# CASE LAW UPDATE

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**CHAPTER 1**

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The case selection for this episode of Case Law Update, like all of them in the past, is very arbitrary. If a case is not mentioned, it is completely the author's fault. Cases are included through 418 S.W.3d and Supreme Court opinions released through June 6, 2014.

The Texas Property Code and the other various Texas Codes are referred to by their respective names. The references to various statutes and codes used throughout this presentation are based upon the cases in which they arise. You should refer to the case, rather than to my summary, and to the statute or code in question, to determine whether there have been any amendments that might affect the outcome of any issue.

A number of other terms, such as Bankruptcy Code, UCC, DTPA, and the like, should have a meaning that is intuitively understood by the reader, but, in any case, again refer to the statutes or cases as presented in the cases in which they arise.

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# CASE LAW UPDATE

## PART I
## MORTGAGES AND FORECLOSURES

***Givens* v. *Midland Mortgage Company***, 393 S.W.3d 876 (Tex.App.-Dallas 2012, no pet.). Givens defaulted on his loan and Midland prepared for foreclosure. It had its lawyers send a notice of substitute trustee's sale to Givens, post the notice at the courthouse, and file a copy with the County Clerk. Midland foreclosed and Givens sued claiming all sorts of things, including DTPA violations, theft liability, fraud, etc. The trial court granted summary judgment in favor of Midland on all issues.

Givens appealed making various arguments about irregularities in the foreclosure notice.

First, Givens noted that the deed of trust required that foreclosure notices were to be sent by the trustee or the lender. Here, the notice was sent by Midland's lawyers and was a notice of substitute trustee's sale. He tried to convince the court to take the wording of the deed of trust literally and require the notice be from the original trustee or the lender. The court did not buy this argument. Property Code § 51.0025 provides that that a mortgage servicer may administer the foreclosure of property under section 51.002 on behalf of a mortgagee if the mortgage servicer and the mortgagee have entered into an agreement granting the current mortgage servicer authority to service the mortgage and if the notices required under Section 51.002(b) disclose that the mortgage servicer is representing the mortgagee under a servicing agreement with the mortgagee. The court was "unpersuaded" by Given's arguments in this regard.

Second, Givens complained that the foreclosure notice had not been recorded in the deed records. The court noted that there is no requirement to record the notice in the deed records. Property Code § 51.002(b)(2) requires the notice to be filed with the County Clerk. The plain wording of the statute makes it clear that there is no requirement to record the notice in the deed records.

***Mosby* v. *Post Oak Bank***, 401 S.W.3d 183 (Tex.App.-Houston [14th Dist.] 2011, pet. denied). The Bank had a deed of trust lien on the property. After the deed of trust was recorded, Morrell got a judgment against the property owners. The property was sold to Mosby at an execution sale. After a default on the Bank's loan, it sent foreclosure notices to the parties obligated on the debt. The Bank acquired the property at its foreclosure sale.

The Bank then filed suit to remove the cloud on title caused by the execution sale. The Bank asserted that at the time of the execution sale it held a perfected lien on the property by virtue of its deed of trust and that neither the Morrell Judgment nor the execution sale could impair the Bank's prior perfected lien. According to the Bank, whatever interest Mosby may have acquired in the Property at the execution sale was subject to the Bank's prior perfected lien. The Bank asserted that the foreclosure terminated Mosby's inferior interest in the Property and that the Execution Deed created a cloud on the Bank's title to the Property, which the Bank sought to remove.

Mosby countered that the Bank had unlawfully dispossessed her and that Mosby was entitled to notice of the foreclosure. Mosby sought to establish title via a trespass-to-try-title claim.

The first question dealt with by the court was whether application of Property Code § 5.004 meant that Mosby held title to the property. Section 5.004 states:

> "(a) A conveyance of real property by an officer legally authorized to sell the property under a judgment of a court within the state passes absolute title to the property to the purchaser.
> "(b) This section does not affect the rights of a person who is not or who does not claim under a party to the conveyance or judgment."

The court was addressing a case of first impression regarding § 5.004. Notably, the Bank is asserting its rights as purchaser at the Foreclosure. The Bank is not a party to any conveyance in the execution deed, nor does the Bank claim under a party to any such conveyance. Likewise, the Bank is not a party to the Morrell Judgment, nor does the Bank claim under a party to this judgment. Therefore, the court concluded that, under § 5.004(b), § 5.004(a) does not affect the Bank's rights.

Next the court dealt with whether the Bank's deed of trust required the Bank to give notice of the foreclosure to Mosby. Mosby's argument was based upon the "successors and assigns" provision of the deed of trust, which stated that the covenants and agreements inured to the benefit of and were binding on each party's successors and assigns. Without any discussion, the court held that this provision did not require the bank to give notice of the foreclosure to Mosby.

Then Mosby argued that equity required the Bank to provide notice of foreclosure. The evidence showed that the Bank followed the requirements of Property Code 51.002. Mosby cited no authority that would require the Bank to give her notice.

***Karam* v. *Brown***, 407 S.W.3d 464 (Tex.App.-El Paso 2013, no pet.). To lawfully exercise an option to

accelerate upon default provided by a note or deed of trust, the lender must give the borrower both notice of intent to accelerate and notice of acceleration, and in the proper sequence. " Both notices must be clear and unequivocal. The lender must give the notice of intent to accelerate first. This notice must afford the borrower an opportunity to cure the default and apprise him or her that failure to cure will result in acceleration of the note and foreclosure under the power of sale. Id. If the default has not been cured by the deadline established in the notice, the lender must then give notice of acceleration. Ordinarily, a lender gives notice of acceleration by expressly declaring the entire debt due. However, a lender may give notice of acceleration by taking some other unequivocal action indicating the debt is accelerated. So long as it is preceded by the required notice of intent to accelerate, notice of a trustee's sale constitutes unequivocal action indicating the debt is accelerated

***Wells Fargo Bank, N.A.*** **v.** ***Robinson***, 391 S.W.3d 590 (Tex.App.-Dallas 2012, no pet.). Robinson borrowed a home equity loan. He defaulted and Wells Fargo accelerated the note. Robinson continued to live at the home for three years, without making any payments on the note.

Wells Fargo filed an application for an expedited foreclosure. Robinson didn't contest the right to foreclose, but requested additional time to sell his home. The parties entered into an agreement and the court entered an order stating that Wells Fargo was authorized to proceed with the foreclosure and was to post in April for a May foreclosure. Contrary to the order, Wells Fargo did not post until May and foreclosed at a June foreclosure sale.

About two months after the foreclosure, Robinson sued, claiming that Wells Fargo was not authorized to foreclose because it did not comply with the agreed court order. The trial court found that Wells Fargo was not authorized to sell at the June foreclosure because it did not have an order authorizing a sale on that date. Damages and attorneys' fees were awarded to Robinson.

On appeal, Wells Fargo argued that there is no evidence of a causal connection between the alleged wrongful foreclosure or the alleged breach of the deed of trust and the monetary damages asserted by Robinson. According to Wells Fargo, Robinson suffered neither prejudice nor harm as a result of the delay in the foreclosure sale. Robinson responds that he is entitled to damages based solely on the fact that the sale was conducted in violation of both the deed of trust and the Texas Constitution. The court disagreed with Robinson.

Article 16, Section 50(a)(6) of the Texas Constitution sets forth the requirements for an extension of credit secured by a lien on the borrower's homestead. Among these is the requirement that the lien may be foreclosed upon only by a court order. The court order in this case authorized Wells Fargo to foreclose on the property only on May 6, 2008. Because the foreclosure sale was conducted on a different date, it was not authorized by a court order and, therefore, violated the constitutional requirement set forth in the deed of trust.

A foreclosure sale not conducted in accordance with the terms of the deed of trust gives rise to a cause of action to set aside the sale and the resulting trustee's deed. The trial court did not set aside the trustee's deed however, but instead awarded damages. For a party to recover damages for wrongful foreclosure and breach of the deed of trust, he must show that he has suffered a loss or material injury as the result of an irregularity in the foreclosure sale. In general, this is shown where the actions of the lender or note holder have caused the property to be sold for a grossly inadequate price. In such a case, the damages are measured by the difference between the market value of the land and the remaining balance on the outstanding mortgage debt.

The recovery of damages is not appropriate, however, where title to the property has not passed to a third party and the borrower's possession of the property has not been materially disturbed. Where the note holder obtains title to the property at the foreclosure sale and the borrower retains possession, the proper remedy is to set aside the trustee's deed and to restore the borrower's title, subject to the note holder's right to establish the debt owed and foreclose its lien. If the borrower's possession has not been disturbed and no third party rights to the property have been created, the borrower has suffered no compensable injury.

