REL: June 25, 2021

SUPREME COURT OF ALABAMA

OCTOBER TERM, 2020-2021

1191075

Pentagon Federal Credit Union

v.

Susan R. McMahan

Appeal from Baldwin Circuit Court
(CV-18-900160)

MITCHELL, Justice.

Pentagon Federal Credit Union ("PenFed") purchased Susan R. McMahan's house at a foreclosure sale and sold it less than a year later.

They disagree about how to divide the sales proceeds. In Pentagon Federal Credit Union v. McMahan, 308 So. 3d 496, 502 (Ala. 2020) ("PenFed I"), we reversed a judgment entered by the Baldwin Circuit Court in favor of McMahan, holding that the trial court had erred by not considering PenFed's unjust-enrichment argument. On remand, the trial court concluded that the doctrine of unjust enrichment did not apply and again entered judgment in favor of McMahan. PenFed appeals. We reverse and remand.

Facts and Procedural History[1]

In June 2005, McMahan and her now-deceased husband purchased a house in Loxley. To finance the purchase, the McMahans obtained a loan from Wells Fargo Bank, N.A., that was secured by a mortgage on the property. In September 2007, the McMahans obtained a loan from PenFed that was secured by a second mortgage on the property.

By 2015, McMahan's husband had died and she had defaulted on both loans. At a foreclosure sale in August 2015, PenFed purchased

[1]A more detailed recitation of the facts underlying this appeal can be found in PenFed I.

McMahan's property, taking title subject to Wells Fargo's senior lien. Although McMahan owed Wells Fargo approximately $112,000 on the first mortgage, Wells Fargo agreed to accept $91,256.54 from PenFed to satisfy the mortgage and to release its lien, paving the way for PenFed to resell the property in July 2016 for $157,525.

In December 2017, counsel for McMahan contacted PenFed, noting that the McMahans' first mortgage had been satisfied and asking for details about that process. In response, PenFed explained that it had sold the property for $157,525 and that, after subtracting the expenses associated with both the foreclosure sale and the resale (a combined $15,069.64), as well as the amounts required to pay off the McMahans' first mortgage ($91,256.54) and second mortgage ($47,714.16), there was a surplus in excess of $3,000 that PenFed would remit to McMahan once she signed a hold-harmless agreement. See generally Springer v. Baldwin Cnty. Fed. Sav. Bank, 562 So. 2d 138, 139 (Ala. 1989) (explaining that, when a mortgagee purchases a property at a foreclosure sale and then resells it within the statutory redemption period, any profit obtained must be applied "to the credit of the mortgagor").

McMahan declined to sign the hold-harmless agreement offered by PenFed and instead filed suit, arguing that PenFed was entitled to withhold from the $157,525 sales proceeds only an amount equal to its expenses and what was owed on the second mortgage. Everything else, McMahan argued -- including the $91,256.54 that PenFed withheld to reimburse itself for what had been paid to Wells Fargo to satisfy the first mortgage -- was surplus proceeds that rightfully belonged to her.

Because the essential facts were undisputed, the parties agreed to submit a stipulated statement of facts and exhibits to the trial court for it to decide how the funds should be allocated. In June 2019, the trial court entered a judgment in favor of McMahan for $94,741.20, holding that PenFed was entitled to recover only $15,069.64 for its expenses and $47,714.16 for what was owed on the second mortgage -- not the $91,256.54 it had paid to Wells Fargo -- from the proceeds received in the July 2016 sale. After PenFed appealed, we reversed that judgment and remanded the case for the trial court to rule on PenFed's unjust-enrichment argument, which, we explained, the trial court had

erroneously deemed to be waived when it first considered the case. PenFed I, 308 So. 3d at 501-02.

On remand, the trial court accepted briefing on the doctrine of unjust enrichment and ultimately concluded that PenFed had "failed to prove the elements of unjust enrichment." Accordingly, the trial court reentered its June 2019 judgment awarding McMahan $94,741.20 as the final judgment of the court. PenFed appeals.

Standard of Review

We apply the same standard of review that we applied in PenFed I. Because the relevant facts are undisputed and the issues before us involve pure questions of law, the trial court's judgment carries no presumption of correctness, and we review those questions of law de novo. 308 So. 3d at 500.

