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Minn. Stat. § 480A.08, subd. 3 (2008).*

**STATE OF MINNESOTA
IN COURT OF APPEALS
A08-2072**

Lance Sandven, et al.,
Appellants,

vs.

Co-op Credit Union of Montevideo,
Respondent.

**Filed August 11, 2009
Affirmed
Toussaint, Chief Judge**

Kandiyohi County District Court
File No. 34-CV-08-42

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Considered and decided by Toussaint, Chief Judge; Kalitowski, Judge; and
Collins, Judge.*

* Retired judge of the district court, serving as judge of the Minnesota Court of Appeals
by appointment pursuant to Minn. Const. art. VI, § 10.

UNPUBLISHED OPINION

TOUSSAINT, Chief Judge

Appellants Lance Sandven, individually, and Sandven Equipment, Inc. challenge the district court's determination on summary judgment that respondent Co-op Credit Union of Montevideo's security interest in a third party's forklift had priority over appellants' mechanic's lien. Because the district court properly construed the law and did not abuse its discretion in refusing to disrupt the lien-priority system, we affirm.

DECISION

I.

The first issue is whether the district court erred when it determined on summary judgment that respondent's security interest had priority over appellants' mechanic's lien. Summary judgment is appropriate when no genuine issue of material fact exists and one party is entitled to judgment as a matter of law. Minn. R. Civ. P. 56.03. On appeal from summary judgment based on application of the law to undisputed facts, as is the case here, we review the district court's legal conclusions de novo. *Lefto v. Hoggsbreath Enters., Inc.*, 581 N.W.2d 855, 856 (Minn. 1998). “[A mechanics’ lien under Minn. Stat. § 514.18, subd. 1 (2008)] shall be valid against everyone except a purchaser or encumbrancer in good faith without notice and for value whose rights were acquired prior to the filing of the lien statement and who has filed a statement of interest in the appropriate filing office.” Minn. Stat. § 514.18, subd. 3 (2008).

Respondent filed a UCC financing statement that perfected a loan agreement between it and a third party, which gave respondent a security interest in the third party's

forklift. Five months later, appellants took possession of the forklift to repair and improve it for the third party. Because appellants were not paid for this work, they acquired a mechanics' lien on the forklift under Minn. Stat. § 514.18, subd. 1. But, because respondent provided financing to the third party and perfected its security interest well before appellants worked on the forklift and because nothing in the record suggests that respondent acted improperly, respondent was an encumbrancer in good faith without notice. Likewise, respondent provided financing for value and properly filed its interest. Minn. Stat. § 514.18, subd. 3, is dispositive. The district court did not err as a matter of law in determining that respondent's security interest had priority over appellants' lien.

II.

The second issue is whether the district court abused its discretion when it refused to disregard the priority system to give appellants priority. "Granting equitable relief is within the sound discretion of the trial court. Only a clear abuse of that discretion will result in reversal." *Nadeau v. County of Ramsey*, 277 N.W.2d 520, 524 (Minn. 1979). Other jurisdictions have acknowledged the authority provided in their equivalents to Minn. Stat. § 336.1-103 (2008) (permitting application of "principles of law and equity" to supplement UCC provisions) to disregard the UCC's hierarchy of priorities if the circumstances merit. *See, e.g., Ninth Dist. Prod. Credit Ass'n v. Ed Duggan, Inc.* 821 P.2d 788, 797 (Colo. 1991). Those circumstances typically involve situations in which the holder of the priority security interest acted fraudulently or in bad faith to the detriment of a junior security-interest holder. *See id.*

In this case, appellants failed to show that respondent acted in bad faith when perfecting its security interest, fraudulently or unlawfully induced appellants into repairing or improving the forklift, or otherwise failed to comply with UCC procedure under Minn. Stat. § 336.9-322 (2008). Appellants also failed to cite any caselaw supporting the view that respondent's sale of the forklift to satisfy its priority interest was done in bad faith toward appellants. The district court did not abuse its discretion in refusing to disregard the creditor-priority system.

Affirmed.