
LEGAL UPDATE

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IOWA SUPREME COURT DECISION — LIMITATION PERIODS FOR CLAIMS ARISING FROM A STATE BANK'S FRAUDULENT ACTS AND BREACH OF CONTRACT

Purpose. *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

Benskin, Inc. v. West Bank

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Facts and Procedural Background. In October 2006, Benskin, Inc. (Benskin) entered into a written loan agreement, set forth in a promissory note, with West Bank to borrow \$800,094. The loan was secured by personal guarantees from Martin and Susan Benskin and a mortgage on Benskin's real property in Dickinson County. The loan was renewed in another promissory note dated August 1, 2007, with a maturity date of August 1, 2008.

In October 2007, Benskin entered into another written loan agreement with West Bank, which was also set forth in a promissory note. This promissory note provided Benskin with a line of credit for up to \$2 million. The loan was secured by personal guarantees from Mr. and Mrs. Benskin and mortgages on Benskin's real property in Dickinson County and Polk County. Benskin never borrowed against this line of credit.

The 2007 promissory note and mortgages matured on May 30, 2008, at which time West Bank was obligated to release the 2007 mortgages. Benskin alleged that, at various times after May 30, 2008, West Bank's employees and officers made multiple representations that West Bank would release the 2007 mortgages. However, West Bank did not release the 2007 mortgages. On June 27, 2011, West Bank informed Benskin it would not release the 2007 mortgages. Benskin also alleged that, on July 22, 2016, it discovered that in 2008, West Bank altered its internal records to show an unauthorized advance under the 2007 promissory note to pay off the 2006 promissory note before it was due.

In May 2018, Benskin sued West Bank. Benskin alleged that West Bank breached the 2007 loan agreement (count I), 2006 promissory note (count II), and the implied duties of good faith and fair dealing (count III). Benskin also alleged fraud (count IV). West Bank filed a motion to dismiss in which it argued Benskin's suit was not filed before the applicable statute of limitations had expired. West Bank's motion to dismiss asserted that Iowa Code section 524.221(2), which applies to state banks, barred counts I, II, and III and Iowa Code section 614.1(4) barred count IV. Benskin filed a resistance to West Bank's motion to dismiss that argued, in part, that the discovery rule or equitable estoppel avoided the applicable statute of limitations defenses.

The district court granted West Bank's motion to dismiss all of Benskin's claims. Benskin appealed, and the court of appeals reversed the district court and held that Benskin adequately pled equitable estoppel

to avoid a motion to dismiss counts I, II, III, and IV on statute of limitations grounds. Benskin applied to the Iowa Supreme Court (Court) for further review, and the Court granted Benskin's application.

Issues. Whether counts I, II, and III are time-barred by Iowa Code section 524.221(2) and whether the district court erred by not applying the discovery rule or equitable estoppel to toll the statutes of limitations applicable to counts I, II, III, and IV.

Holding. The Court held that counts I, II, and III are time-barred by Iowa Code section 524.221(2) and the district court did not err by failing to apply the discovery rule or equitable estoppel to toll the statute of limitations applicable to counts I, II, III, and IV.

Analysis.

Statute of Limitations. Iowa Code section 524.221(2) provides:

All causes of action, other than actions for relief on the grounds of fraud or mistake, against a state bank based upon a claim or claims founded on a written contract, or a claim or claims inconsistent with an entry or entries in a state bank record, made in the regular course of business, shall be deemed to have accrued, and shall accrue for the purpose of the statute of limitations one year after the breach or failure of performance of a written contract, or one year after the date of such entry or entries. No action founded upon such a cause may be brought after the expiration of six years from the date of such accrual.

West Bank, a state bank, argued that the statute of limitations contained in Iowa Code section 524.221(2) applies to counts I and II, and that the limitations period commenced upon the 2008 breach and expired in 2015. Benskin argued that either the general 10-year statute of limitations for written contracts contained in Iowa Code section 614.1(5) or the 11-year statute of limitations contained in the 2008 version of Iowa Code section 524.221(2) applies to counts I and II.

