
501.55 CONTRACTS-ISSUE OF FORMATION-DEFENSE OF CONSTRUCTIVE FRAUD.

The (state number) issue reads:

“Did the plaintiff take advantage of a position of trust and confidence to induce the defendant to enter into the contract?”

(You are to answer this issue only if you have answered the (state number)¹ issue “Yes” in favor of the plaintiff.)

On this issue the burden of proof is on the defendant. This means that the defendant must prove, by the greater weight of the evidence, two things:²

First, that a relationship of trust and confidence existed between the defendant and the plaintiff. Such a relationship exists where one person places special confidence in someone else who, in equity and good conscience, must act in good faith and with due regard for such person's interests.³

[(Use where a fiduciary relationship exists as a matter of law; for a list of such relationships, see N.C.P.I.-Civil 900.10) In this case, members of the jury, the plaintiff and the defendant had a relationship of (name fiduciary relationship, e.g., attorney and client, trustee and beneficiary, guardian and ward, agent and principal, etc.). You are instructed that, under such circumstances, a relationship of trust and confidence existed.]

And Second, that the plaintiff used his position of trust and confidence to induce the defendant to enter into the contract to the detriment of the defendant⁴ and for the benefit of the plaintiff.⁵

Finally, as to the (state number) issue on which the defendant has the burden of proof, if you find, by the greater weight of the evidence, that the plaintiff took advantage of a position of trust and confidence to induce the defendant to enter into the contract, then it would be your duty to answer this issue “Yes” in favor of the defendant.

If, on the other hand, you fail to so find, then it would be your duty to answer this issue "No" in favor of the plaintiff.

1 See N.C.P.I.-Civil 501.01 (Contracts-Issue of Formation).

2 *Terry v. Terry*, 302 N.C. 77, 83, 273 S.E.2d 674, 677 (1981) (quoting *Rhodes v. Jones*, 232 N.C. 547, 549, 61 S.E.2d 725, 726 (1950): "It is necessary for plaintiff to allege the facts and circumstances (1) which created the relation of trust and confidence, and (2) led up to and surrounded the consummation of the transaction in which defendant is alleged to have taken advantage of his position of trust to the hurt of plaintiff."). See also *Sidden v. Mailman*, 137 N.C. App. 669, 677, 529 S.E.2d 266, 272 (2000); compare *Hewitt v. Hewitt*, ___ N.C. App. ___, ___, 798 S.E.2d 796, 800 (2017) (observing that the North Carolina Court of Appeals has defined the essential elements of constructive fraud in varying ways and citing *Crumley and Assocs., P.C. v. Charles Peed and Assocs. P.A.*, 219 N.C. App. 615, 620, 730 S.E.2d 763, 767 (2012) for this formulation: "that defendant (1) owes plaintiff a fiduciary duty; (2) breached this duty; and (3) sought to benefit himself in the transaction.").

3 *Abbitt v. Gregory*, 201 N.C. 577, 598, 160 S.E. 896, 906 (1931).

4 *Terry*, 302 N.C. at 83, 273 S.E.2d at 677; *Fox v. Wilson*, 85 N.C. App. 292, 299, 354 S.E.2d 737, 742 (1987).

5 In 1997, our Supreme Court distinguished constructive fraud claims from breach of fiduciary duty claims by adding the additional requirement that constructive fraud claims contain an allegation that the defendant benefitted himself. *Carcano v. JBSS LLC*, 200 N.C. App. 162, 178, 684 S.E.2d 41, 52 (2009). In *Barger v. McCoy Hillard and Parks*, 346 N.C. 650, 666, 488 S.E.2d 215, 224 (1997), the Supreme Court wrote that "implicit in the requirement that a defendant '[take] advantage of his position of trust to the hurt of plaintiff' is the notion that the defendant must seek his own advantage in the transaction." The Court then stated that "[t]he requirement of a benefit to defendant follows logically from the requirement that a defendant harm a plaintiff by taking advantage of their relationship of trust and confidence." *Id.* The Court of Appeals has followed this holding that an essential element of constructive fraud is that the "defendant sought to benefit himself." *NationsBank of NC, N.A. v. Parker*, 140 N.C. App. 106, 114, 535 S.E.2d 597, 602 (2000); *Walker v. Sloan*, 137 N.C. App. 387, 402, 529 S.E.2d 236, 246 (2000); *Ridenhour v. Int'l Bus. Machines Corp.*, 132 N.C. App. 563, 566, 512 S.E.2d 774, 777, disc. rev. denied, 350 N.C. 595, 537 S.E.2d 481 (1999); *Sharp v. Gailor*, 132 N.C. App. 213, 216, 510 S.E.2d 702, 704 (1999); *State ex rel. Long v. Petree Stockton, LLP*, 129 N.C. App. 432, 445, 499 S.E.2d 790, 798 (1998).

Barger's influence appears to have reshaped prior law on the presumption of fraud that normally follows from proof of the existence of a fiduciary relationship. See, e.g., *McNeill v. McNeill*, 223 N.C. 178, 25 S.E.2d 615 (1943). After Barger, at least one Court of Appeals decision requires the plaintiff not only to prove the existence of a confidential relationship to survive a directed verdict, but also that the defendant used his position of trust to "take advantage" for his "own benefit." *Ridenhour*, 132 N.C. App. at 566, 512 S.E.2d at 777 (absence of evidence of benefit to defendant grounds for directed verdict). See also *Estate of Smith v. Underwood*, 127 N.C. App. 1, 10, 487 S.E.2d 807, 813, disc. rev. denied, 347 N.C. 398, 494 S.E.2d 410 (1997) (directed verdict properly granted where plaintiff failed to prove second element of constructive fraud). But see *Hutchins v. Dowell*,

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138 N.C. App. 673, 531 S.E.2d 900 (2000) (presumption of fraud raised when an agent self-deals); *Stilwell v. Walden*, 70 N.C. App. 543, 546, 320 S.E.2d 329, 331 (1984) (constructive fraud proven by showing that confidential relationship existed at the time the property was transferred to the fiduciary).