Analysis

When this case was before us in PenFed I, we did not consider the merits of several issues raised by PenFed. We pretermitted a discussion of those issues so the trial court could rule on the merits of PenFed's unjust-enrichment argument. PenFed I, 308 So. 3d at 502 n.1. Now that

the trial court has complied with our instructions in PenFed I, considered that argument, and entered another judgment in favor of McMahan, we have before us all the arguments PenFed has made in this appeal challenging the trial court's judgment. But it is ultimately necessary for us to consider only PenFed's argument invoking the doctrine of unjust enrichment. As explained below, that doctrine serves as a complete defense to the breach-of-contract claim and the other claims McMahan has asserted against PenFed, and it bars her from recovering the sum she seeks.

For PenFed to prevail on its unjust-enrichment argument, it must make two showings. First, it must establish that McMahan was "enriched" -- i.e., that she knowingly accepted and retained a benefit provided by PenFed, which had a reasonable expectation of compensation. Matador Holdings, Inc. v. HoPo Realty Invs., L.L.C., 77 So. 3d 139, 145 (Ala. 2011). If PenFed makes that showing, it must next demonstrate that McMahan would be "unjustly" enriched if she were awarded the disputed

$91,256.54. Id.[2] This second question turns on whether PenFed has acted under "'"a mistake of fact or in misreliance on a right or duty."'" Id. at 146 (citations omitted). In the absence of such a mistake or misreliance, McMahan may have been enriched, but she would "'"not [be] deemed to

[2]Much of our caselaw discussing the doctrine of unjust enrichment involves plaintiffs who have made a claim to recover payment for benefits that have already been provided. See, e.g., Matador Holdings, 77 So. 3d at 140 (building-materials retailer asserted unjust-enrichment claim against landlord seeking payment for materials and services provided to tenant); Portofino Seaport Vill., LLC v. Welch, 4 So. 3d 1095, 1097 (Ala. 2008) (real-estate-development company asserted unjust-enrichment claim seeking payment for services already provided after property owner terminated sales contract); Welch v. Montgomery Eye Physicians, P.C., 891 So. 2d 837, 842 (Ala. 2004) (widow asserted unjust-enrichment claim alleging that a medical practice improperly took control of her husband's optometry practice upon his death). In this case, by contrast, PenFed has asserted the doctrine as a defense. This distinction necessarily means that the manner in which PenFed can establish unjust enrichment differs somewhat from cases in which plaintiffs have asserted the doctrine. Here, PenFed must show that it would be unjust for McMahan to obtain a not-yet-received benefit as opposed to showing that it would be unjust for her to retain a benefit she has already received. But the same fundamental principles apply.

have been unjustly enriched."' " Id. (citations omitted).[3] We examine below whether PenFed made the required showings.

A. Did McMahan knowingly accept and retain a benefit provided by PenFed, which had a reasonable expectation of compensation?

The trial court found, and McMahan does not dispute, that she has received a benefit provided by PenFed. The stipulated facts show that McMahan's debt to Wells Fargo was not discharged in her bankruptcy proceedings and that, but for PenFed's payment to Wells Fargo, she would have continued to owe Wells Fargo about $112,000. McMahan says that her lack of knowledge about PenFed's payment to Wells Fargo at the time that payment was made means that she did not "knowingly" accept the benefit, and, thus, she argues, the doctrine of unjust enrichment cannot apply. We disagree. It is undisputed that McMahan had knowledge of PenFed's payment to Wells Fargo well before she commenced this action, and there is no evidence that she has offered to reimburse PenFed for that

[3]Enrichment will also be considered unjust when the party who has obtained a benefit has "' "engaged in some unconscionable conduct, such as fraud, coercion, or abuse of a confidential relationship."' " Matador Holdings, 77 So. 3d at 146 (citations omitted). There is no allegation of misconduct here.

payment. Under these circumstances, we are satisfied that McMahan has knowingly accepted and retained a benefit provided by PenFed. Compare Matador Holdings, 77 So. 3d at 146 (affirming a trial court's judgment rejecting an unjust-enrichment claim when the party that had received the benefit had offered to return it).

