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RECENT DEVELOPMENT

CREDIBLE BEHAVIORAL HEALTH, INC. V. JOHNSON: UNDER THE PRINCIPLES OF CONTRACT INTERPRETATION, THE TERMS OF A PROMISSORY NOTE REQUIRED REPAYMENT OF A LOAN WHEN AN EMPLOYEE QUILTS OR WHEN AN EMPLOYEE IS FIRED.

By: Hannah Williams

The Court of Appeals of Maryland held that, pursuant to Maryland Rule 7-113(f), the circuit court may only set aside factual determinations upon clear error and should review legal conclusions *de novo*. *Credible Behavioral Health, Inc. v. Johnson*, 466 Md. 380, 389-99, 220 A.3d 303, 307-14 (2019). Accordingly, the circuit court erred in applying the clearly erroneous standard of review to the lower court's interpretation of the promissory note and subsequently erred in construing the note to require loan repayment only when an employee has quit. *Id.* Moreover, the court undertook a common sense analysis of the promissory note, finding the underlying intent of the parties unambiguous and therefore, only one interpretation of the note was reasonable. *Id.* at 399, 220 A.3d at 314.

Credible Behavioral Health, Inc. ("Credible") offered a tuition loan repayment program to its employees who wanted to obtain certificates of higher education. Under the program, a percentage of the loan is repaid by the employee depending upon the amount of time he works for Credible after completing his studies. On August 10, 2016, Emmanuel Johnson ("Mr. Johnson") entered into the loan repayment program, and each party memorialized their agreement via a promissory note. The agreement outlined the terms of repayment in proportion to the time spent at Credible and the consequences upon an event of default. Thereafter, Credible loaned Mr. Johnson \$12,529. In December of 2017, Credible fired Mr. Johnson, who at that time had not yet obtained his degree. Credible and Mr. Johnson subsequently entered into a repayment plan, under which Mr. Johnson made only one payment on February 28, 2018. After Mr. Johnson failed to make additional payments on the loan, Credible brought an action against Mr. Johnson seeking repayment of the debt.

The District Court for Montgomery County entered judgment in favor of Mr. Johnson, finding that the balance of the loan became due only if Mr. Johnson quit his employment with Credible. Subsequently, Credible appealed the district court's ruling. The Circuit Court for Montgomery County affirmed the lower court's judgment finding that the district court was not clearly erroneous in its construal of the promissory note. Credible

petitioned the Court of Appeals of Maryland for *certiorari*, which was granted on June 7, 2019.

Two issues came before the court: (1) Did the circuit court err in reviewing the district court's findings for clear error rather than *de novo*; and (2) Did the terms of the promissory note, construed under Maryland law of contract interpretation, permit Credible to obtain repayment of the loan? *Credible Behav. Health*, 466 Md. at 388, 220 A.3d at 307.

The Court of Appeals of Maryland began its analysis by delineating the circuit court's appropriate standard of review under Md. R. 7-113(f). *Credible Behav. Health*, 466 Md. at 389, 220 A.3d at 308. The court used the predecessors of Md. R. 7-113(f), Rule 1386, and appellate rule Md. R. 8-131(c), Rule 886, to ascertain the appropriate standard. *Id.* at 389-90, 220 A.3d at 308. Under Md. R. 8-131(c), an appellate court will only deviate from the judgment of the trial court if the ruling is clearly erroneous. *Id.* at 388, 220 A.3d at 307. Like Md. R. 7-113(f), this rule does not explicitly state the standard of review applicable to legal conclusions; however, the Court of Appeals of Maryland held that the standard of appellate review over a lower court's legal conclusions is *de novo*. *Id.* Md. R. 8-131(c)'s predecessor, R. 886, contained language identical to that of R. 1386, and in *Ryan v. Thurston*, the Court of Appeals analogized R. 1386 and R. 886 to determine the appropriate standard of review. *Id.* at 390, 220 A.3d at 308 (citing *Ryan v. Thurston*, 276 Md. 390, 391-92 (1975)). The Court of Appeals of Maryland affirmed the symmetrical method of analysis in *Ryan*, distinguishing that the clearly erroneous standard applies to factual determinations and legal conclusions are reviewed *de novo*. *Credible Behav. Health*, 466 Md. at 390-91, 220 A.3d at 308-09.

