

# Corporate & Financial Weekly Digest

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## Lender's Good Faith Scuttles Breach of Contract Claim

Co-authored by [Gregory C. Johnson](#)

The U.S. Court of Appeals for the Fourth Circuit affirmed the summary judgment dismissal of a breach of contract claim asserted by a medical services company because the totality of the circumstances demonstrated that the lender complied with the loan agreement by acting in good faith when it declared default.

Sandy Springs Bank extended a loan and credit line to Capitol Radiology, LLC, under a loan agreement that provided Sandy Springs with a security interest in substantially all of Capitol's assets and permitted Sandy Springs to declare default if it determined "in good faith" that it was under-collateralized. Capitol was dilatory in providing Sandy Springs with follow-up financial information, however, and Sandy Springs subsequently learned that Capitol was subject to an adverse court judgment and that a federal tax lien had been imposed against the home of its founder (which had also been pledged as security for the loans). Sandy Springs declared default and accelerated the loans. Capitol sued for breach of contract, but its claim was dismissed by the district court on summary judgment and Capitol appealed.

Capitol argued that there were questions of fact about whether the judgment and the federal tax lien represented material adverse events such that Sandy Springs could reasonably consider itself under-collateralized. The Fourth Circuit disagreed, holding that Sandy Springs only had to have a "good faith" belief that it was insecure, and that the totality of the circumstances – including Capitol's failure to provide financial information in a timely fashion as well as the adverse judgment and tax lien – demonstrated as a matter of law that Sandy Springs acted in good faith.

*Capitol Radiology, LLC v. Sandy Spring Bank*, No. 10–1318, 2011 WL 2877966 (4th Cir. July 20, 2011).