***Kimzey Wash, LLC*** **v.** ***LG Auto Laundry, LP***, 418 S.W.3d 291 (Tex.App.-Dallas 2013, no pet.). LG sold some land to Shammy Man Auto Wash. Shammy Man purchased the premises in part with a loan from the Bank that was secured by a deed of trust. On the same day, LG and Shammy Man also signed a ground lease granting LG possession of a .0625-acre portion of the tract containing a cellular tower and acknowledging the cellular tower as LG's property for the term of the lease. The ground lease further provided it would be subject and subordinate to any of Shammy Man's mortgages and deeds of trust encumbering the premises but also subject to any subordination, non-disturbance and attornment agreement executed by a mortgage holder "which will state, among other things, if any deed of trust or mortgage is foreclosed, ... this lease shall not terminate or be terminable by the purchaser at foreclosure ... and TENANT shall attorn to the purchaser at such foreclosure sale." LG and the Bank signed an SNDA providing, among other things, that in the event proceedings to foreclose the deed of trust

were instituted, LG's possession of the leased premises would not be disturbed. The SNDA had an effective date of February 8, 2007 which was the date stated for LG's execution, but the Bank's execution was dated April 11, 2007 and the SNDA was not recorded in the Collin County real property records.

Shammy defaulted on its loan with the Bank, and the property was posted for a foreclosure sale pursuant to the Bank's deed of trust. Before the foreclosure sale occurred, however, the FDIC took over the BAnk and transferred its assets, including Shammy Man's loan and deed of trust, to State Bank of Texas. State Bank held the posted foreclosure sale and ultimately acquired title to the property by substitute trustee's deed. Kimzey purchased the property from State Bank by warranty deed about four months later. Kimzey filed this lawsuit asserting, among other things, State Bank's foreclosure of the deed of trust extinguished the LG's ground lease. The trial court ruled in favor of LG.

The general rule is that a valid foreclosure of a lien terminates any leases entered into subject to that lien. Here, the ground lease specifically states that it was subordinate to the deed of trust. Consequently, foreclosure of the deed of trust necessarily extinguished LG's ground lease by the express terms in the ground lease itself. The question for the court is whether the SNDA may be used to support LG's position that the ground lease survived the foreclosure of the deed of trust. The SNDA, while acknowledging the superiority of deed of trust, provides that the ground lease will survive, and LG's possession of the lease tract would not be disturbed, by the foreclosure of the deed of trust. Kimzey claimed it was a bona fide purchaser and that the SNDA was unenforceable against it pursuant to the D'Oench, Dhume doctrine and 12 U.S.C. § 1823(e).

Generally, the D'Oench, Duhme doctrine and its federal codification provide that no agreement which tends to diminish or defeat the interest of the FDIC in any asset acquired as security for a loan, or by purchase, or as a receiver of any insured bank, shall be valid against the FDIC and its assigns unless it is in writing, executed by the bank contemporaneously with the bank's acquisition of the asset, approved by the bank's board of directors or loan committee which approval shall be reflected in the minutes of the board or committee, and has been from its execution an official record of the bank. The essence of the doctrine is that the FDIC is entitled to rely on, to the exclusion of extraneous matters, the official bank records setting forth the rights and obligations of the bank and those to whom the bank lends money.

LG argued that the D'Oench, Duhme doctrine does not prevent its enforcement because LG was neither a borrower nor guarantor of a debt and this matter does not involve a claim by or against the FDIC. The court disagreed. LG also argued that D'Oench, Duhme and its subsequent codification do not apply here because the SNDA did not diminish the FDIC's interest in the Bank's mortgage or deed of trust. It contends the SNDA is merely a contract intended to protect LG's right to occupy the strip of land containing the cellular tower and does not alter the relationship between the original lender and borrower. Again, the court was unpersuaded. On its face, the SNDA in part relinquishes the Bank's lien priority to the extent it provided that any foreclosure of the deed of trust would not disturb LG's possession of the lease tract. Absent the SDNA, any foreclosure of the deed of trust would have necessarily extinguished LG's ground lease. Because enforcement of the SNDA tends to diminish the FDICs interest in the assets at issue, the court concluded that the D'Oench, Duhme doctrine applies here as a matter of law.

## PART II
## HOME EQUITY LENDING

***Sims* v. *Carrington Mortgage Services, L.L.C.***, No. 13-0638 (Tex. May 16, 2014). The Simses borrowed a home equity loan. The original loan documents required them to pay principal, interest, and late charges, as well as taxes, assessments, and insurance premiums. The documents gave the lender the right to "do and pay for whatever is reasonable or appropriate" to protect its interest in the property and its rights under the agreement and provided that any amount the lender disbursed to that end "shall become additional debt of Borrower secured by this Security Instrument."

The Simses later got behind on their home equity mortgage payments. They entered into a loan modification agreement with CMS. Pursuant to the agreement, past-due interest was capitalized as well as other charges, including fees, unpaid taxes and insurance premiums. The interest rate was lowered, along with the monthly payment amount.

Two years later, the Simses were again behind, and this time CMS sought foreclosure. The Simses resisted, asserting that the 2009 restructuring violated constitutional requirements for home equity loans. A second loan modification was entered into, again reducing interest rate and payments. Neither of the modification agreements otherwise affected the borrowers' basic obligations or the lenders basic rights mentioned above.

Two months after the second modification, the Simses brought this case as a class action against CMS in the United States District Court. That court certified four questions to the Texas Supreme Court.

1. After an initial extension of credit, if a home equity lender enters into a new agreement with the borrower that capitalizes past-due

interest, fees, property taxes, or insurance premiums into the principal of the loan but neither satisfies nor replaces the original note, is the transaction a modification or a refinance for purposes of Section 50 of Article XVI of the Texas Constitution?

If the transaction is a modification rather than a refinance, the following questions also arise:

2. Does the capitalization of past-due interest, fees, property taxes, or insurance premiums constitute an impermissible "advance of additional funds" under Section 153.14(2)(B) of the Texas Administrative Code?
3. Must such a modification comply with the requirements of Section 50(a)(6), including subsection (B), which mandates that a home equity loan have a maximum loan-to-value ratio of 80%?
4. Do repeated modifications like those in this case convert a home equity loan into an open-end account that must comply with Section 50(t)?

The certified questions assume a distinction between a loan modification and a refinancing that, if understood in financial circles,12 is not clear in the text of Section 50. While both words are used several times, neither concept is defined in Section 50. The court essentially said that the question posed by the District Court (i.e., whether this was a modification or refinance) was not the correct question. The real question for purposes of the home equity statutes is whether this was a "new extension of credit." And, while the statutes, again, don't provide a definition of "extension of credit," the court said the meaning was clear. "Credit is simply the ability to assume a debt repayable over time, and an extension of credit affords the right to do so in a particular situation."

The Simses argued that any increase in the principal amount of a loan is a new extension of credit. The court disagreed. Section 50(a)(6)(E) refers to principal as a component of an extension of credit. The Simses argue that in restructuring a loan to capitalize past-due amounts, the lender is actually advancing additional funds to itself (past-due interest) or others (past-due taxes and insurance) to pay those amounts for the borrower, and that this constitutes a new extension of credit. But the borrower's obligation for such amounts, and the lender's right to pay them to protect its security, were all terms of the original extension of credit.

CMS argues that restructuring a loan does not involve a new extension of credit so long as the borrower's note is not satisfied or replaced and no new money is extended. The court agreed that these two conditions are necessary, but could not say with assurance that they are sufficient. For example, a restructuring to make the homestead lien security for another indebtedness, such as the borrower's consumer or credit card debt, would certainly be a new extension of credit. The test should be whether the secured obligations are those incurred under the terms of the original loan. The Simses object that this test provides no effective limit on the size or frequency of additions to principal. But, said the court, the terms of the original loan supply the limit.

The Simses argued that it didn't matter that the restructuring here lowered their interest rate and payments. They argued that lenders have only two options for loans in default: foreclose or forbear. The court thought this was at odds with the fundamental purpose of the home equity statutes, which is to protect homesteads.

So, after having re-written the first of the certified questions, the court answered that the restructuring of a home equity loan that involves capitalization of past-due amounts owed under the terms of the initial loan and a lowering of the interest rate and the amount of installment payments, but does not involve the satisfaction or replacement of the original note, an advancement of new funds, or an increase in the obligations created by the original note, is not a new extension of credit that must meet the requirements of Section 50.

That answer dictated the answers to the other three questions. (1) Capitalization of past-due interest, taxes, insurance premiums, and fees is not and advance of additional funds if those amounts were among the obligations assumed by the borrower under the terms of the original loan. (2) A restructuring like the Simses' need not comply with Section 50(a)(6) because it does not involve a new extension of credit. And (3) repeated restructuring of a home equity loan does not convert the loan into an open-end account subject to Section 50(t). Section 50(t) describes an open end account as one that may be debited from time to time, under which credit may be extended from time to time and under which the borrower requests advances, repays money, and reborrows money. "This description does not remotely resemble a loan with a stated principal that is to be repaid as scheduled from the outset but must be restructured to avoid foreclosure."

***Finance Commission of Texas* v. *Norwood***, 418 S.W.3d 566 (Tex. 2013). Most of this case is devoted to constitutional issues of separation of powers. The court concludes that the Finance Commission's interpretations of Section 50 of the Texas Constitution dealing with home equity lending are subject to judicial review. It also determined that the homeowners challenging the Commission's

interpretations had standing to sue. It then turned to the substantive issues regarding those interpretations.

