

MECHANICS' LIENS IN A NUTSHELL

By Gerald W. Heller

Sooner or later, some variant of the following scenario plays out in most private construction projects of any significant size:

A property owner contracts with a general contractor, who in turn engages subcontractors and suppliers to furnish work and materials used in the project. Construction begins and all seems to be going well, with the owner paying periodic draw requests to the general contractor, who in turn is supposed to promptly pay the subcontractors and suppliers. Then one day the owner's mail arrives, which includes an envelope with the telltale markings of certified mail. The envelope contains a legalistic looking and sworn "Notice of Intention to Claim Mechanics' Lien," which states that a large sum of money is owed to a subcontractor on the project.

The owner, depending upon his level of construction experience, may not have gone through the mechanics' lien process before, and calls you, his trusted counsellor, in a panic. Surely, the owner exclaims, this Notice must be a mistake because he has already paid the general contractor in full.

After calming the nervous owner

down, you gently advise him, with the usual lawyerly caveats, that "No," there may not have been a mistake, and "Yes," you may have to pay again, even though you paid the general contractor previously. But before reaching any firm conclusions and mapping out a strategy concerning the claim, more investigation is required, for there are a surprising number of "i's" to be dotted and "t's" to be crossed in the law of mechanics' liens.

The Mechanics' Lien Remedy

The mechanics' lien remedy, which is delineated in the Maryland Code, see Md. Code Ann., Real Prop., §§



9-101 to 9-114, and implemented by the Maryland Rules of Procedure, see Rules 12-301 to 12-308, addresses the rights and obligations of the various parties in the construction chain. Mechanics' liens provide a potentially powerful, and often expeditious, remedy for persons who have provided work or materials for a private construction project to be paid. If the claimant establishes a mechanics' lien, the lien attaches to the property and the claimant can enforce the lien by sale of the property. Depending upon the amount of the sale and the lien's priority, the lien claimant can then obtain payment from the sales proceeds. Many times, simply going through the preliminary stages of asserting a lien claim will result in payment to and settlement with the lien claimant. This statutory remedy does not supplant, but is in addition to, any contractual or other remedy the claimant may possess.

The law of mechanics' liens highlights the inherent tension between the rights of owners, on the one hand, and the rights of contractors, subcontractors and others involved in the construction process to be paid for their work, services and materials used in a project. Maryland courts have repeatedly acknowledged that the mechanics' lien statute is to be interpreted in a liberal and comprehensive manner in favor of mechanics and materialmen. See, e.g., T. Dan Kolker, Inc. v. Shure, 209 Md. 290, 121 A.2d 223 (1956); Caton Ridge, Inc. v. Bonnett, 245 Md. 268, 225 A.2d 853 (1967). The lien remedy is available not only to a contractor, its subcontractors and material suppliers, but all entities and persons in the various construction tiers, provided that they satisfy the statutory prerequisites for a mechanics' lien. *See* Section 9-101(g) ("'Subcontractor' means a person who has a contract with anyone except the owner or his agent.") The mechanics' lien remedy applies only to private construction; state or local government construction is governed by the Maryland Little Miller Act (*See* Md. Code Ann., St. Fin. & Proc. § 17-101 *et sea*.)

Even though a liberal interpretation in favor of the beneficiaries of the mechanics' lien statute is required, because the mechanics' lien remedy "[w]as unknown at common law," but is "[c]reated by statute," the lien can only be obtained by compliance with the statutory requirements. Freeform Pools, Inc. v. Strawbridge Home for Boys, Inc., 228 Md. 297, 301-302, 179 A.2d 683, 685 (1962). "Courts have no power to extend [the mechanics' lien law] to cases, beyond the obvious designs and plain requirements of the statute." Id.; see also Winkler Construction Company, Inc. v. Jerome, 355 Md. 231, 734 A.2d 212 (1999).

Because mechanics' liens are statutorily based, there is no fail-safe shortcut to understanding the remedy other than carefully reading the mechanics' lien statute, the related Rules of Maryland Procedure, and the fairly well-developed body of case law that fills in many of the nooks and crannies of the statute and Rules. Nonetheless, certain basic provisions and principles, particularly for practitioners who do not often handle mechanics' lien claims, are important to understand.

