



## **STATE OF NEW JERSEY**

NEW JERSEY LAW REVISION COMMISSION

### **Draft Tentative Report**

Relating to

### **Special Civil—Mandatory Attorney’s Fees**

April 09, 2012

This draft tentative report is distributed to advise interested persons of the Commission's tentative recommendations and to notify them of the opportunity to submit comments. The Commission will consider these comments before making its final recommendations to the Legislature. The Commission often substantially revises tentative recommendations as a result of the comments it receives. If you approve of the report, please inform the Commission so that your approval can be considered along with other comments.

Please send comments concerning this draft tentative report or direct any related inquiries, to:

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## MANDATORY ATTORNEYS' FEES

### Introduction

This project is a reflection of a New Jersey Appellate Court's decision in *Chase Bank USA, N.A. v. Staffenberg*, 419 N.J. Super. 386 (App. Div. 2011), addressing attorney's fees in Special Civil actions. Specifically, *Staffenberg*, examined whether attorney's fees are mandatory under N.J.S. 22A:2-42, and if so, whether in-house counsel is precluded from recovering attorney's fees under N.J.S. 22A:2-42 by application of N.J.S. 17:3B-40 and N.J.S. 17:16C-42(d). The Appellate Division held that attorney's fees are mandatory under N.J.S. 22A:2-42, and it held that in-house counsel may receive attorney's fees because N.J.S. 17:3B-40 and N.J.S. 17:16C-42(d) are not applicable to N.J.S. 22A:2-42. Staff's research has indicated a trend of mandatory attorney's fees, and the Commission is currently drafting a report clarifying that attorney's fees are mandatory under N.J.S. 34:15-28.1 (attorney's fee penalty in workers compensation law).

In *Staffenberg*, the defendant, Jennifer Staffenberg held a credit card issued by the plaintiff, Chase Bank. *Staffenberg, supra*, 419 N.J. Super. at 388. In October 2009, Chase Bank filed a complaint in Special Civil Part, alleging that Staffenberg was indebted on her credit card, and sought recovery of the balance due in the sum of \$5,868.98. *Ibid.* The plaintiff sought \$133.14 in counsel fees under N.J.S. 22A:2-42, "consisting of a \$25 portion (equaling five percent on the first \$500 due) plus an additional portion of \$108.14 (comprising two percent of the \$5,406.93 remainder)." *Id.* at 390. In addition, the complaint listed plaintiff's counsel as two attorneys from its in-house legal department. *Id.* at 389. On December 7, 2009, the Special Civil Part entered a default judgment against Staffenberg, and included the \$133.14 in counsel fees. *Id.* at 390. Subsequently, the defendant appealed asserting that plaintiff was precluded from recovering attorney's fees under N.J.S. 22A:2-42 because N.J.S. 17:3B-40 and N.J.S. 17:16C-42(d) preclude recovery of attorney's fees for creditors that use in-house counsel. *Id.* at 391.

First, the court held that attorney's fees are mandatory under N.J.S. 22A:2-42. *Id.* at 396. The applicable statute reads:

There shall be taxed by the clerk of the Superior Court, Law Division, Special Civil Part in the costs against the judgment debtor, a fee to the attorney of the prevailing party, of five per centum (5%) of the first five hundred dollars (\$500.00) of the judgment, and two per centum (2%) of any excess thereof.  
[N.J.S. 22A:2-42.]

The court applied the statutory framework of *Quereshi v. Cintas Corp.*, 413 N.J. Super. 492 (App. Div. 2010), that "[t]he use of the word 'shall' ordinarily denotes action that is mandatory, unless the context suggests otherwise." *Staffenberg, supra*, 419 N.J. Super. at 396 (internal quotation marks omitted). The court found that the intent of attorney's fees under N.J.S. 22A:2-42 is akin to a taxed cost of suit, meant to shift a portion of the cost incurred, not to reflect the actual cost of retaining counsel. *Id.* at 397. The court found that the legislature did not intend to create any exclusions to the mandatory attorney's fees, and found its conclusion "consistent with the expedited nature of a Special Civil Part proceeding." *Id.* at 398.

