



Real Property Section

To: Judicial Proceedings Committee

From: Legislative Committee of the Real Property Section Counsel

Date: March 20, 2023 [hearing March 21, 2023]

Subject: **SB 971 – Real Property - Recordation - Procedures**

Position: **Support**

The Real Property Section Counsel of the Maryland State Bar Association (MSBA) **supports Senate Bill 971 – Real Property - Recordation – Procedures**. The bill seeks to create certainty in the obtaining the specific amount of public charges required to be paid to record documents in the Land Records and to require the finance offices to work with the Circuit Court Clerks to improve the recording process. The leading proponent of this bill is the MSBA’s Real Property Section Counsel. The Circuit Court Clerks and the Maryland Land Title Association support the bill as well.

Anyone who has handled commercial real estate transactions in Maryland knows “closing” the transaction, which includes obtaining all the executed closing documents, clearing all liens of record, collecting the funds, and disbursing them according to the parties instructions, is only the beginning of the battle. Perfecting the transaction by recording documents in the Land Records can be as challenging as any stage of a transaction and in many instances, the most difficult part.

Maryland’s land recording system is made up of 24 jurisdictions (23 Counties and the City of Baltimore) managed by the State of Maryland Clerks of the Circuit Court. But the Clerks can only record what documents make their way to them after navigating the many offices and toll booths the documents have to go through along the way. These toll booths are maintained by Finance Offices in each of the 24 jurisdictions, and in some places municipalities. To be clear, the Clerks and the Courts are not the problem. The problem is with what happens before the documents reach them.

In most jurisdictions around the country, documents get recorded on the day on which they are delivered to the recorder by the settlement company. Generally, the documents are delivered to the recorder in the morning on the day of closing (i.e., the day the money is disbursed), and title is brought to date at that time. Once the documents are recorded, the recording service notifies the settlement company that the documents are on record, at which time the settlement company disburses the money according to the parties instructions. All on the same day.

We cannot record on that schedule in Maryland because of the length of time it takes for a deed to make its way through the system. No seller, buyer, lender, or real estate salesperson is willing to wait around for several days or weeks (or more in the case of Baltimore City) to receive their money or be able to move into the property. And if the seller’s existing secured loan is not

paid on the date of “closing”, it will continue to accrue interest for which the settlement statement and Closing Disclosure do not account.

Because of the current situation, the parties inherently assume certain risks of which they may not even be aware and which the recording system is designed to prevent. If the buyer has purchased title insurance, the title insurance company will assume certain risks, and at the same time try to reduce its exposure by obtaining representations and indemnities from parties to the transaction. Sometimes, the settlement company will hold back from the settlement proceeds the amount of money that it thinks will be necessary to satisfy the liens and claims of the jurisdiction where the property is located.

While the entire process should be overhauled, with 24 jurisdictions and 24 different ways of doing things, that would be difficult without a concerted effort by all stakeholders. Instead, as a meaningful first step, we propose some modest changes that we hope will lead to cooperation by all stakeholders to fix our antiquated system.

A. Prerequisites To Recording Documents

Prerequisites to recording documents can be found in RP §3–104. This code section contains about 80 provisions. The proposed legislation focuses on one of the area responsible for most rejections.

B. The Most Common Reason for Recording Rejections

1. Pay Open Assessments

RP §3–104(a)(1) states that “[t]he Clerk of the Circuit Court may record an instrument that effects a change of ownership if the instrument is: (i) Endorsed with the certificate of the collector of taxes of the county in which the property is assessed. . . .”

Obtaining the amounts due often takes herculean effort. Six jurisdictions require purchasing official lien certificates. Four have optional certificates or tax reports. These lien certificates or tax reports typically contain only the basic real property tax information. Few include any other additional fees or charges that may need to be paid in order to record a document. Seventeen jurisdictions have incorporated municipalities that must be separately contacted. Some require special water readings. Some have special forms in addition to the Maryland Land Intake Sheet. Some jurisdictions have separate utility companies owned by municipalities that you must contact directly. Some may have various departments under one roof, but you need to contact each individual department to inquire about charges and obtain a sign off. All have different turnaround times (from as little as three days to two weeks, and most recently in Baltimore City six weeks or more) and varying expiration dates.

Not all necessary information is available through online systems. Information provided online does not prevent jurisdictions from demanding fees or assessments not showing in the system. Surprises at the county finance level happen frequently. Sometimes, the County will create a new bill (even when you obtain their voluntary lien certificate) once it receives the deed attempting to transfer title to a property and will refuse to process the deed until such new, undisclosed, and undiscoverable “lien” is paid in full.

The problem with all this, as noted above, is that the money on deposit with settlement company has already been disbursed or allocated to expected expenses, and there are no funds left from which to pay these hidden charges. The settlement company is left in the untenable position

of trying to collect, after the “closing”, the additional sums from the responsible party before the deed can be recorded or paying the hidden charges and trying to thereafter collect from a party who may then claim that it “has no money,” or arguing with the jurisdiction that rejected the deed, which goes nowhere.

The real estate settlement industry is responsible for collecting countless billions of dollars on behalf of the State and local governments each year for which the State and local governments pay nothing. Is it fair to make settlement companies the guarantor of hidden or undisclosed charges? Is it unreasonable to demand that each jurisdiction state promptly after request what must be paid to transfer title and allow the settlement companies to rely on such statement? If a mistake is made and the jurisdiction does not request all of the funds to which it might be entitled, the jurisdiction could demand payment from the responsible party (usually the seller) after the deed has been recorded, but that should not hold up recording or prevent a bona fide purchaser from obtaining record title to the property.

C. A Modest Proposal to Correct Some of the Problems

We have highlighted one of the challenges to successful recording in Maryland. The process is complicated even if there are no hidden fees or rejections based on a county’s view of the transaction. The real estate settlement industry has noticed that the Clerks and the Finance Offices often do not work together to improve the process. And thus, we propose to change the word “may” to “shall” in RP§ 3-703 (i.e., the Electronic Recording Act) to require cooperation in improving the process.

The second proposed change is to require each jurisdiction to provide a timely lien certification that can be relied on to show all charges and fees assessed against the property and prevent recording rejections based on charges not shown on the lien certificate. In exchange, the jurisdictions may charge a modest fee to cover the cost of producing such certificates.

Thus, we propose adding such a requirement with the addition to RP § 3-104 of a new section (b)(3) that will require the county to state in advance what will need to be paid at the time of recording through an application process and payment of a fee. This proposed addition to RP § 3-104 is modeled after Baltimore City Code Article 28, Section § 2-3.

We recognize that this proposed legislation will not cure all of the problems related to the recording process and delays in recording in Maryland, but we believe that this includes an important first step to doing so.

For these reasons, the Real Property Section Counsel of the MSBA **supports SB 971** and asks for **a favorable report**. Thank you for your consideration.