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## LEGAL UPDATE

Legal Services Division



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### IOWA SUPREME COURT DECISION — LIMITATIONS PERIOD FOR CLAIMS ARISING FROM A SECURED INTEREST IN FARM PRODUCTS

**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.*

**MidWestOne Bank v. Heartland Co-op**  
**Filed April 17, 2020, as amended June 11, 2020**  
**No. 19-1302**

[www.iowacourts.gov/iowa-courts/supreme-court/supreme-court-opinions/case/19-1302](http://www.iowacourts.gov/iowa-courts/supreme-court/supreme-court-opinions/case/19-1302)

**Facts and Procedural Background.** The Harkers, corn and soybean farmers, had a contract with Heartland Co-op (Heartland) for the storage, drying, and sale of grain. They borrowed money from MidWestOne Bank (MidWestOne) to finance their farming operation. From 2013 to 2016, they borrowed money from MidWestOne under three promissory notes. Pursuant to a security agreement dated February 20, 2014, MidWestOne secured the promissory notes by obtaining a security interest in the Harker's farm products and the proceeds of those farm products. MidWestOne filed a financing statement with the Iowa Secretary of State on February 29, 2012, and a continuation statement on November 15, 2016. The financing statement described the collateral as "all farm products" and the "proceeds of any of the property [or] goods."

From 2014 to 2017, Heartland made six purchases from the Harkers. In each transaction, Heartland deducted from the sale proceeds its costs to dry and store the grain. In total, Heartland withheld \$79,895.68 from the sale proceeds to recoup the costs to dry and store the grain.

On March 16, 2018, MidWestOne filed a claim against Heartland alleging \$79,895.68 in damages for the drying and storing costs that Heartland withheld. Heartland filed an answer and asserted several affirmative defenses, including unjust enrichment and statute of limitations. Heartland argued the two-year limitations period set out in Iowa Code section 614.1(10) for a "secured interest in farm products" applied and barred MidWestOne from recovering several of the amounts Heartland withheld from the sale proceeds.

MidWestOne countered that the applicable statute of limitations was provided by Iowa Code section 614.1(4), which provides a five-year limitations period for conversion claims. MidWestOne argued in the alternative that, even if the two-year limitations period set out in Iowa Code section 614.1(10) applied, the district court should apply the discovery rule to toll its application.

The parties filed cross-motions for summary judgment. On May 31, 2018, the district court granted MidWestOne's motion for summary judgment. The district court applied the two-year limitations period set out in Iowa Code section 614.1(10). The district court also applied the discovery rule based on MidWestOne's showing that it was unaware of Heartland's offsets before 2017. The district court rejected Heartland's unjust enrichment claims. Heartland appealed to the Iowa Supreme Court (Court).

**Issues on Appeal.** Whether Iowa Code section 614.1(4) or Iowa Code section 614.1(10) applies to MidWestOne's claim, whether the district court erred by applying the discovery rule to toll the applicable statute of limitations, and whether the district court erred by rejecting Heartland's unjust enrichment claims.

**Holding.** In a 7-0 decision, the Court held that Iowa Code section 614.1(10) applies to MidWestOne's claim, the district court erred in applying the discovery rule, and the district court did not err by rejecting Heartland's unjust enrichment claims.

### Analysis.

**Statute of Limitations.** Iowa Code section 614.1 provides, in relevant part:

Actions may be brought within the times limited as follows, respectively, after their causes accrue, and not afterwards, except when otherwise specially declared:

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4. Unwritten contracts — injuries to property — fraud — other actions. Those founded on unwritten contracts, those brought for injuries to property, or for relief on the ground of fraud in cases heretofore solely cognizable in a court of chancery, and all other actions not otherwise provided for in this respect, within five years, except as provided by subsections 8 and 10.

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10. Secured interest in farm products. Those founded on a secured interest in farm products, within two years from the date of sale of the farm products against the secured interest of the creditor.

MidWestOne argued that a previous Court case, *Husker News Co. v. Mahaska State Bank*, 460 N.W. 2d 476 (Iowa 1990), required the Court to apply Iowa Code section 614.1(4) to its claim. The Court rejected this argument because *Husker News Co.* did not involve a claim arising from a secured interest in farm products.

The Court held Iowa Code section 614.1(10) applies to MidWestOne's claim. The Court stated that, according to the plain text of the statute, Iowa Code section 614.1(4) applies to property damage claims unless Iowa Code section 614.1(8) or (10) applies. Iowa Code section 614.1(10) applies to claims founded on a secured interest in farm products. MidWestOne's interest in the grain through the security agreement and financing statement is a "secured interest." The security agreement defined collateral as "all farm products" and the "proceeds" of any sale of the farm products. The Court found that the Harkers' grain was clearly a farm product. Further, MidWestOne's claim arose from Heartland's alleged disregard of MidWestOne's "secured interest" in the grain. Under the plain text of Iowa Code section 614.1(10) and a judicial canon of statutory construction codified in Iowa Code section 4.7 (specific statutory provision controls over a conflicting general provision), the Court held that the two-year statute of limitations period applies to MidWestOne's claim.

**Discovery Rule.** Pursuant to the discovery rule, a 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." The Court noted it declined to apply the discovery rule in *Husker News Co.* "because doing so would be inconsistent with the fundamental policies underlying the UCC." As the Court explained in *Husker News Co.*, the policies underlying the UCC include "uniformity among the states" and "the presumption in favor of predictability and the finality of commercial transactions."

Relying on *Husker News Co.*, the Court held the discovery rule does not apply to Iowa Code 614.1(10). The Court reasoned "[f]inality and predictability in commercial transactions are equally salient in commercial farming enterprises." The Court added that the plain language of Iowa Code section 614.1(10) prohibits application of the discovery rule. This is because Iowa Code section 614.1(10) expressly states the statute of limitations period begins on the date the relevant sale occurs. As a result of

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this holding with respect to the discovery rule, the Court reduced MidWestOne's judgment "by the amount withheld by Heartland in transactions occurring more than two years before this lawsuit was filed."

**Unjust Enrichment.** The Court stated that unjust enrichment exists when "(1) one party is enriched (2) at the expense of the other, and (3) it would be unjust under the circumstances for the enriched party to retain the benefit." Heartland argued grain elevators routinely deduct drying and storage costs and MidWestOne, as a farm lender, should have been aware of this practice. In support of its argument, Heartland cited to *Ninth District Product Credit Association v. Ed Duggan, Inc.*, 821 P.2d 788 (Colo 1991) (en banc) in which the Colorado Supreme Court held a secured creditor could be liable to an unsecured creditor under a theory of unjust enrichment. The Court responded by noting that other courts have strictly enforced the priority system set out in the UCC and rejected the claims of unsecured creditors against secured creditors. Citing *Husker News Co.*, the Court stated it would "[adhere] to the UCC's priority system to provide clarity, uniformity, and consistency in commercial transactions." The Court commented that allowing Heartland's unjust enrichment claims against MidWestOne, a secured creditor, would undermine the objectives of the UCC. The Court held the district court did not err by rejecting Heartland's unjust enrichment claims.

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