Secondly, the court held that *N.J.S. 17:16C-42(d)* and *N.J.S. 17:3B-40* do not preclude recovery of attorney's fees under *N.J.S. 22A:2-42* when a plaintiff uses in-house counsel. *Id.* at 413. *N.J.S. 17:16C-42(d)* was passed under the Retail Installment Sales Act ("RISA"), and states that a "retail installment contract . . . may provide for the payment of attorney fees not exceeding 20% of the first \$500 and 10% of any excess . . . when referred to an attorney, not a salaried employee of the holder of the contract." *Id.* at 400. *N.J.S. 17:3B-40* was passed under the Market Rate Consumer Loan Act ("MRCLA"), and states that if a bank refers the collection to a non-salaried employee of the bank, it may collect a reasonable attorney's fee if the agreement governing the plan so provides. *Id.* at 401-02.

The court looked to the legislative history of the statutes, and presumed that the Legislature was aware of *N.J.S. 22A:2-42* when it enacted RISA in 1960 and MRCLA in 1996, and did not intend to overrule its statutory attorney's fee mandate. *Id.* at 402-03. Additionally, the court found that *N.J.S. 17:16C-42(d)* and *N.J.S. 17:3B-40* do not partially repeal *N.J.S. 22A:2-42* by implication because there is no basis to overcome the "strong presumption in the law against implied repealers." *Id.* at 403 (internal quotation marks omitted). To harmonize the three statutes, the court interpreted *N.J.S. 22A:2-42* as a statutory tax, and distinguished it from *N.J.S. 17:3B-40* and *N.J.S. 17:16C-42(d)*, which it concluded were contractual attorney's fee provisions. *Ibid.* *N.J.S. 22A:2-42* applies to Special Civil Part actions, which have a limit of \$15,000, and the statute mandates attorney's fees to the prevailing party not to exceed 5% of the first \$500 recovered and 2% of any excess. *Ibid.* Thus, the highest possible fee under *N.J.S. 22A:2-42* is only \$315. *Id.* at 407. The court found *N.J.S. 22A:2-42* more akin to a tax that "does not attempt to reimburse the creditor fully for the reasonable costs of its counsel's services. . . . the award . . . operates to shift only a small portion of the burden of litigating the matter to the judgment debtor." *Id.* at 404. In contrast, the Court interpreted *N.J.S. 17:3B-40* and *N.J.S. 17:16C-42(d)* as contractual fees designed to reimburse the prevailing party for the reasonable cost of attorney's fees. *Id.* at 404. Furthermore, fees awarded pursuant to those statutes are not conditioned upon the actual institution of a suit, whereas fees awarded under *N.J.S. 22A:2-42* require a special civil suit. *Ibid.* Moreover, the court found that the public policy behind denying in-house counsel fees, in response to over-reaching by banks, does not apply to special civil actions where the fee is nominal. *Id.* at 406-07.

The court additionally relied on a prior Appellate Division case, *Bancredit, Inc. v. Bethea*, 65 *N.J. Super.* 538 (App. Div. 1961), which "recognized the qualitative distinction between statutory counsel fees awarded as taxed costs under *N.J.S. 22A:2-42* and counsel fees recoverable under contractual provisions." *Id.* at 407. The court in *Bancredit*, held that an earlier version of *17:16C-42(d)* could coexist with *N.J.S. 22A:2-42* because one represents a contract to cover all legal expenses where the other is a court-imposed cost. *Id.* at 409.

The court in *Staffenberg*, also addressed the concerns regarding potential "double counting" of attorney's fees. *Ibid.* The court held that because attorney fees must be reasonable, it has discretion not under *N.J.S. 22A:2-42*, which mandates an amount, but under a separate contract-based request under *N.J.S. 17:3B-40* or *N.J.S. 17:16C-42(d)*, to consider that a party already received a modest fee under *N.J.S. 22A:2-42*. *Ibid.*

In summary, the court held that attorney's fees are mandatory under *N.J.S. 22A:2-42* and are not restricted by *N.J.S. 17:3B-40* and *N.J.S. 17:16C-42(d)*, which prohibit an award of attorney's fees to parties who use in-house counsel. Staff modified *N.J.S. 22A:2-42* to reflect the court's interpretation.