The Court rejected Benskin's argument that the statute of limitations contained in the 2008 version of Iowa Code section 524.221(2) applies to counts I and II. The Court stated that it applies the statute of limitations that is in effect when a plaintiff sues. The Court then had to decide whether Iowa Code section 524.221(2) or Iowa Code section 614.1(5) governs the limitations periods for counts I and II. The Court noted that, pursuant to Iowa Code section 4.7 and a previous Court case, *MidWestOne Bank v. Heartland Co-op*, 941 N.W.2d 876, 883 (Iowa 2020), when there is an irreconcilable conflict between a specific statute and a general statute, the specific statute controls. The Court held that Iowa Code section 524.221(2) governs the limitations periods for counts I and II. The Court stated this is because West Bank is a state bank and, therefore, Iowa Code section 524.221(2) is the more specific statute. Counts I and II accrued no later than 2008 when West Bank breached the contract by not releasing the 2007 mortgages. Benskin did not file suit until 2018. As a result, counts I and II are time-barred by Iowa Code section 524.221(2).

With regard to count III, the Court reasoned that the duties of good faith and fair dealing cannot exist without an underlying contract. Because count III is founded on a written contract that is subject to the limitations period provided in Iowa Code section 524.221(2), the Court held that Iowa Code section 524.221(2) governs the limitations period for count III. Count III accrued no later than 2008 when West Bank breached the contract by not releasing the 2007 mortgages. Benskin did not file suit until 2018. As a result, count III is also time-barred by Iowa Code section 524.221(2).

Discovery Rule. The discovery rule provides that "the statute of limitations is tolled until the plaintiff knows or in the exercise of reasonable care should have known both the fact of the injury and its cause." *MidWestOne Bank*, 941 N.W.2d at 884 (quoting *K & W Elec., Inc. v. State*, 712 N.W.2d 107, 116 (Iowa 2006) (citations and internal quotation marks omitted)). The Court first analyzed whether the discovery rule applies to claims that are governed by Iowa Code section 524.221(2). The Court stated "the discovery rule does not apply to statutes in which a specific event triggers the running of the limitations

period.” The Court found that Iowa Code section 524.221(2) is such a statute because the date of the breach or when the state bank made the entry or entries in its records triggers the running of the limitations period. The Court supported this finding by pointing out that reading the discovery rule into Iowa Code section 524.221(2) would conflict with the seven-year record retention requirements for state banks contained in Iowa Code section 524.221(1)(a). The Court held that the discovery rule does not toll the running of the statute of limitations applicable to counts I, II, and III.

The Court found that count IV was governed by the five-year limitations period in Iowa Code section 614.1(4). The Court cited to previous Court cases that held the discovery rule does toll the statute of limitations applicable to fraud claims. However, the Court held that count IV is still time-barred by the five-year limitations period in Iowa Code section 614.1(4) because “the statute of limitations on Benskin’s fraud claim began running no later than June 27, 2011,” and Benskin did not file suit until 2018.

Equitable Estoppel. The Court stated that “equitable estoppel can be asserted to [toll] the statute of limitations defense in Iowa Code section 524.221(2).” However, the Court then cited to previous Court cases in which it found that the circumstances that justify the tolling of a statute of limitations pursuant to equitable estoppel end when the plaintiff becomes aware of fraud or should have discovered fraud by the use of ordinary care and diligence. The Court found that, in this case, “[t]hose circumstances ended on June 27, 2011, when West Bank expressly refused to release the encumbrances.”

Benskin argued that the application of equitable estoppel meant that it had seven years from June 27, 2011, to file suit on counts I, II, and III. Because Benskin filed suit in May 2018, Benskin argued counts I, II, and III were not time-barred by Iowa Code section 524.221(2). The Court cited to a previous Court case, *Beeck v. Aquaslide ‘N’ Dive Corp.*, 350 N.W.2d 149, 159 (Iowa 1984), in which it stated that a plaintiff must file suit “within the period of the statute of limitations or, if [defendant] was estopped to assert the statute of limitations, within a reasonable time after the estoppel ceased to be operational.” Based on *Beeck*, the Court held that under Iowa Code section 524.221(2), “the plaintiff must file suit within a reasonable period after the estoppel ends and does not get a fresh seven years from that end date.”

The Court then analyzed what constitutes a “reasonable time” to file suit after the circumstances that justify the tolling of a statute of limitations pursuant to equitable estoppel end. The Court noted that West Bank did not ease Benskin into inaction through any affirmative misrepresentations after June 27, 2011. As a result, the Court held that Benskin waited an unreasonable amount of time to file its claims. Although equitable estoppel may toll the running of the statute of limitations applicable to counts I, II, and III, equitable estoppel did not toll the running of the statute of limitations to the date Benskin filed suit.

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