Property Subject to the Lien

The most commonly encountered mechanics' lien claim involves the new construction of buildings, or repairs and other improvements to buildings, both of which are covered by Section 9-102(a). Section 9-102(a) provides the possibility for a mechanics' lien to be established for "[e]very building erected and every building repaired, rebuilt, or improved to the extent of 15 percent of its value" Thus, the construction of a new building is subject to a mechanics' lien, but so, too, are buildings that are "repaired, rebuilt, or improved," if the 15 percent improvement in value threshold is satisfied.

This seemingly straightforward statutory language has itself bred disputes. The term "building" does not include every structure that may be erected. The term is defined in the statute as including "[a]ny unit of a nonresidential building that is leased or separately sold as a unit," see Section 9-101(b), and also has been judicially defined as "[a]n erection intended for use and occupancy as habitation, or for some purpose of trade, manufacture, ornament, or use, such as a house, store or a church." Freeform Pools, Inc. v. Strawbridge Home for Boys, Inc., 228 Md. 297, 301, 179 A.2d 683, 685 (1962).

Even more troublesome is the statutory requirement that a lien claimant establish, for buildings "repaired, rebuilt, or improved," that the value of work or service in question totals at least "15 percent" of the building's value. Thus, for example, a contractor who repaired asphalt paths on a golf course was not entitled to a lien because the repairs were less than 15% of the

value of the golf course. *L. W. Wolfe Enterprises, Inc. v. Maryland National Golf, L.P.,* 165 Md. App. 339, 885 A.2d 826 (2005), *cert. denied,* 391 Md. 579, 894 A.2d 546 (2006).

Buildings, either new construction or those that have been "repaired, rebuilt or improved," are by far the most common property involved in lien claims. However, other property also may be subject to a mechanics' lien. This property includes, under specified circumstances, water lines, sewers, drains, and streets in development, as well as machines, wharves and bridges. See Section 9-102(b) and (c).

Mechanics' liens for work performed for or materials furnished to tenants are also permitted. In particular, a lien for tenant related work can be obtained "[i]f a building is erected or repaired, rebuilt, or improved to the extent of 25 percent of its value, by a tenant for life or years or by a person employed by the tenant, " See Section 9-103(c) (2). But mechanics' liens for tenant related work or materials can be problematic to establish and, thereafter, to enforce.

First, the statutory provision requires the claimant to satisfy a "25 percent" value threshold (not the lower "15 percent" requirement applicable to buildings "repaired, rebuilt or improved" subject to Section 9-102(a)). Second, even if the 25 percent value threshold is satisfied, the lien established "[a]pplies only to the extent of the *tenant's* interest" (emphasis added), rendering enforcement of the lien against the tenant's leasehold interest a difficult and many times impractical undertaking. *See* Section 9-103(c)(2).

Mechanics' liens relating to condominium units or the common

areas of a condominium are governed by Section 11-118 of the Maryland Condominium Act. See Md. Code Ann., Real Prop. §§ 11-101 to 11-143. Mechanics' and materialman's liens "[a]rising as a result of repairs to or improvements of a unit by a unit owner shall be a lien only against the unit." See Section 11-118(a). Liens resulting from repairs to or improvements of the common elements, under the conditions specified in Section 11-118(b), create "[a] lien against each unit in proportion to its percentage interest in the common elements."

Section 9-102(a) lists the type of "work done" or "materials furnished for or about the building," that are subject to a mechanics' lien claim. The list is fairly expansive, and includes far more than services and materials that one might normally associate with the construction process. Thus, for example, work or materials for the drilling and installation of water supply wells; swimming pools or fencing; sodding; grading; seeding or planting, landscaping and landscaping services; paving; architectural, engineering, land surveying, or certain interior design services provided by a certified interior designer; the leasing of equipment; and various other statutorily listed work or materials each may support a mechanics' lien claim. Practitioners need to carefully review the full list of work and services contained in Section 9-102(a) in order not to overlook a potential claim.

The Start of the Lien Process: Subcontractor's Written Notice

In a typical mechanics' lien case, a

contractor or subcontractor claims that the owner or contractor has failed to timely pay for the claimant's work or materials. Contractors are not required to give written notice to the owner prior to filing a petition to establish a mechanics' lien in the Circuit Court. Subcontractors, however, are required to provide the owner with written notice of an intention to claim a mechanics' lien before filing a petition. *See* Section 9-104(a)(1) and (2).