First, Section 50(a)(6)(E) provides that a home equity borrower may not be required to pay, " in addition to any interest, fees to any person that are necessary to originate, evaluate, maintain, record, insure, or service the extension of credit that exceed, in the aggregate, three percent of the original principal amount of the extension of credit." The Commission used the Finance Code definition of interest, i.e., compensation for the use, forbearance, or detention of money. That definition is used in the Finance Code in the context of determining whether a loan is usurious. However, said the court, the functions of " interest" in applying the constitutional fee cap for home equity loans and in prohibiting usury are inversely related. If the word is given the same meaning in both contexts, then including lender-charged fees in " interest" strengthens usury laws and weakens the fee cap, though both are designed to protect consumers. That this was the intent of the framers and ratifiers of Section 50(a)(6)(E) is simply implausible. "Interest" for purposes of Section 50(a)(6)(E) means the amount determined by multiplying the loan principal by the interest rate.

Second, Section 50(a)(6)(N) provides that a loan may be "closed only at the office of the lender, an attorney at law, or a title company." This provision was intended to prohibit the coercive closing of an equity loan at the home of the owner. Nevertheless, the Commissions' interpretations allow a borrower to mail the required signed consent under Section 50(a)(6)(A) to the lender and to close through an attorney-in-fact. Both these interpretations permit coercion in obtaining the required consent and a power of attorney at the borrower's home, allowing the final closing to occur later at one of the prescribed locations, thereby defeating the purpose of the provision. Closing a loan is a process. It would clearly be unreasonable to interpret Section 50(a)(6)(N) to allow all the loan papers to be signed at the borrower's house and then taken to the lender's office, where funding was finally authorized. Closing is not merely the final action, and in this context, to afford the intended protection, it must include the initial action. Executing the required consent or a power of attorney are part of the closing process and must occur only at one of the locations allowed by the constitutional provision. The court held that the Commission's interpretations were invalid because they contradict the purpose and text of the provision.

Finally, Section 50(g) requires that a loan not be closed before the 12th day after the lender provides the borrower the prescribed notice. The Commission determined there is a rebuttable presumption that notice is received three days after it is mailed. The homeowners in the case argued that the lenders had to establish actual receipt of notice in each case. The Court held that the Commissions' interpretation does not impair the constitutional requirement; it merely relieves a lender of proving receipt unless receipt is challenged. It agreed with the court of appeals that the interpretation is but a reasonable procedure for establishing compliance with Section 50(g).

In a supplemental opinion, the court clarified a few things. Section 50(a)(6)(E) of the Texas Constitution caps "fees to any person that are necessary to originate, evaluate, maintain, record, insure, or service" a home equity loan, not including "any interest," at 3% of principal. For purposes of Section 50(a)(6)(E), "interest" does not mean compensation for the use, forbearance, or detention of money, as in the usury context, but "the amount determined by multiplying the loan principal by the interest rate." This narrower definition of interest does not limit the amount a lender can charge for a loan; it limits only what part of the total charge can be paid in front-end fees rather than interest paid over time.

The court also held that Section 50(a)(6)(N), which provides that a loan may be "closed only at the office of the lender, an attorney at law, or a title company", precludes a borrower from closing the loan through an attorney-in-fact under a power of attorney not itself executed at one of the three prescribed locations. Executing a power of attorney is part of the closing process, and that not to restrict the use of a power of attorney would impair the undisputed purpose of the provision, which is 'to prohibit the coercive closing of an equity loan at the home of the owner.

Several amici objected that closing is an event, not a process, and that to consider closing as beginning with the execution of a power of attorney leads to absurd results and problems in applying deadlines prescribed by the constitutional provisions. By "process", the court said, it did not intend something temporally protracted, though it agreed that confusion is understandable. It agreed that the closing is the occurrence that consummates the transaction. But a power of attorney must be part of the closing to show the attorney-in-fact's authority to act. Section 50(a)(6)(N) does not suggest that the timing of the power of attorney is important, or that it cannot be used to close a home equity loan if executed before the borrower applied for the loan. But as we have explained, we think that the provision requires a formality to the closing that prevents coercive practices.

The amici argued that requiring a power of attorney, like other closing documents, to be executed "at the office of the lender, an attorney at law, or a title company" works a hardship on borrowers for whom such locations are not readily accessible, such as military persons stationed overseas, others employed in other countries, the elderly, and the infirm. For the

military, the Judge Advocate General Corps provides lawyers here and abroad. While JAG lawyers may not be as accessible to military personnel as civilian lawyers are to most people owning homes in Texas, soldiers and sailors in harm's way are no less susceptible to being pressured to borrow money and jeopardizing their homes than people in more secure circumstances.

***Wells Fargo Bank, N.A.*** **v.** ***Robinson***, 391 S.W.3d 590 (Tex.App.-Dallas 2012, no pet.). The facts of this case are summarized in the Mortgages section. In this case involving a home equity loan, Robinson, the borrower, claimed that the trial court erred in not awarding forfeiture of principal and interest collected on the note because of a wrongful foreclosure by Wells Fargo.

Robinson bases his argument on Article 16, section 50(a)(6)(Q)(x) of the Texas Constitution that states if a lender fails to comply with the requirements for an extension of credit found in section 50(a)(6), the lender forfeits all principal and interest of the loan. But, as this court has held, so long as the loan agreement originally entered into by the parties complies with the constitutional requirements, forfeiture is not an appropriate remedy. A borrower's recourse for a lender's failure to abide by the terms of his loan agreement is to assert traditional tort and breach of contract causes of action, not constitutionally mandated forfeiture.

As stated above, section 50(a)(6)(D) requires that a home equity note be secured by a lien that may only be foreclosed upon by court order. The deed of trust at issue here required a court order for foreclosure. Because the loan agreement entered into by the parties complied with the constitutional requirements, the trial court did not err in denying forfeiture.

***Patton*** **v.** ***Porterfield***, 411 S.W.3d 147 (Tex.App.-Dallas 2013, pet. pending). Porterfield bought a house in University Park, borrowing a purchase money loan. A few years later, he borrowed a home equity loan, which was a second lien on the house. After Porterfield defaulted on the purchase money loan, the lender foreclosed. The foreclosure sale generated a significant amount of excess proceeds. The foreclosing trustee distributed excess proceeds to the home equity lender and satisfied that debt. Porterfield sued, claiming that the excess proceeds should not have been distributed to the home equity lender because the constitution requires a court order to foreclose the home equity lien (which was not obtained) and because the home equity lien is only against the homestead property and not against excess cash proceeds.

After a lengthy discussion, the court of appeals saw no reason to abrogate or displace the common law governing foreclosure sales and the disposition of excess foreclosure proceeds. Nothing in the statute provided for doing that.

As to the claim that the home equity lender was not entitled to proceeds because it had not foreclosed following the constitutional requirements, the court refused to buy the argument. The home equity foreclosure rules apply only to a foreclosure by a home equity lender. They do not require a court order for collection or payment and the court would not impose such a requirement.

The court also disposed of the argument that the non-recourse nature of a home equity loan precluded application of common law rules as to application of excess foreclosure proceeds. Again, there was nothing in the constitutional provisions that precluded such application. As well, the court would not buy Porterfield's argument that the constitutional requirement that a home equity loan be secured only by the homestead meant that the proceeds, which were not literally the homestead, could not secure payment of the loan. In Texas, proceeds from the sale of exempt property are a substitute for that exempt property. Accordingly, payment of the home equity loan from excess foreclosure proceeds does not violate the constitution.

***Williams*** **v.** ***Wachovia Mortgage Corp.***, 407 S.W.3d 391 (Tex.App.-Dallas 2013, pet. denied). Kroupa and Williams were in a common relationship that was later determined to be a common law marriage. While in that relationship in 2002, Williams obtained a home equity loan covering their homestead. Kroupa didn't know about the loan until after it was made, but probably in 2002 as well. In 2004, the couple divorced. The family court awarded the house to Kroupa. In 2008, she filed suit against Wachovia to remove the home equity lien as a cloud on title. She claimed the loan was void because she did not sign the loan documents. Wachovia pled limitations.

The constitutional home equity lending provisions do not include a separate statute of limitations, so the residual limitations period in Civil Practice & Remedies Code § 16.051 applies. Wachovia argued that the lawsuit was filed more than four years after the cause of action accrued.

Since ***Doody*** **v.** ***Ameriquest Mortgage*** Co., 49 S.W.3d 342 (Tex. 2001), Texas courts have recognized that, because the home equity laws contain cure provisions, liens that are contrary to the constitutional requirements are voidable rather than void. The court here stated that ***Doody*** offers support for the applicability of limitations. The court then noted other decisions that have applied the four-year statute. It thus concluded that a limitations period applied to constitutional infirmities. Holding that the claim accrued at least by the time Kroupa learned of the

loan's existence, some six years before the lawsuit was filed, the court held that her claims were barred by limitations.

***Salas* v. *LNV Corporation***, 409 S.W.3d 209 (Tex.App.-Houston [14th Dist.] 2013, no pet.). LNV sought to foreclose on Salases' home equity loan. The Salases sued. Among other issues in the litigation was the Salases' argument that the note and deed of trust were still shown in the county records as being in the name of the original lender. Having received no notice of any assignment of the note and the deed of trust, the Salases believed that the original lender was still the owner of the note and the deed of trust and that LNV is a stranger to the property.

