

California District Court Issues Favorable Bank Partnership Decision

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On September 20, 2016, the U.S. District Court for the Central District of California issued an opinion supporting the bank partnership model, less than a month after a judge in the same district issued a decision that questioned the concepts on which the bank model is based.

In *Beechum v. Navient Solutions, Inc.*, the court granted a motion to dismiss a lawsuit brought by Jamie Beechum and others against Navient Solutions, the Student Loan Marketing Association, and the SLM Corporation. The consumer-plaintiffs obtained private student loans in 2003 and 2004 from Stillwater National Bank and Trust Company, a national bank. The bank subsequently sold the loans to a securitization trust established to hold the loans, while Navient Solutions, the Student Loan Marketing Association, and the SLM Corporation serviced the loans. Beechum and others sued, claiming that the nonbank entities were the true lenders on the loan.

The consumer-plaintiffs argued that, as California residents, interest could not be imposed on them at a rate that exceeded 10% per year absent some other authority (such as a California finance lender license). The defendants countered that California law does not limit interest rates a bank may impose. The consumer-plaintiffs urged the court to review the substance of the transaction rather than its form. The court, however, declined to do so. The court found that the cases cited by the consumer-plaintiffs provide that a court may consider the "substance" over the "form" and the parties' intent when assessing whether a transaction satisfies the elements of usury or falls under a common law exemption to the usury prohibition, not when assessing whether the transaction or a party to it falls under a constitutional or statutory exemption from the usury prohibition. In other words, no court case holds that the applicability of a statutory or constitutional exemption to the usury provision is a question of fact and is based on the "substance" of a transaction.

Indeed, the court pointed to two California cases that direct courts to look only to the face of the transaction to assess whether it falls under a statutory exemption from the usury prohibition, and not look to the intent of the parties. Consequently, the court found that it would look only to the face of the transactions at issue to assess whether the loans were exempted from the usury prohibition. Because a bank originated the loans, they were, in fact, exempt from California's usury cap. The court, thus, granted the

defendants' motion to dismiss.

Beechum v. Navient Solutions, Inc.

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7037 Ridge Road, Suite 300, Hanover, Maryland 21076
410.684.3200

hudsoncook.com

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