This written notice is an essential predicate to the establishment of the subcontractor's lien claim. The notice requirement protects owner's interest, because upon receipt of the notice the owner can retain the amount claimed in the notice to minimize the risk of double payment. See Section 9-104(f); see also Buckowitz v. Maryland Lumber Company, 210 Md. 148, 122 A.2d 486 (1956). It is the lien claimant's burden to affirmatively establish that the requisite written notice has been given to the owner. See, e.g., F. Scott Jay & Co., Inc. v. Vargo, 112 Md. App. 354, 685 A.2d 799 (1996).

The form of notice to be given by the subcontractor should be among the easiest tasks of the construction lawyer. There is no need to reinvent the wheel here, because a form notice is contained in Section 9-104(2)(b) that practitioners would be wise to follow. The notice is required to be sworn, and must contain the name of the subcontractor; a description of the building; the amount earned by the subcontractor; the amount which is due; a brief description of the work performed or materials furnished and the time performed or furnished; and the name of the person for whom the work was done or materials fur-



nished. See Section 9-104(2)(b).

The subcontractor's notice to the owner must be given "[w]ithin 120 days after doing the work or furnishing the materials, " See Section 9-104(a). Notice is deemed effective if "given by registered or certified mail, return receipt requested, or personally delivered to the owner by the claimant or his agent." See Section 9-104(c). If notice is given by certified or registered mail, the notice must actually be received by the property owner; mere evidence of mailing within the 120-day period is insufficient. See Mardirossian Family Enterprises v. Clearail, Inc., 324 Md. 191, 596 A.2d 1018 (1991). "If notice cannot be given on account of absence or other causes," notice by posting "on the door or other front part of the building" is permissible pursuant to the procedures specified in Section 9-104(e).

The proper computation of the 120-day period (and the 180-day period to file a petition in the Circuit Court to establish a mechanics' lien described below) is often complicated in situations when work or materials are provided periodically throughout the construction process. This is an area in which counsel must exercise caution. Consider, for example, the situation where work or materials were provided on days 1 through 30 of the project ("Phase 1"), with no further work

being provided until considerably later, say, days 160 through 190 of the project ("Phase 2"). If the work or materials under Phases 1 and 2 were provided pursuant to separate contracts or for distinct purposes, the requisite notice in our example must be given within 120 days of the completion of the work under each contract. See, e.g., District Heights Apartments, Section D-E v. Noland Co., Inc., 202 Md. 43, 95 A.2d 90 (1953). This would mean that, under these facts, a notice of intent to claim a lien must be given within 120 days of completion of Phase 1 (i.e., day 150 in our example). Notice given within 120 days of completion of Phase 2 would be timely for that Phase, but untimely for the work or materials provided in Phase 1.

On the other hand, if the work or materials provided "[a]re so connected together as to show that the parties contemplated that all of the deliveries form one entire matter for settlement," the time for notice runs from the last date of the work performed or materials furnished (i.e., day 190 in our example). See G. Edgar Harr Sons v. Newton, 220 Md. 618, 622, 155 A.2d 480, 483 (1959) (citations omitted). However, in many situations it may not be entirely clear which date commences the 120 date notice period; in that case, prudent counsel should consider sending notice using the earliest date as the starting point, and sending another notice for later supplied work or materials.

Claimants sometimes argue that the time for giving notice or filing a lien petition is extended by performing work such as punch list items or providing additional materials after substantial completion of the contract. If this additional work or materials are provided as a subterfuge to revive or extend the time for giving the subcontractor's notice or filing the lien petition, this will not extend the deadlines. See, e.g., T. Dan Kolker, Inc. v. Shure 209 Md. 290, 121 A.2d 223 (1956). But when, for example, this additional work or materials were substantial and necessary for the performance of a single contract, provided at the request of the owner and otherwise performed or furnished in good faith, the time to give the requisite notice and filing for the lien runs from this later date. Id.; see also Reisterstown Lumber Company v. Reeder, 224 Md. 499, 168 A.2d 385 (1961). Again, particularly in close cases, cautious counsel will not want to run the risk of an untimely notice or lien petition based on the belief that the court ultimately will conclude that this later supplied work or material extends the statutory time periods. The practical pointer here is the obvious one: give the required notice and, thereafter, file the petition to establish a mechanics' lien --- discussed more fully in the next section --- as soon as possible.