In response, LNV contended that the Salases do not have standing to question the identity of the note holder and have not alleged any facts or offered any summary-judgment evidence to set forth any justiciable controversy. According to LNV, matters such as the identity of the note holder and the amount owed on the note call for nothing more than findings of fact that are not the subject of any genuine dispute. LNV further asserted that it had conclusively established with uncontroverted summary-judgment evidence the chain of indorsements and assignments by which it has become the owner and holder of the note and the deed of trust and that it is entitled to foreclose as provided in the deed of trust.

Standing is a constitutional prerequisite to maintaining suit. Under Texas law, a party has standing to bring suit if (1) it has suffered a distinct injury, and (2) there exists a real controversy that will be determined by the judicial determination sought. This second component of standing refers to presentation of a justiciable issue. A declaratory judgment is appropriate only if a justiciable controversy exists concerning the rights and status of the parties and the controversy will be resolved by the declaration sought. The court held that the Salases have standing to assert their requests for declaratory and injunctive relief because a real controversy exists between the Salases and LNV as to whether LNV is entitled to collect on the promissory note by foreclosing on the property.

## PART III
## PROMISSORY NOTES, LOAN COMMITMENTS, LOAN AGREEMENTS

***Village Place, Ltd.* v. *VP Shopping, LLC***, 404 S.W.3d 115 (Tex.App.-Houston [1st Dist.] 2013 no pet.). Village Place bought the shopping center with a typical non-recourse loan from VP. When Village Place defaulted, FP foreclosed. After applying the foreclosure proceeds to the debt, the remaining unpaid principal and interest on the loan was about $380,000. VP did not sue for that deficiency because the loan was non-recourse; however, it sought and obtained a judgment against Village Place for failure to comply with two of the bad-boy provisions – its out of pocket expenses and about half a million dollars for the reduction in value of the collateral because of Village Place's failure to maintain the property.

Village Place argued on appeal that the trial court erroneously awarded a windfall of about $300,000 over the unpaid loan balance. It claimed that the indebtedness that was converted from non-recourse to recourse was limited or capped at the amount of the loan balance and that it was entitled to an offset for the fair market value of the property, per Property Code § 51.003.

The court held that the non-recourse claim for out-of-pockets was not capped. The loan documents obligate the borrower to pay expenses and those are separate and apart from the obligation to pay principal and interest.

The court did hold that the claim for personal liability for reduction in value of the collateral was limited to the unpaid loan balance. First, the loan documents tie the carve-out liability to a loss or damage "suffered or incurred" by VP, and VP did not suffer an additional loss from the reduction in the shopping center's value over the unpaid loan balance. VP did not pay for the repairs and did not incur any liability as a result of Village Place's failure to repair the property or enroll in the program. VP might have sustained a loss due to Village Place's breach of these obligations, insofar as the property's impaired condition reduced the amount of foreclosure proceeds available to pay off the loan balance. But if the property had sold at foreclosure for more than the loan balance, VPS would have been required to pay the excess to Village Place; it was not VP's to keep. Here the pledged property sold for less than the loan balance, but VP's loss is not the reduction in value of the property, which it did not own before the foreclosure. Its loss is the damages it suffered as a result of Village Place's breach: the unpaid loan balance and its other out-of-pocket expenses covered by the carve-out-liabilities provisions. In other words, the carve-out-liabilities provisions do not eliminate the necessity that VP suffer damages for Village Place's breach of its contractual obligations, and the damages suffered by VP function as a cap on Village Place's liability. To the extent that the pledged property's reduction in value from inadequate maintenance exceeds the amount of the unpaid loan and covered expenses, VPS was not damaged. In other words, the loss VPS " suffered or incurred" is the unpaid loan balance plus its other covered expenses less the property's fair market value, and to that extent, and

only to that extent, Village Place's liability is reinstated.

The court also held that Village Place was entitled to the § 51.003 offset. Section 51.003 allows the offset against a "deficiency." VP argued that its non-recourse carve-out claims were not a "deficiency" but were breach of contract claims. The court disagreed. The nature of VP's claims was for a deficiency. As noted by the court, the carve-out-liabilities provisions do not impose additional liability for Village Place. Rather, they conditionally restore personal liability on Village Place for breach of the obligations created by the loan documents – such as the obligations to pay principal and interest, taxes and insurance. Village Place would have no personal liability for these obligations but for the carve-out-liabilities provisions. Village Place's restored liability is limited by the unpaid loan balance and VP's other covered expenses.

***Chance* v. *CitiMortgage, Inc.***, 395 S.W.3d 311 (Tex.App.-Dallas 2013, pet. denied). Chance borrowed and then defaulted on a home equity loan. When CitiMortgage, the loan servicer, sought a court order allowing it to foreclose on the loan, Chance raised various arguments, mostly of a spurious nature.

The note was stamped "Void" across a blank indorsement block. Chance argued that the stamp made the entire note void. But, noted the court, the stamp appears nowhere else on the note. In fact, on the following page of the note was an allonge that indorsed the note to CitiMortgage. While UCC § 3.604(a)(1) provides that a note may be discharged by cancellation or renunciation by an intentional voluntary act, such as surrender of the instrument to the party obligated to pay it, or the destruction, mutilation, or cancellation of the instrument, the cancellation or striking out the party's signature, or the addition of words to the instrument indicating discharge, there is nothing in the record to suggest the void stamp over the blank indorsement block was intended to discharge, cancel, or otherwise renounce Chance's obligations under the note. Moreover, UCC § 3.604(b) states that the cancellation or striking out of an indorsement pursuant to subsection (a) does not affect the status and rights of a party derived from the indorsement, suggesting that cancellation or voiding of an indorsement is distinct from the discharge or cancellation of the underlying instrument.

In his next argument, Chance attempted to make a point out of the fact that CitiMortgage did not produce the original note. He made various allegations questioning the authenticity of the copy. The court noted that CitiMortgage was not suing on the note, but was seeking a foreclosure. The deed of trust gave CitiMortgage, as assignee of the holder of the note, the right to seek a foreclosure in the event of a default under the note. Introduction of the original of the note is not necessary. In any event, said the court, a photocopy of an original promissory note, authenticated by an otherwise proper affidavit showing that the photocopy is a true and correct copy of the original, may suffice, in lieu of the original, as proper summary judgment evidence of the note.

Finally, Chance argued that there was a fact issue as to CitiMortgage's ownership of the note. Specifically, Chance argues that because CitiMortgage presented no summary judgment evidence of the transaction that led to its purported ownership, it cannot enforce the note. As explained above, CitiMortgage did not seek enforcement of the note. And the affidavit of CitiMortgage's officer stated that CitiMortgage was in possession of the note. This evidence was uncontroverted and establishes an unbroken chain of title to the note from the original holder to CitiMortgage.

***Graves* v. *Logan***, 404 S.W.3d 582 (Tex.App.-Houston [1st Dist.] 2010, no pet.). Logan sued Graves, asking for a declaration specifying the total amount of principal and accrued interest due on the promissory note. Logan also sought damages under a breach of contract theory, contending that, under the lien, Graves, as the note holder, had an implied duty to cooperate with Logan in determining the amount of unpaid principal and accrued interest on a given installment date. Logan claimed that Graves's breach of that implied term caused Logan incur damages from a planned sale of the property she lost as a result of her inability to convey clear title before the expiration of the earnest money contract.

The essential elements in a suit for breach of contract are: (1) the existence of a valid contract; (2) the plaintiff performed or tendered performance; (3) the defendant breached the contract; and (4) the plaintiff was damaged as a result of the breach. Neither party contests the validity of the promissory note and deed of trust, which do not contain an express provision that requires Graves to provide the payoff figure. At issue in this case is whether Graves had an obligation, implied by Texas law, to provide Logan with a payoff figure within a " reasonable" amount of time after Logan's request, and if so, the existence and amount of damages incurred by Logan as a result of the breach of that obligation. The trial court ruled in favor of Logan based primarily on Logan's argument that the recognized and established, though unwritten, procedure in the State of Texas to consummate a sale of real property against which there is a deed of trust lien is for the title insurance company which will be issuing an owner's policy of title insurance to the purchaser of the property to (i) request from the lender or lien holder a statement of the outstanding principal balance and unpaid accrued interest owning on the promissory note as of the closing date and (ii) obtain

from such lender or lien holder the pay-off. Logan argued that the foregoing procedure is so well established in the State of Texas that its inclusion in the documents between the lender and the borrower (i.e. the promissory note and the deed of trust) is not necessary.

Graves contended that the trial court effed in finding a duty to provide a pay-off because the loan documents did not require her to do so. Graves though her only duty was to release the lien after full performance and payment.

The court said that Logan was correct in asserting that there is a duty to cooperate implied in every contract in which cooperation is necessary for performance of the contract. If applicable, this implied duty requires that a party to a contract may not hinder, prevent, or interfere with another party's ability to perform its duties under the contract. Graves did not, however, interfere with Logan's ability to perform Logan's duties under the deed of trust and promissory note. At most, Graves arguably interfered with Logan's pursuit of benefits incidental to the full execution of her obligations under the promissory note.

The dissent thought the majority’s ruling was based on too narrow grounds. Justice Sharp said that, whenever a contract recites that a party has a right to an early payoff, there is an implied contractual duty to provide a payoff statement because failure to do so (and do so in a timely fashion) nullifies (breaches) that provision of the contract.

