

BLOGS

Franchise Sales/Transactions

Delaware Federal Court Dismisses Franchisee's Equal Credit Opportunity Act Claim

A Delaware federal court granted Huntington Learning Center's motion to dismiss a lawsuit brought by a prospective franchisee. *Dhade v. Huntington Learning Ctrs., Inc.*, 2019 WL 5067298 (D. Del. Oct. 9, 2019). Dhade applied to purchase two franchises from Huntington and, in the process of applying, requested information pertaining to financing options offered by Huntington. Huntington informed Dhade that its financing options required Dhade's spouse to execute a personal guarantee of his obligations as a franchisee. Following a breakdown in negotiations, Dhade withdrew his application for the Huntington franchises and sued on the basis that requiring his spouse to execute a personal guarantee violated federal law, specifically the Equal Credit Opportunity Act ("ECOA").

The court granted Huntington's motion to dismiss Dhade's ECOA claim. Although the ECOA prohibits certain financing arrangements, the court never evaluated the lawfulness of Huntington's financing arrangement. Instead, the court interpreted the ECOA to require a party to have submitted an application for credit in order to have standing to sue under the ECOA. Dhade applied for Huntington franchises but never submitted an application for credit. The court held that the plain language of the ECOA precluded a prospective credit applicant from stating a claim upon which it could grant relief, and therefore Dhade, as a prospective applicant, failed to assert a valid claim against Huntington under the ECOA.

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