Petition to Establish the Mechanics' Lien

A petition to establish a mechanics' lien must be filed by contractors and subcontractors in the Circuit Court where the land or any part of the land is located "[w]ithin 180 days after the work has been finished or the materials furnished." See Section 9-105(a); see also Rule 12-302. Often, practitioners caption the petition as one to establish and enforce a mechanics' lien, thereby

eliminating the need to file a separate motion under Rule 12-305(a) to enforce a mechanics' lien after it has been judicially established. Under Rule 12-305(a), a motion to enforce a mechanics' lien must be filed within one year of the date the petition to establish the lien was filed.

Section 9-105 and Rule 12-302 describe the necessary contents of a petition to establish a mechanics' lien: name and address of the parties; the nature, amount and dates of work done or materials furnished; name of the person for whom work was done or to whom the material was furnished; amount claimed to be due; a description of the land and description adequate to identify the building; if the petitioner is a subcontractor, facts showing that the notice of intent to claim a mechanics' lien under Section 9-104 was properly mailed or served; and if a building is not new construction, a statement that it has been repaired, rebuilt or improved to the extent of 15 percent of its value; and an "affidavit" by the petitioner or some person on his behalf, setting forth facts supporting the establishment of the lien in the amount requested. See Section 9-105(a); Rule 12-302(b). Some practitioners do not file a separate affidavit with the petition, but fulfill this requirement by filing a "Verified Complaint." See Rule 12-302(b).

The petition must also include the "material papers" that support the lien claim. Thus, it is common to include with the petition copies of the underlying contract, invoices, pertinent correspondence, checks or any evidence of partial payment, any subcontractor's notice given under Section 9-104, and similar documents supporting the lien claim. *See* Section 9-105(3). The petition is brought against "[t]he owner of the land against which the lien is sought to be established." *See* Rule 12-302(c). Other persons identified in Rule 12-302(c) may be joined as defendants to the mechanics' lien action, but their joinder is not required. *Id*.

Judicial Proceedings Relating to the Lien Claim

After the lien petition is filed in the Circuit Court, the procedures to be followed by the Court and parties are outlined in Section 9-106 and Rule 12-304. The Court is to review the pleadings and exhibits, and if "[t]here is a reasonable ground for the lien to attach," issue an order requiring "[t]he owner to show cause within 15 days from the date of service" why a mechanics' lien should not attach. See Section 9-106(a). The show cause order will set a hearing date and will advise the owner, among other things, that he may appear at the show cause hearing and present evidence or may file a counteraffidavit or verified answer within the time specified in the order. See Section 9-106(a)(i).

Cautious counsel representing the owner's interest will file the counteraffidavit or verified answer timely, because the failure to file an answer constitutes an admission of all statements of fact in the petition, though the failure to file does not constitute an admission that the petition or complaint "[i]s legally sufficient." See Section 9-106(a)(2). No hearing is required unless an answer has been filed. See Rule 12-304(d); see also Winkler Construction Company, Inc. v. Jerome,

355 Md. 231, 734 A.2d 212 (1999). Furthermore, by denying the validity of the claim, the owner thereby alleges a prima facie defense. See Talbott Lumber Company v. Tymann, 48 Md. App. 647, 428 A.2d 1229, cert. denied, 290 Md. 723 (1981). It is also important to note that "[t] he overall burden of proving an entitlement to a lien remains with the claimant." Winkler Construction Company, Inc. v. Jerome, 355 Md. 231, 254, 734 A.2d 212, 225 (1999).