Next, the court swiftly determined that interpretation of the promissory note was a legal conclusion, in line with its consistent position that contract interpretation is a question of law. *Credible Behav. Health*, 466 Md. at 392, 220 A.3d at 309.

Finally, the court discussed the possible interpretations of the note. *Credible Behav. Health*, 466 Md. 393, 220 A.3d at 310. Maryland courts regularly endorse an objective approach to contract interpretation, designed to discover the parties' intentions by considering the context and plain language of the provisions. *Id.* at 394, 220 A.3d at 310-11. If a reasonable person could assign multiple meanings to a contract term, that term is ambiguous in the eyes of the court, and external evidence is permitted to establish the parties' intentions. *Id.* at 394, 220 A.3d at 311. Here, the contested contract term was "terminate." *Id.* Using Webster's Dictionary as a reference, the court found that loan repayment was "conditioned upon" the cessation of employment with Credible. *Id.* at 395, 220 A.3d at 311.

As a foundational tenet, the court stressed the importance of applying common sense when construing contracts. *Credible Behav. Health*, 466 Md. at 397, 220 A.3d at 313. With this theory in mind, requiring loan repayment only when an employee quits undermines an objective, common sense approach in two ways. *Id.* First, interpreting the note this way leads to the unequal treatment of employees dependent upon whether they were fired from Credible or whether they quit. *Credible Behav. Health*, 466 Md. at 398, 220 A.3d at 313. If the rationale of the lower courts prevailed, an employee who was fired from Credible would not have to repay their obligations, while an employee who quit would. *Id.* This disparity has no foundation in contract interpretation and runs afoul to the tenets of common sense. *Id.*

Second, the plain language of Paragraph 4(c) of the promissory note, the “Drop/Fail Repayment” clause, set out the events that constitute default and commencement of repayment. *Credible Behav. Health*, 466 Md. at 398, 220 A.3d at 313. The court explained that under Mr. Johnson’s interpretation of the note, an employee who expects to fail a class, a default event under Paragraph 4(c), could purposefully misbehave and induce Credible to terminate his employment before the class ends. *Id.* In that situation, an employee could act “unilaterally” to bypass the Drop/Fail clause and evade loan repayment. *Id.* Thus, the court determined that this scenario also offends the theory of common sense because it results in the disparate treatment of employees based upon the reason for employment cessation. *Id.*

Therefore, Credible’s interpretation of the promissory note was the only construal compliant with the doctrine of common sense. *Credible Behav. Health*, 466 Md. at 399, 220 A.3d at 314. Interpreting the note to require loan repayment when an employee quit or is fired permits harmonization between the provisions stipulating the remaining loan balance and the events leading to default. *Id.* The court’s view of the promissory note manifests that the parties intended the loan to be repaid when an employee is fired or quits. *Id.*

In *Credible Behavioral Health*, the Court of Appeals of Maryland affirms longstanding principles of contract interpretation based on objectivity and common sense. Maryland circuit courts are provided with a comprehensive and historical analysis of the rules under which the appropriate standard of review should be selected. Analogizing the circuit court’s and appellate court’s rules should clarify subsequent questions on the matter and taper the amount of error in cases to come. Moreover, businesses who are interested in implementing a similar type of loan repayment program now have the full weight of the Court of Appeals of Maryland behind them, should an issue involving termination and repayment arise. On the other hand, Maryland employees who opt into a similar program are on notice of the potential outcome should an issue of contract interpretation arise with similar plain language and context.