## DRAFT

*N.J.S. 22A:2-42. Attorney's or counsel's fees*

~~There shall be taxed by~~ The clerk of the Superior Court, Law Division, Special Civil Part shall award in the costs against the judgment debtor, a fee to the attorney of the prevailing party, of five per centum (5%) of the first five hundred dollars (\$500.00) of the judgment, and two per centum (2%) of any excess thereof. In-house counsel are not precluded from recovery under this section by application of *N.J.S. 17:16C-42(d)* or *N.J.S. 17:3B-40*.

In actions of replevin the court shall allow the attorney of the prevailing party a fee of not less than five dollars (\$5.00) nor more than ten dollars (\$10.00), to be taxed and collected as aforesaid.

Upon entry of any order adjudging a person in contempt for violation of any order of the court or upon any motion or application to the court made subsequent to the commencement of an action or proceeding in the Special Civil Part, the court, in its discretion, may award an attorney or counsel fee of not more than ten dollars (\$10.00) to be paid in such manner as the court shall direct.

### COMMENT

The revision in *N.J.S. 22A:2-42* clarifies that attorney's fees are mandatory under *N.J.S. 22A:2-42*, and in-house counsel are not precluded from recovery under this section by application of *N.J.S. 17:16C-42(d)* or *N.J.S. 17:3B-40*. The revision codifies the reading of the statute found in *Chase Bank USA, N.A. v. Staffenberg*, 419 *N.J. Super.* 386, 396 (App. Div. 2011).

In *Staffenberg*, the court applied the statutory framework of *Quereshi v. Cintas Corp.*, 413 *N.J. Super.* 492 (App. Div. 2010), that "[t]he use of the word 'shall' ordinarily denotes action that is mandatory." *Id.* at 396 (internal quotation marks omitted). This revision added language to clarify that the clerk of the court must award attorney's fees to the prevailing party.

Additionally, the court in *Staffenberg* held that *N.J.S. 17:16C-42(d)* and *N.J.S. 17:3B-40* do not preclude recovery of attorney's fees under *N.J.S. 22A:2-42* when the plaintiff uses in-house counsel. *Id.* at 413. The court found that the intent of attorney's fees under *N.J.S. 22A:2-42* is akin to a taxed cost of suit, meant to shift a portion of the actual cost incurred, and not to reflect the actual cost of retaining counsel. *Id.* at 397. In contrast, the court interpreted *N.J.S. 17:16C-42(d)* and *N.J.S. 17:3B-40* as contractual attorney's fees provisions, designed to reimburse the prevailing party for the reasonable cost of attorney's fees. *Id.* at 404. The court found that the legislature did not intend to create any exclusions to the mandatory attorney's fees tax, and found its conclusion "consistent with the expedited nature of a Special Civil Part proceeding." *Id.* at 398. This revision added language to clarify that in-house counsel is not precluded from receiving attorney's fees under *N.J.S. 22A:2-42*.

This revision did not retain the court's description of attorney's fees granted under *N.J.S. 22A:2-42*, as a "taxed cost of suit." Although, analogizing the attorney's fees as a "taxed cost of suit" was helpful to convey the difference between typical attorney's fees that can reach large sums, and the kind granted here, where the max fee

available is \$315, the Commission found the court's phrasing ambiguous. Typically, taxed costs are relatively low in amount and include filing fees, or the cost of the transcript and printing of briefs, appendices, and other proceedings. See *N.J.S. 22A:2-2* to -3. While attorney's fees granted under *N.J.S. 22A:2-42* are not the type of taxed cost aforementioned, they are presumed, similar to how counselors are entitled to a \$25 fee for arguing a case before the Supreme Court. See *N.J.S. 22A:2-2*. Although the court considered that attorney's fees granted under *N.J.S. 22A:2-42* are qualitatively different than typical attorney's by amount, the court also stressed the difference that typical attorney's fees are contractual rather than statutory. To avoid creating ambiguity in defining how attorney's fees granted under *N.J.S. 22A:2-42* are different than typical attorney's fees, this revision keeps the current language, which retains its inherent difference through its statutory creation, and signifies its minimal amount through its limit of 5% of the first \$500 of the judgment, and 2% of any excess. This revision only modifies language to assure that fees are mandatory, and to clarify that in-house counsel are not precluded from recovering attorney's fees under this section.