One of the advantages to the mechanics' lien process is that it provides the parties a relatively expeditious means to obtain judicial resolution of the dispute. The show cause order requires an initial hearing date "[n]o later than 45 days from the date of the order." See Rule 12-304(b). In addition, if an interlocutory lien is established at the show cause hearing, the court must assign a trial date to determine the appropriateness of a final lien within six months. See Section 9-106(3)(vi); Rule 12-304(e) (2)(E). At the show cause hearing, the court uses a summary judgment type of analysis to determine if there is a genuine dispute of material fact whether a lien should or should not be established. See, e.g., Reisterstown Lumber Company v. Royer, 91 Md. App. 746, 605 A.2d 980, cert. denied, 327 Md. 626, 612 A.2d 257 (1992); E.L. Gardner, Inc. v. Bowie Joint Venture, 64 Md. App. 302, 494 A.2d 988, cert. denied, 304 Md. 296, 498 A.2d 1183 (1985). If there is no genuine dispute whether a lien should or should not be granted as a matter of law, the court will either grant a final lien or deny the lien request. See Section 9-106(b)(1) and (b)(2); Rule 12-304(e)(1)(A) and (e)(1)(B).

These show cause hearings are typically allotted a very short period of time, and there may be an insufficiently developed record for the court to either grant a final lien or deny the requested lien in toto. As a result, a common outcome of the show cause hearing is for the court to conclude "[t]hat there is probable cause to believe the plaintiff is entitled to a lien," enter an interlocutory lien on behalf of the claimant to that effect and schedule a trial for a determination whether a final lien is appropriate. See Section 9-106(3); Rule 12-304(e)(2).

This probable cause determination, however, must be supported by findings of fact. See, e.g., Reisterstown Lumber Company v. Royer, 91 Md. App. 746, 605 A.2d 980, cert. denied, 327 Md. 626, 612 A.2d 257 (1992). In a case where no probable cause is found, "[t]he court shall enter an order that the portion of the complaint seeking to establish the lien be dismissed unless the plaintiff, within 30 days thereafter, files a written request that the portion of the complaint seeking to establish the lien be assigned for trial." See Rule 12-304(e)(3).

Upon the entry of a final lien, the enforcement of that lien through the property's sale and the priority of claimants are governed by Section 9-108. The final order will require the land to be sold to satisfy the lien, unless payment is made "[o] n or before a date specified in the order, which shall be not more than 30 days after the date of the order." See Rule 12-305(a). If there are insufficient proceeds to pay all mechanics' lien claimants in full, the claimants share the proceeds on a pro rata basis. See Section 9-108.

Defense of Payment and Other Commonly Encountered Issues

Much to the chagrin of the property owner in the hypothetical described at the outset of this article, and counterintuitive to the expectations of most laypersons, the defense of "I already paid the general contractor in full" will not, in and of itself, defeat a subcontractor's right (or the rights of others lower down the construction chain) to establish a mechanics' lien. When full payment is made to the contractor, the contractor is supposed to "[g]ive to the owner a signed release of lien from each material supplier or subcontractor" which, in effect, releases the owner from any potential mechanics' lien claims. See Section 9-114. But this might not happen for a variety of reasons. For example, owners unsophisticated in the construction process may neglect to insist on final lien releases, or unscrupulous contractors may promise to deliver the lien releases after final payment and thereafter fail to do so, thus leaving the owner subject to possible mechanics' lien claims.

For the construction of a "single family dwelling being erected on the land of the owner for his residence" under Section 9-104(f) (3), payment by the owner can be a potential defense, even without a signed mechanics' lien release. In particular, for the residential construction described in Section 9-104(f)(3), if the owner has made payment to the contractor before receiving a written notice of intent to claim a mechanics' from a subcontractor, payment can be a complete or partial defense to the owner, depending upon whether

full or partial payment has been made. See Sections 9-104(a)(2) and (f)(3). Subcontractors in this residential construction setting would be wise to send the required notice of intent to claim a mechanics' lien promptly after payment is due because payments made to the contractor by the owner after receipt of such notice would not support the payment defense.

In addition, because much residential related construction may involve property held as tenants by the entireties, this may provide another owner defense --- and corresponding minefield to lien claimants. A tenant by the entirety has no separate interest in the property that can be subjected to a mechanics' lien if the debt was contracted by him in his individual capacity. See, e.g., Blenard v. Blenard, 185 Md. 548, 45 A.2d 335 (1946); Buckowitz v. Maryland Lumber Company, 210 Md. 148, 122 A.2d 486 (1956).