## PART IV
## GUARANTIES

***Interstate 35/Chisam Road, L.P.* v. *Moayedi***, 377 S.W.3d 791 (Tex.App.-Dallas 2012, pet. granted). [ORAL ARGUMENTS WERE HELD IN JANUARY – AWAITING A SUPREME COURT RULING] Villages borrowed a loan secured by real property in Denton County. Moayedi executed a guaranty. The guaranty included two provisions dealt with in this case. First, in paragraph 7 of the guaranty, it provided that the guaranty would not be discharged, impaired, or affected by any defense that the guarantor might have, Second, in paragraph 13 of the guaranty, it provided that the guarantor waived and relinquished “all rights and remedies of surety.”

The borrower defaulted and the lender foreclosed. At the time of foreclosure, the fair market value of the property was $840,000, but the lender bid only $487,200 at the sale. The lender sued the guarantor. He answered, claiming that Property Code § 51.003 provided an offset to the deficiency. The lender argued that the waiver of “all rights and remedies” and the waiver of defenses meant that § 51.003 did not apply.

Section 51.003 provides for a determination of the fair market value of the property sold at foreclosure. Then, if the fact-finder determines the fair market value is greater than the foreclosure sale price, the person obligated on the indebtedness is entitled to offset the deficiency amount by the difference between the fair market value and the sale price.

The guarantor argued that the broad, vague language of the waiver provisions of the guaranty was not a waiver of any rights, much less the § 51.003 right to offset.” The guarantor reasoned paragraph seven's language purporting to waive any defense to any undertakings, liabilities, and obligations did not encompass his right to offset because the offset right is not a defense to actual payment, but a claim for proper calculation of the deficiency. He contended paragraph thirteen's language stating he waived “all rights and remedies of surety” did not encompass his section 51.003 right to offset because by its own terms it applied to sureties. He also argued that the waivers in paragraphs seven and thirteen are too broad and general to waive his specific statutory right to offset. If the general language in the guaranty at issue were construed to waive a specific statutory right, that result would frustrate the stated purpose of § 51.003. The lender argued that the broad waiver language was enforceable as to any § 51.003 rights.

The court pointed out that the Texas Constitution protects the freedom to contract, and the Texas Supreme Court has long recognized a strong public policy in favor of preserving the freedom of contract. Absent a statute or fundamental public policy precluding waiver, a party may contractually waive even constitutional or statutory rights, whether present or future. In examining an agreement to determine if it is contrary to public policy, a court looks to whether the agreement has a tendency to injure the public good and considers the development and policies underlying any applicable statutes. Unless the agreement contravenes some positive statute or some well-established rule of law, a court should refrain from characterizing the agreement as unenforceable and void as against public policy

Section 51.003 was designed to protect borrowers and guarantors in deficiency suits brought following the non-judicial foreclosure on realty. Further, § 51.003 provides for a judicial determination of the fair market value of the property and allows an offset against the deficiency in the amount by which the fair market value exceeds the sale price. However, in passing the bill into law, the legislature did not make the offset right non-waivable.

Based on the legislature's failure to preclude waiver of the offset right, the Fifth Circuit Court of Appeals, ***in LaSalle Bank N.A.* v. *Sleutel***, 289 F.3d 837, 842 (5th Cir.2003), and the Houston First District Court of Appeals in ***Segal* v. *Emmes Capital, L.L.C.***, 155 S.W.3d 267 (Tex.App.-Houston [1st Dist.] 2004, pet. dism'd) have concluded waiver of the offset right

provided in section 51.003 is not void as against public policy.

Applying the law to the facts, the court refused to agree with the guarantor that § 51.003 was not a defense but a direction on how to calculate the true deficiency. The court said it was a defense because, if given effect, it would negate the lender's deficiency claim by the § 51.003 allowed offset.

The court also rejected the guarantor's argument that the waivers were too broad and vague and that the waivers needed to specifically express that § 51.003 or the right of offset was waived. It said that ***LaSalle*** and ***Segal*** did not stand for those propositions. Reaching for the dictionary, the court examined the meaning of "any," "each," and "every" and concluded that that just about covered it. In the context of paragraph seven of the guaranty, the use of the words "any," "each," and "every" encompass not just "some" or "certain" defenses, but all possible defenses that might exist. Paragraph seven is broad, inclusive, and conveys an intent that the guaranty would not be subject to any defense other than payment. That includes section 51.003's right of offset. Giving the words used their ordinary and generally accepted meanings, and considering the entire writing, the court concluded paragraph seven waives all defenses, statutory or otherwise, other than full payment of the debt.

Finally, the court rejected the guarantor's argument that the public policy embodied in § 51.003, is to prevent lenders from recovering more than their due at the guarantor's expense. The court noted that the ***Segal*** court did point that out, but that that court ultimately held that the statute could be waived. Again, the court cited the strong public policy in favor of freedom of contract.

The same waiver issue was dealt with the same way in ***Compass Bank* v. *Goodman***, 416 S.W.3d 715 (Tex.App.-Dallas 2013, pet. pending).

Also, take a look at ***U.S. Bank* v. *Kobernick***, 402 S.W.3d 748 (Tex.App.-Houston [1st Dist.] 2012, pet. dism'd), which deals with various procedural issues under Property Code § 51.005.

***Sowell* v. *International Interests, L.P.***, 416 S.W.3d 593 (Tex.App.-Houston [14th Dist.] 2013 no pet.). The Guarantor claimed that the Lender's claim on the guaranty is barred by the four-year statute of limitations and because the Lender breached its duty to mitigate its damages by delaying foreclosure, that is, if there had been a prompt foreclosure, there would have been no deficiency.

The loan matured in November 2004. The Lender foreclosed on February 6, 2007. Almost two years later, on February 4, 2009, the Lender sued the Guarantor for a deficiency.

The Lender claimed that Property Code § 51.003 gave it an independent claim against the Guarantor that accrued on the date of foreclosure. Section 51.003(a) provides that any action brought to recover the deficiency must be brought within two years of the foreclosure sale and is governed by that section. Based on the unambiguous language of section 51.003, the Legislature did not create a claim or other basis upon which a person may be liable for a deficiency. Any such liability arises from a different source, for example, a person's liability under a promissory note or a guaranty agreement. In section 51.003, the Legislature addressed the statute of limitations for such an action and a potential offset and credit; the Legislature did not address the source of the liability itself. Thus, the court held that § 51.003 does not create a right to sue for a deficiency, but merely regulates a right that arises from a different source.

The Guarantor then argued that the Lender couldn't recover the deficiency because the claim was barred by the four year statute in Civil Practice & Remedies Code § 16.004. The Guarantor argued that the claim on his guaranty accrued when the note matured and was not paid, back in 2004. In the guaranty, the Guarantor waived any requirement that the creditor make demand for payment on him. Under this type of guaranty, the Lender's claim against the Guarantor accrues if the debt reaches maturity and the Borrower defaults by not paying it. The court agreed that, under the typical rule for determining accrual of a cause of action, facts had come into existence as of 2004 that authorized the creditor to seek a judicial remedy against the Guarantor.

Still, what statute applies? No courts have dealt with this before.

The court noted that, if a creditor sues a guarantor under a guaranty agreement and obtains a judgment before the creditor conducts a nonjudicial foreclosure sale, then there is no conflict and the suit on the guaranty is governed by the four-year statute of limitations under § 16.004. Likewise, if a creditor sues a guarantor under a guaranty agreement and the suit is still pending when the creditor conducts a nonjudicial foreclosure sale, then there is no conflict and the suit on the guaranty is governed by the four-year statute of limitations under section 16.004.

But, in the fact pattern in this case there is an irreconcilable conflict between section 51.003(a) and the limitations period in section 16.004. Under the unambiguous language of section 51.003(a), this statute applies, and the Lender's suit is timely because it filed it within two years of the foreclosure sale. Under the unambiguous language of § 16.004, this statute applies and the Lender's suit is time-barred because the Lender filed it more than four years after the day the claim accrued.

Applying Government Code § 311.026, the court held that § 51,003 prevails as an exception to the general provision of § 16.004. In this situation, if a

deficiency remains after a nonjudicial foreclosure sale under section 51.002 conducted before the creditor files suit against a guarantor, then the effect of section 51.003 is to extend the limitations period under section 16.004 so that it ends two years after the date of the foreclosure sale.

The Guarantor's argument that the Lender's claims were barred because it had failed to mitigate its damages by delaying foreclosure. If there had been a prompt foreclosure, there wouldn't have been any damages, claimed the Guarantor. The court noted provisions in the guaranty that waived the right to assert this kind of defense. Also, the Guarantor's public policy arguments were not supported by case law.

***Burchfield* v. *Prosperity Bank***, 408 S.W.3d 542 (Tex.App.-Houston [1st Dist.] 2013). A loan from the Bank was jointly and severally guarantied by four guarantors. After the borrower defaulted and the property securing the loan was foreclosed, the Bank made a demand on the four guarantors. It sued two of the guarantors, Woodall and Burchfield. Woodall failed to answer the lawsuit and a default judgment was obtained by the Bank. It settled with the other two guarantors.

Burchfield claimed that once the Bank obtained a default judgment against Woodall for the entire deficiency, it was precluded from then seeking judgment against Burchfield because any judgment against Burchfield would make the Bank more than whole. What the Bank should have done, according to Burchfield, is sue each guarantor in the same suit to make the guarantors joint-and-severally liable for the deficiency amount, but no more. The trial court ruled in favor of the Bank.

