguing that, because this was a unilateral mistake that was not induced by appellant, reformation of the mortgage satisfaction is inappropriate. Appellant's arguments fail for a number of reasons. First, as previously discussed, this case presents a classic example of a mutual mistake. See Nichols, 294 N.W.2d at 734 (a mutual mistake occurs when a scrivener's error causes a document to fail to reflect the party's intent). The parties intended and agreed that L-A for $70,500 was to be secured by a mortgage on appellant's Wabasha County property. Both parties believed they had entered into such a mortgage and appellant received the full loan amount. Because the legal description on the mortgage was incorrect, mortgage M-1 failed to reflect the parties' agreement and the satisfaction of mortgage M-2 directly stems from this mistake.

Second, contrary to appellant's assertions, the district court did not incorrectly cite or rely on Gethsemane Lutheran Church v. Zacho, 258 Minn. 438, 104 N.W.2d 645 (1960). Gethsemane held that "[t]o justify a court in reforming, or rewriting, a contract, there must be clear and convincing evidence, beyond a mere preponderance, of mutual mistake or of mistake by one induced or known to, and taken advantage of by, the other contracting party." 258 Minn. at 442-43, 104 N.W.2d at 648 (emphasis added). Appellant fails to acknowledge the "known to, and taken advantage of" language

from Gethsemane, and contends that the district court erred because the mortgage-satisfaction mistake (1) was unilateral; (2) was not induced by appellant; or (3) was not accompanied by fraud or inequitable conduct by appellant. The district court, however, found that even if the mistake is unilateral, reformation is still warranted because its origins were in the earlier mortgage transactions which were mutual and because appellant attempted to take advantage of the mistake by quitclaiming the property to her daughter without consideration.

Appellant claims that the purpose of the refinance was to leave the Wabasha County property free and clear of encumbrances. The district court did not find this assertion credible. The record shows that, after closing on the refinance loan, appellant continued to make payments on the Wabasha County property, including a payment after respondent filed the mortgage satisfaction. It is illogical to expect a lender to release collateral for a substantial loan without any explanation.

Because the district court's findings of fact are supported by the record and are not clearly erroneous, we conclude that the district court did not err in determining the satisfaction only applied to mortgage M-2, reforming and reinstating mortgage M-1 on the Wabasha County property, and denying appellant's motion for a new trial.

Affirmed.