

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 77 (Delegate Braveboy)
Environmental Matters

**Real Property - Condominiums and Homeowners Associations - Foreclosure of
Certain Liens Prohibited**

This bill prohibits the governing body of a condominium or homeowners association (HOA) from foreclosing a lien solely consisting of fines imposed by the governing body or attorney's fees incurred in order to recover the imposed fines. The bill also requires a governing body to apply a unit or lot owner's payment to the owner's accounts in a specified order of priority, unless otherwise specified in writing by the unit or lot owner.

Fiscal Summary

State Effect: If the Consumer Protection Division of the Office of the Attorney General receives 50 or fewer complaints per year stemming from the bill, the additional workload can be handled with existing resources. No effect on revenues.

Local Effect: Any reduction in foreclosure proceedings in the circuit courts is not expected to generate significant savings.

Small Business Effect: Potential minimal.

Analysis

Bill Summary: The bill requires that any payment from a unit or lot owner to a council of condominium unit owners or an HOA be applied in the following order, unless otherwise provided in writing by the unit or lot owner:

- any delinquent assessment;
- any current assessment;
- any late charges (including interest for a condominium);
- any fines imposed by the governing body; and
- any attorney's fees incurred by the governing body related only to recovering fines imposed by the governing body.

Current Law: The Maryland Condominium Act authorizes the governing body of a condominium to charge up to 18% interest on any delinquent assessment or installment not paid when due. The Maryland Homeowners Association Act is silent as to an HOA's ability to charge interest. However, both a condominium and an HOA may charge a late fee of the greater of \$15 or 10% of the total amount of any delinquent assessment or installment.

Under the Maryland Contract Lien Act (MCLA), if authorized by the declaration or bylaws, a council of unit owners or an HOA may impose a lien on a unit or lot in accordance with MCLA to recover unpaid assessments, interest on unpaid assessments, late charges, collection costs, and reasonable attorney's fees. A deficiency lawsuit following a foreclosure along with a lawsuit to recover a money judgment for unpaid assessments may be maintained in the same proceeding without waiving the right to impose a lien under MCLA.

Under MCLA, a person seeking to create a lien as a result of a breach of contract must give written notice, within two years of the breach, to the person whose property is subject to the lien. Within 30 days after service of the notice, the person served may file a complaint in circuit court to determine whether probable cause exists to establish a lien. If the court orders a lien or the property owner fails to file a complaint, the person seeking to create a lien may file a statement of lien in the land records.

A lien may be enforced and foreclosed by the lien holder in the same manner, and subject to the same requirements, as the foreclosure of mortgages or deeds of trust on property containing a power of sale or an assent to a decree. An action to foreclose a lien must be brought within 12 years following recordation of the lien statement. Generally, liens against real property take priority in the order in which they are recorded.

Background: A similar bill was introduced in the Texas legislature in 2011. The bill received a hearing, but no further action was taken. The Texas bill would have established the same order of priority for a payment received by a council of unit owners or HOA.

Additional Information

Prior Introductions: HB 100 of 2011 received an unfavorable report from the House Environmental Matters Committee. Its cross file, SB 211, as amended, passed the Senate but received an unfavorable report from the House Environmental Matters Committee.

Cross File: Although not designated as a cross file, SB 78 (Senator Kelley – Judicial Proceedings) is identical.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Department of Housing and Community Development; Judiciary (Administrative Office of the Courts); Department of Labor, Licensing, and Regulation; Secretary of State; Texas Legislature Online; Department of Legislative Services

Fiscal Note History: First Reader - January 31, 2012
ncs/kdm

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