Burchfield argued that res judicata bars all claims which have been previously litigated, including all claims which could have been litigated in the prior suit. Under the transactional approach followed in Texas, a subsequent suit is barred if it arises out of the same subject matter as the prior suit, and that subject matter could have been litigated in the prior suit. The doctrine seeks to bring an end to litigation, prevent vexatious litigation, maintain stability of court decisions, promote judicial economy, and prevent double recovery.

The Bank argued that res judicata does not apply. Specifically, it argues that (1) Burchfield was not a party to the Woodall case and is not in privity with anyone from that lawsuit, and (2) the Bank's claims against Burchfield in this lawsuit were not based on the same claims as were raised or could have been raised in the first action. The court agreed with the Bank that Burchfield cannot establish that res judicata bars litigation of his obligation on the guarantee in the underlying case. Burchfield would have to show that he was in privity with a party to the prior suit, and the court also held that he was not in privity with Woodall. While Burchfield cites cases explaining the general policies behind res judicata, it cites no authority for holding co-guarantors situated as Woodall and Burchfield in privity for purposes of res judicata based only on their having signed personal guarantee agreements on the same note.

***Wells Fargo Bank, N.A.* v. *Smuck***, 407 S.W.3d 830 (Tex.App.-Houston [14th Dist.] 2013, no pet.). The borrower got a typical non-recourse CMBS loan, in conjunction with which Smuck executed a document entitled Non-recourse Indemnification Agreement which said, in all caps and bold: "Indemnitor [Smuck] hereby assumes liability for and agrees to pay, protect, indemnify, defend and hold harmless lender (and any assignee or purchaser of all or any interest in the note and the security instrument) from and against any and all liabilities, obligations, losses, damages, costs and expenses (including attorneys' fees), causes of action, suits, claims, demands and judgments which at any time may be imposed upon, incurred by or awarded against lender and for which borrower at any time may be personally liable pursuant to the nonrecourse exceptions (as defined in paragraph 12 of the note)." The borrower defaulted and the lender sued, seeking, among other things, damages because of waste and unpermitted liens on the property that violated the non-recourse carve-outs. After obtaining judgment against the borrower, the lender sued Smuck on his Indemnification Agreement.

Smuck argued that its agreement to indemnify the lender applied only when the borrower is liable to the lender for third-party claims under the carve-outs, not when the borrower itself is liable. In other words, Smuck thought that the lender was incorrectly characterizing the Indemnification Agreement as a guaranty. Smuck contended that the terms "indemnify" and "indemnity" refer to an agreement to hold the Indemnitee harmless against claims by third parties.

The court would buy that argument. The express wording of the document clearly encompasses any of the lender's own losses in connection with the non-recourse carve-outs. So, contrary to Smuck's argument, the court held, the agreement was, in essence, a guaranty.

***84 Lumber Company, L.P.* v. *Powers***, 393 S.W.3d 299 (Tex.App.-Houston [1st Dist.] 2012, pet. denied). Powers's company applied for credit with the lumber company. The credit application contained a printed provision in all caps that said "I do unconditionally and irrevocably personally guarantee this credit account. . ." Powers signed the application with an asterisk by his name and "as officer" hand-

written beside it. In the "Print Name" line was handwritten "President David Powers."

When the credit account became delinquent, 84 Lumber sued the company and Powers individually. 84 Lumber claimed Powers was liable on the personal guaranty. 84 Lumber argues that Powers's signature immediately below the unambiguous recital that he was to "unconditionally and irrevocably personally guarantee the credit account" binds Powers as a matter of law.

Powers counters that the credit application was signed only in a representative capacity and thus does not bind him individually and is ambiguous. The construction of an unambiguous contract is a question of law for the court. If a written instrument is so worded that it can be given a certain or definite legal meaning or interpretation, it is not ambiguous and the reviewing court will construe it as a matter of law. A contract is ambiguous only when its meaning is uncertain and doubtful or it is reasonably susceptible to more than one meaning.

Here, the application specifically states that, by his execution of the application, Powers certified that he was the owner, general partner, or president of his company and that he unconditionally and irrevocably personally guaranteed the credit account. Powers's signature creates not only a corporate liability, but individual liability for the debt of the corporation. And, noted the court, this is the company president securing credit for his own business. It concluded that a president of the corporation is liable for the credit his company received by means of his personal guaranty of his own company's debts.

Also, take a look at ***Williams* v. *Bell***, 402 S.W.3d 28 (Tex.App.-Houston [14th Dist.] 2013, no pet.), where the note was clearly signed in a representative capacity rather than individually.

## PART V
## DEEDS AND CONVEYANCE DOCUMENTS

***Singer* v. *State of Texas***, 391 S.W.3d 627 (Tex.App.-El Paso 2012, pet. denied). The Singers executed two donation deeds to the State for highway purposes. Each of the deeds stated: "In the event the land herein described is not used for public highway purposes, which includes construction contract letting, on S.H. 121 (Lewisville Bypass) on or before January 1, 2000, then all or that portion of the land not so used, as the case may be, will revert to and be revested in the Grantor named herein or their successors in interest[s]." The highway construction was done in two stages. The contract for the second stage was not let until 2003. The Singers alleged that because the State had not used portions of the land for public highway purposes and had not let a construction contract as defined in the deeds as of January 1, 2000, the unused portions of the deeded land reverted to them.

Further, the Singers asserted that the State's continued dominion over and construction on the unused portions of land after January 1, 2000, constituted an inverse condemnation. A required element to prove inverse condemnation is ownership of the property. The Singers argued that the donation deeds meant that ownership reverted to them when the State failed to let the second contract before January 2000. The State contended that the language of the deeds creates a condition subsequent which, having been satisfied, cannot have resulted in the automatic reversion and revestment of title in the Singers.

In interpreting the language of deeds, the court must ascertain the intent of the parties as set forth within the four corners of the document and attempt to harmonize all portions of the deeds. In ambiguous cases, the Texas Supreme Court has held that where language in a deed creates doubt as to whether the grantor intended a limitation or a condition subsequent, the language should be construed as a condition subsequent because a condition subsequent is less onerous than a limitation upon the grantee as the estate would not terminate automatically, but would continue until the grantor acts to terminate the estate. Moreover, when there is doubt in the construction of a deed's language, the doubt is resolved against the grantor.

The court held that the language of the deeds' conditions is ambiguous. It is unclear whether the Singers intended to create a condition subsequent or a possibility of reverter as the deeds contain language that is generally used to create both. First, the granting clause of the donation deeds includes the words Grant, Give and Convey. The habendum clause uses the words "to have and hold the premises herein described and herein conveyed ... unto the State of Texas and its assigns forever," which indicate an intent to convey a fee simple absolute. Second, the language "[i]n the event the land ... is not used for public highway purposes ... on or before January 1, 2000," creates a condition that the State must satisfy. Third, the words "revert to and be revested" express a reverter in the Singers.

The court thought that the deeds, when viewed and construed in their entirety, create a fee simple subject to a condition subsequent. Because it found the language of the deeds is unclear as to whether a condition subsequent or possibility of reverter was created, it resolved that doubt in favor of a condition subsequent.

***Buckingham* v. *McAfee***, 393 S.W.3d 372 (Tex.App.-Amarillo 2012, pet. pending). This case involves the question of ownership of a riverbed along the Red River. Property was deeded to the Buckinghams. It encompasses all land lying south of

the south bank and north of the north bank of the North Fork of the Red River found in the tract of land in question. The conveyance excepted ninety acres "reserved for river bed."

To support their claim for ownership of the riverbed, the Buckinghams invoked the doctrine of riparian rights, i.e., the rights of the owners of land on the banks of watercourses, relating to water, its use, and ownership of soil under the stream or river. Per the theory, a riparian proprietor owns the bed of the stream. In other words, when a private party makes a conveyance of land bordering on a stream, the grantor purportedly conveys title to the one-half of the stream bed abutting his land. The court agreed with the argument and held that when a private person (including corporations, etc.) conveys title to lands owned by him abutting a stream -- whether navigable or not -- such conveyance passes to the grantee (unless the conveyance clearly shows a contrary intention), title to the one-half of such stream bed abutting his land, subject, of course, to whatever rights the state may have in the stream bed.

As previously mentioned, the operative deed contained the following language: "except ninety (90) acres reserved for river bed." While that passage mentions no metes or bounds, it nonetheless reveals a clear intent on the part of the grantor to exclude "riverbed" from the conveyance. The Buckinghams cited no authority that the "contrary intention" mentioned above could be satisfied only through a valid legal description of the excepted riverbed.

## PART VI
## LEASES

***Coinmach Corp.* v. *Aspenwood Apartment Corp.*,** 417 S.W.3d 909 (Tex. 2013). Anyone who has dealt with apartment complexes knows Coinmach. It installs laundry rooms and operates its machines in those rooms.

In 1980, Coinmach entered into a lease at Aspenwood Apartments. Its lease was expressly made subordinate to any mortgage or deed of trust on the premises. The term was ultimately extended to 1999. In 1994, a lender foreclosed on the project. Ultimately, Aspenwood acquired the property.