Moreover, it was reasonable for PenFed to expect that it would be compensated for the payment it made to Wells Fargo settling McMahan's debt. PenFed made that payment within the one-year period after the foreclosure sale during which McMahan had a statutory right to redeem the property. And if McMahan had exercised her right of redemption, she would have been required to reimburse PenFed for the payment under § 6-5-253(a)(4), Ala. Code 1975. As discussed below, PenFed says that, similarly, it believed that it would be entitled to reimbursement if a party other than McMahan purchased the property within that one-year period. The trial court ultimately rejected this argument, but we cannot say that PenFed's expectation was unreasonable.[4]

[4]Although the burden of establishing unjust enrichment lies with PenFed, we note that McMahan has not argued on remand or in this

B. Did PenFed act in misreliance on a right when it paid off McMahan's debt to Wells Fargo?

Having established that McMahan has been enriched, we turn to the second part of the inquiry -- whether it would be unjust for her to receive and retain the $91,256.54 benefit that she now seeks. PenFed says that this result would be unjust because, it says, it acted " ' "in misreliance on a right" ' " when it made the $91,256.54 payment to Wells Fargo. Matador Holdings, 77 So. 3d at 146 (citations omitted).

PenFed puts forth two bases for its belief that it had a right to be reimbursed for its payment to Wells Fargo -- § 6-5-253(a)(4) and Springer v. Baldwin County Federal Savings Bank, 597 So. 2d 677 (Ala. 1992) ("Springer II"). Section 6-5-253(a)(4) provides that a purchaser of a foreclosed property has a right to be reimbursed for any "lawful charges," including any "valid lien or encumbrance paid," if the property is later redeemed. McMahan did not exercise her right of redemption here, but her house was sold within the statutory redemption period, and PenFed argues that the principle underlying § 6-5-253(a)(4) should therefore

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appeal that PenFed's expectation of compensation was unreasonable.

apply. In Springer II, this Court permitted the purchaser of a foreclosed property that was later sold within the statutory redemption period to withhold the "necessary and ordinary expenses incurred in the management of [the] foreclosed property" when calculating the surplus due to the mortgagor. PenFed says that its payment to Wells Fargo was such a "necessary and ordinary expense" and that Springer II therefore supports its right to reimburse itself for what it paid to Wells Fargo. PenFed continues to assert that it has a right to reimbursement under § 6-5-253(a)(4) and Springer II but, in recognition of the fact that the trial court has rejected these arguments, states that its misreliance on those authorities justifies the invocation of the doctrine of unjust enrichment. We agree.

" 'The doctrine of unjust enrichment is an old equitable remedy permitting the court in equity and good conscience to disallow one to be unjustly enriched at the expense of another.' " Avis Rent A Car Sys., Inc. v. Heilman, 876 So. 2d 1111, 1123 (Ala. 2003) (quoting Battles v. Atchison, 545 So. 2d 814, 815 (Ala. Civ. App.1989)) (emphasis omitted). Whether it applies in any given case "depends on the particular facts and

circumstances" of that case. Mantiply v. Mantiply, 951 So. 2d 638, 655 (Ala. 2006). Considering the undisputed facts here, this is precisely the type of case in which unjust enrichment should apply. As we summarized in PenFed I: "McMahan seeks to recover $91,256.54 from PenFed even though she has already received and retains the approximately $112,000 benefit she undisputedly received by PenFed's settlement of the Wells Fargo note and the Wells Fargo mortgage; McMahan does not dispute that she is seeking a windfall." 308 So. 3d at 501-02 (emphasis added). Equity and good conscience will not allow McMahan to recover that windfall at the expense of PenFed. The trial court therefore erred by awarding her the disputed $91,256.54.

Conclusion

McMahan sued PenFed, arguing that she was entitled to $94,741.20 of the $157,525 that PenFed received when it sold the house she had lost in foreclosure. PenFed conceded that McMahan should receive $3,484.66 of the sales proceeds but argued that it was entitled to retain $91,256.54 of the amount she sought -- because that was how much it cost PenFed to pay off her debt to Wells Fargo so that the property could be sold

unencumbered by Wells Fargo's lien. The trial court awarded the disputed $91,256.54 to McMahan, but the doctrine of unjust enrichment will not allow her to receive those funds. The trial court's judgment is therefore reversed, and the case is remanded for further proceedings consistent with this opinion.

REVERSED AND REMANDED.

Bolin, Shaw, Bryan, Sellers, Mendheim, and Stewart, JJ., concur.

Parker, C.J., concurs in the result.

Wise, J., recuses herself.