Owners will sometimes inquire whether they can protect themselves from subcontractor mechanics' liens by requiring the contractor to include a mechanics' lien waiver in all of the subcontracts. However, these subcontractor waiver provisions are deemed void and against Maryland's public policy. See Section 9-113(a). This is so even though a mechanics' lien waiver might be valid in another jurisdiction where the parties contracted. See, e.g., National Glass, Inc. v. J.C. Penney Properties, Inc., 336 Md. 606, 650 A.2d 246 (1994) (contractual waiver provision, though valid in Pennsylvania, unenforceable in Maryland). The statute, however, only voids lien waivers of mechanics' lien claims in "[a]n executory contract between a contractor and





a subcontractor" See Section 9-113(a). The statute does not prohibit a lien waiver in a contract between the *owner* and the contractor; that is, a contractor can contractually waive its lien rights against the owner. Hence, owners and alert counsel representing them should at least attempt to include such lien waivers in the owner's contract with the contractor.

The establishment of an interlocutory lien may place considerable pressure on the owner to resolve the claim. The lien may constitute an event of default, for example, under a construction loan or other financing agreements. Besides settling the lien claim, "[t]he owner of the land or any other person interested in the land may move to have the land released from any lien" by posting a bond in an amount determined by the court. See Rule 12-307(a) and (b); Section 9-106(c). In effect, the bond replaces the property subject to the lien; the lien claimant remains protected because, if successful in obtaining a final lien, the claimant can execute its judgment against the bond.

Construction contracts often designate arbitration or other procedures as the exclusive or an optional method of dispute resolution between the parties. These provisions will not prohibit the court from establishing an interlocutory lien, thereby preserving the lien claimant's priority. Nor does seeking or obtaining an interlocutory lien, in and of itself, waive the claimant's right to compel arbitration. *Brendsel v. Winchester Construction Company, Inc.*, 392 Md. 601, 898 A.2d 472 (2006).

Upon the request of a party to refer the case to the contractually

designated alternative dispute process, the court will typically enter a stay of the mechanics' lien proceedings after the initial show cause hearing while the parties resolve the merits of the dispute in arbitration or through the other agreed upon dispute procedures. See, e.g., Caretti, Inc. v. Colonnade Limited Partnership, 104 Md. App 131, 655 A.2d 64, cert denied, 339 Md. 641, 664 A.2d 885 (1995). If the lien claimant is ultimately successful on the merits at the arbitration or other proceedings, the claimant can thereafter request the court to lift the stay of the mechanics' lien action and enter a final lien based on the results of the alternative dispute resolution proceedings.

In Maryland, no mechanics' lien is created until a lien is ordered by the court. See, e.g., Himmighoefer v. Medallion Industries, Inc., 302 Md. 270, 487 A.2d 282 (1985). The establishment of an interlocutory lien is significant because, among other reasons, it establishes the lien's priority against later acquired liens and encumbrances on the property.

Pursuant to Section 9-102(d), "[a] building or the land on which the building is erected may not be subjected to a lien . . . if, prior to the establishment of a lien . . . , legal title has been granted to a bona fide purchaser for value." Because under Maryland law equitable title passes to the purchaser once the property is under contract, the contract purchaser will take free of a later established mechanics' lien, assuming that the purchaser otherwise qualifies as a "bona fide purchaser for value." See, e.g., York Roofing, Inc. v. Adcock, 333 Md. 158, 634 A.2d 39 (1993); Himmighoefer v. Medallion

Industries, Inc., 302 Md. 270, 487 A.2d 282 (1985). The lien claimant carries the burden of proof to demonstrate that the purchaser is not a "bona fide purchaser for value." See, e.g., Sterling Mirror of Maryland, Inc. v. Rahbar, 90 Md. App. 193, 600 A.2d 899 (1992).

Conclusion

Besides the mechanics' lien statute, construction related payment disputes may implicate other statutes and issues as well. Maryland's construction trust fund and prompt payment statutes, for example, also attempt to facilitate payment to persons who have provided work or materials in the construction process. See Md. Code Ann., Real Prop. §§ 9-201 to 9-204 and §§ 9-301 to 9-305. Likewise, the bankruptcy or potential bankruptcy of any of the parties poses yet another complication in the lien and payment process. However, because mechanics' liens are so commonly encountered in the construction process, owners, contractors and all persons in the construction chain, as well as their counsel, would be well served to familiarize themselves with the Maryland mechanics' lien statute and corresponding Rules of Procedure governing this important remedy.

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