Aspenwood gave notice to Coinmach to vacate the laundry rooms, claiming that the foreclosure terminated the lease. Coinmach refused to vacate. A long back-and-forth legal battle ensued. Aspenwood would file an FED; Coinmach would somehow get a writ of reentry. Even after the expiration date of the lease, Coinmach stayed at the property and refused to leave.

This suit was filed in 1998, shortly after Aspenwood filed its second FED action. The trial court ruled, as a matter of law, that the 1994 foreclosure sale had terminated Coinmach's lease. The jury found in favor of Aspenwood and awarded $1.5 million in damages, consisting of actual damages, DTPA treble damages, exemplary damages, attorneys' fees, and prejudgment interest. In the spring of 2000, after judgment was entered, Coinmach vacated the property.

Coinmach moved for a new trial. In 2007, the trial court again ruled that the foreclosure sale terminated the lease and that Coinmach became a tenant at sufferance. The trial court also struck all of Aspenwood's breach of contract claims. Ultimately, the trial court ruled that Aspenwood was not a consumer under the DTPA, that Coinmach had a possessory interest in the property from the time of foreclosure until it vacated the premises in 2000, and concluding that the effect of its legal rulings was to preclude Aspenwood's remaining claims as a matter of law. The court thus entered judgment that Aspenwood take nothing on its claims.

The court of appeals affirmed the dismissal of Aspenwood's breach of contract claims, holding that, because Aspenwood never consented to Coinmach's remaining on the premises, no actual or implied contractual relationship existed between the parties. But the court reversed and remanded Aspenwood's claims for trespass, trespass to try title, tortious interference, and declaratory judgment, concluding that Coinmach, as a tenant at sufferance, had no possessory interest in the property. The court of appeals also agreed with the trial court that Aspenwood was not a consumer for DTPA purposes.

Generally, a valid foreclosure of an owner's interest in property terminates any agreement through which the owner has leased the property to another. This is particularly true when, as here, the lease agreement is expressly subordinate to a mortgage or deed of trust affecting the leased premises.

Upon termination of the lease, Coinmach became a "tenant at sufferance." The parties agreed about that, but not about the effect of being a tenant at sufferance. A tenant who continues to occupy leased premises after expiration or termination of its lease is a "holdover tenant." The status and rights of a holdover tenant, however, differ depending on whether the tenant becomes a "tenant at will" or a "tenant at sufferance."

A tenant at will is a holdover tenant who "holds possession with the landlord's consent but without fixed terms (as to duration or rent)." Because tenants at will remain in possession with their landlords' consent, their possession is lawful, but it is for no fixed term, and the landlords can put them out of possession at any time. By contrast, a tenant at sufferance is a tenant who has been in lawful possession of property and wrongfully remains as a holdover after the tenant's interest has expired. The defining characteristic of a

tenancy at sufferance is the lack of the landlord's consent to the tenant's continued possession of the premises. With the owner's consent, the holdover tenant becomes a tenant at will; without it, a tenant at sufferance.

A lease agreement may provide that its terms continue to apply to a holdover tenant. But if, as here, the lease does not address the issue, and if the parties do not enter into a new lease agreement, the parties' conduct will determine whether the holdover tenant becomes a tenant at will or a tenant at sufferance. Under the common law holdover rule, a landlord may elect to treat a tenant holding over as either a trespasser – that is, a tenant at sufferance – or as a tenant at will. Thus, an implied agreement to create a new lease using the terms of the prior lease may arise if both parties engage in conduct that manifests such intent. If the tenant remains in possession and continues to pay rent, and the landlord, having knowledge of the tenant's possession, continues to accept the rent without objection to the continued possession, the tenant is a tenant at will, and the terms of the prior lease will continue to govern the new arrangement absent an agreement to the contrary. The mere fact that the tenant remains in possession, however, is not sufficient to create a tenancy at will; unless the parties' conduct demonstrates the landlord's consent to the continued possession, the tenant is a tenant at sufferance.

The court held that Aspenwood's conduct demonstrated that it never consented to Coinmach's continued possession of the property. Immediately after purchasing the complex, Aspenwood gave Coinmach written notice to vacate the laundry rooms and it continued to pursue eviction. It never cashed any checks from Coinmach.

So, Aspenwood claimed that, as a tenant at sufferance, Coinmach was liable both for breach of contract and for tortious conduct. Coinmach claimed it wasn't liable for either.

As to the breach of contract claims, the court held that the parties reached no agreements after the lease terminated. Aspenwood did not enter into a lease agreement with Coinmach and did not expressly or by its conduct consent to Coinmach's continued presence. Coinmach thus became a tenant at sufferance, and there existed no express or implied contract or agreement between the parties. Coinmach cannot be liable for breaching a contract that did not exist.

As to the trespass claims, Coinmach contends that, even though it was a tenant at sufferance, it was not a "trespasser" and cannot be liable on any tort-based theories. Coinmach contends that the Texas Legislature has relieved a tenant at sufferance of any trespasser status by providing a "grace period" during which the tenant is permitted to remain in possession pending statutory eviction proceedings. According to Coinmach, a tenant at sufferance does not become a trespasser unless and until the tenant refuses to leave after the landlord has finally prevailed in the statutory eviction process.

The Court ultimately held that Coinmach could be liable for trespass damages. Under the common law a tenant at sufferance has no legal title or right to possession, and is thus a "trespasser" who possesses the property "wrongfully." The question that Coinmach raises is whether the Legislature has altered the common law through the statute governing FED actions. The Legislature has itself answered that question, expressly providing in section 24.008 that a suit for eviction under the FED statute "does not bar a suit for trespass, damages, waste, rent, or mesne profits." The court has long held that the remedies against a holdover tenant include a forcible detainer action for possession and an action for recovery of damages, including trespass damages.

Chapter 24's procedural protections do not grant to tenants at sufferance any legal interests in or possessory rights to the property at issue; rather, the statute provides procedural protections that apply once the tenant has lost, or allegedly lost, all legal interests and possessory rights. Although the landlord must comply with the statute's procedural requirements to evict the tenant at sufferance, eviction is allowed only if the tenant has no remaining legal or possessory interest, which makes the tenant a tenant at sufferance.

***Cheung-Loon, LLC* v. *Cergon, Inc.***, 392 S.W.3d 738 (Tex.App.-Dallas 2012, no pet.). Primo's leased a parking lot from Cheung-Loon. It also executed an SNDA with Cheung-Loon's lender. The lease required Primo's to give Cheung-Loon 30-days' notice and an opportunity to cure any defaults before pursuing any remedies. The SNDA also required Primo's to give the lender 30-days' notice and an opportunity to cure the landlord's defaults. The lease also contained a provision that, if required, Primo's would obtain a certificate of occupancy for the lot.

The disputes in this case come from both directions. First, other tenants of Cheung-Loon's properties began using the parking lot, with the effect that Primo's customers had no place to park. Primo's made a number of oral complaints about the problem, but Cheung-Loon did nothing about it. Second, Cheung-Loon sent Primo's a notice stating that the City required a certificate of occupancy for the lot, which would require a number of improvements to it. Primo's did not do anything about getting the CO.

Cheung-Loon sent Primo's a default notice. After that, Primo's sent Cheung-Loon a letter stating that Primo's was rescinding the lease. A few weeks after that letter was sent, Primo's quit paying rent. Cheung-Loon responded by sending a letter rejecting Primo's "unilateral rescission" of the lease and demanding that Primo's continue paying rent and obtain the CO.

Primo's took no action. Later, Cheung-Loon sent another default notice and again, Primo's did nothing. Cheung-Loon sued for breach of contract. Primo's answered and pled a number of affirmative defenses. It also brought counterclaims for fraud and breach of contract based on Cheung-Loon's violation of Primo's right to exclusive use of the parking lot.

The trial court granted summary judgment in favor of Primo's, declaring that: (1) Primo's possessed a contractual right to the exclusive use of the parking lot; (2) Cheung-Loon's actions undermined and rendered the lease between the parties useless and valueless; and (3) Primo's rightfully and properly rescinded and terminated the leasing arrangement.

Cheung-Loon argued that Primo's failure to provide 30-days' notice of default to it and to its lender meant that Cheung-Loon was not in default. The court agreed. The lease provision and the SNDA provision required 30-days' written notice. Except for the letter sent by Primo's rescinding the lease, all of its complaints about the parking lot were oral, and none were sent to the lender. The default notices were a condition precedent to bringing an action for breach of contract, so Primo's had no right to do so.

Primo's claimed that it was unnecessary for Primo's to provide notice of default because any such notice would have been futile and the law does not require a party to perform a futile act. But Primo's failed to provide any evidence of futility. The only evidence was that Cheung-Loon didn't do anything to fix the problem after the oral notifications.

The court then looked to Cheung-Loon's claims to determine whether it had met its burden to show it was entitled to summary judgment on its breach of contract claims. Cheung-Loon contended Primo's breached the lease in two different ways: by failing to obtain a certificate of occupancy and by improperly terminating the lease.

Primo's had submitted an affidavit stating that it was not able to verify with the City that a certificate of occupancy was required for the lot. The lease required a CO before the lot was to be used, but Primo's had been using the lot for a year after the City allegedly required the CO. The court said this was enough to raise a fact question as to whether Primo's had breached the lease by not obtaining a CO.

Cheung-Loon also argued that the unilateral rescission of the lease by Primo's was a breach of the lease. The improper termination of a contract is a breach of contract as a matter of law. No one disputed the fact that Primo's had terminated the lease and quit paying rent. Primo's argued, though, that its termination was proper because Cheung-Loon had breached its obligations regarding the parking lot. However, the court again pointed out that Primo's had failed to provide the default notices to Cheung-Loon and its lender, so Cheung-Loon could not be held to have breached the lease in a way that justified termination of the lease by Primo's.

***Jesperson* v. *Sweetwater Ranch Apartments***, 390 S.W.3d 644 (Tex.App.-Dallas 2012, no pet.). Part of the multi-faceted dispute between the parties that involved claims of discrimination, breaches of the lease, and the like, the tenant, Jesperson, claimed that she had been wrongfully locked out of her apartment in violation of Property Code § 92.0081. That statute prohibits a landlord from intentionally preventing a tenant from entering the leased premises except by judicial process unless the exclusion results from (1) bona fide repairs, construction, or an emergency, (2) removing the contents of premises abandoned by a tenant, or (3) changing the door locks of a tenant who is delinquent in paying at least part of the rent. If the landlord changes the lock of a tenant who is delinquent in paying the rent, the landlord must place a written notice on the tenant's front door containing information about where the tenant can get a key, that the landlord must provide the new key, and the amount of rent or other charges for which the tenant is delinquent. If a landlord violates section 92.0081, the tenant may either recover possession of the premises or terminate the lease and recover statutory penalties, actual damages, court costs, and reasonable attorney's fees.

Jespersen moved almost all of her belongings out of the apartment prior to the date the landlord changed the locks. About a week before the locks were changed, the landlord was notified that Jespersen's check for the current rent had been returned due to insufficient funds. The property managers entered Jespersen's apartment and, in their opinion, believed Jespersen had moved her belongings out of the apartment. The lease required the landlord to post a notice on the inside of any apartment that it believed had been abandoned by the tenant. The property manager posted this notice. Pursuant to the lease, Jespersen had two days to dispute whether she had abandoned the apartment. Jespersen failed to do so. Accordingly, under the lease, Jespersen abandoned the apartment prior to the date the landlord changed the locks and no longer had any right of possession to the apartment.

The party protected by § 92.0081 is a "tenant," which Property Code § 92.001(6) defines as "a person who is authorized by a lease to occupy a dwelling to the exclusion of others . . ." On the date the landlord changed the locks, Jespersen was not authorized by a lease to occupy her apartment and, therefore, was not a tenant for purposes of section 92.0081. Thus, summary judgment in favor of the landlord was appropriate.

***Parkway Dental Associates, P.A.* v. *Ho & Huang Properties, LP***, 391 S.W.3d 596 (Tex.App.-Houston

[14th Dist.] 2012, no pet.). Parkway Dental leased space from H&H. The lease contained an exclusive use provision which stated that H&H would not lease space to a competing general dentist business. H&H conveyed a portion of the land where the office building was located. In selling the portion of the land, H&H did not require the purchaser to agree to the exclusive use restriction. The purchaser of the portion of the land then entered into a lease with Aquarium Dental for the purpose of operating a dental clinic.

Parkway Dental complained to H&H and was told there was nothing H&H could do because the land had been sold to a third party. Parkway Dental sued H&H, the purchaser/owner of the adjacent tract, and Aquarium Dental, seeking injunctive and monetary relief. In the meantime, while trying to negotiate a settlement of the case, Parkway Dental's lease term ended, so it closed that office.

The trial court found that Parkway had failed to produce evidence supporting its claims and entered summary judgment in favor of H&H, dismissing Parkway Dental's claims. It awarded H&H attorneys' fees.

Part of the trial court's judgment was that Parkway Dental had failed to produce evidence that H&H had breached the exclusive use provision. The court of appeals took a look at the lease. The covenant stated that H&H would not permit any portion of the "Project" to be used for a competitive business. The "Project" was defined as the building or complex where the premises were located, the common areas, as well as the parking areas in the shopping center. The Aquarium Dental offices were built on part of the parking areas that had been sold to the third party purchaser.

The court held that, under the unambiguous language of the Parkway Dental ease, (1) the parties placed no contractual restriction on H&H's ability to convey the Tract and (2) the Parkway Dental lease does not impose an obligation on H&H to have any party to whom it might convey the tract agree to be bound by the Covenant or to make a similar promise. Nonetheless, under the unambiguous language of the lease, H&H Landlord breaches the Covenant if, during the term of that lease, any portion of the Project is used for a business involving the practice of general dentistry. Thus, under the Parkway Dental lease, if H&H exercises its right to convey a part of the Project to a third party without having the third party agree to be bound by the covenant or without taking other measures to prevent the use of any portion of the Project for a business involving the practice of general dentistry, then H&H runs the risk of breaching the covenant.

***Centerplace Properties, Ltd.,* v. *Columbia Medical Center of Lewisville Subsidiary, L.P.***, 406 S.W.3d 674 (Tex.App.-Fort Worth 2013, no pet.). Landlord, and Tenant entered into a lease for an ambulatory surgery center. The lease provided for certain improvements to be constructed by the Tenant after submitted plans for approval by the Landlord. The Tenant submitted a space plan but did not start finishing out the space. The Tenant discovered that there was not enough interest in an ambulatory surgery center and want to move forward with plans for a diagnostic imaging center. The Landlord didn't like that idea because it competed with another tenant's use. However, the parties amended the lease to broaden the scope of uses. The amendment gave the Tenant the right to terminate the lease if improvements were not completed by a certain time. The Tenant did not even start on the improvements before the completion deadline.

The Landlord sent a default notice, giving it 30 days to cure. Correspondence went back and forth. Eventually, the Landlord declared the Tenant to be in default and told the Tenant it had not right to possess the premises. The Tenant took the position that when the Landlord told it that the Tenant had no right to occupy the premises, that was a violation of Property Code § 93.002, which prohibits a commercial landlord for intentionally preventing a tenant from entering the leased premises. In fact, the Landlord never did anything physically to prevent the Tenant from entering the premises. Here, the Tenant never requested access to the premises after it got the Landlord's letter. The question, then, is whether § 93.002(c) requires that the landlord take some action beyond making written demands – such as changing the locks or refusing access upon request by the tenant – before it can be found to have intentionally prevented the tenant from entering the premises, or whether a landlord may violate the statute by wrongfully accusing the tenant of breaching the lease and demanding that the tenant vacate the premises.

The court reviewed several cases and concluded that Texas law requires a landlord to do something more than post a notice to vacate or send a letter advising the tenant that it no longer has a right to possession before the landlord can be said to have violated property code section 93.002(c). The statute requires that a landlord intentionally take some action to prevent entry, beyond giving a tenant a notice to vacate, before the landlord incurs liability under section 93.002(c). If a notice of default or to vacate were all that the statute required, section 93.002(c) would arguably create landlord liability in each instance in which a landlord even mistakenly believes a tenant has violated the lease and intentionally gives notice to vacate.

***Curtis* v. *AGF Spring Creek/Coit II, Ltd.***, 410 S.W.3d 511 (Tex.App.-Dallas 2013, no pet.). The

Landlord entered into a lease with Atrium Executive Business Centers Richardson LLC as Tenant. Curtis signed as president of Atrium. The lease was modified three times. Turns out, though, that Atrium was never formed. Curtis did form an entity named AEBC that operated out of the premises, but all of the correspondence and all of the lease modifications were in the name of Atrium.

Curtis sent Landlord an email stating that business wasn't working out. She returned the keys and left. No rent was paid after she moved out.

The Landlord sued Curtis individually for breach of the lease, alleging that Atrium never existed and Curtis was individually liable. The trial court held in favor of the Landlord and awarded over $200,000 in damages.

Curtis claimed on appeal that the trial court should have found there was a lease by conduct with AEBC and that she should not have been held liable.

A lease may be created by words or other conduct expressing consent to the lessee's possession. The conduct expressing consent may consist merely in a failure to object to the presence of one who has entered without the lessor's consent but not adversely to him. Curtis points to evidence developed at trial that reimbursement of the tenant's move-in expenses, as well as the tenant's rent payments, fax transmissions, insurance policy, sales and use tax permit, and service agreements with its clients were all made in the name of AEBC rather than Atrium, and that Landlord was aware of these documents. But, said the court, the object of the lease, i.e., to provide commercial space to the tenant, could be accomplished without applying the lease by conduct doctrine to substitute AEBC. The lease expressly identified the tenant as Atrium. The lease also provided that it "shall not be altered, waived, amended or extended, except by a written agreement signed by the parties hereto...." The parties signed three subsequent modifications to the lease identifying Atrium as the tenant. Instead of conforming the terms of the lease to the parties' original intent, application of the lease by conduct doctrine would alter a material term of the contract, the identity of one of the contracting parties.

Curtis also argued that an entity unformed at the time a lease is made can adopt the lease after the entity is formed. But here, the entity was never formed, and thus could not " subsequently adopt" the lease. Curtis argues that the only difference between the unformed entity and the corporation she did form was the name. If Landlord had sought to recover for breach of the lease against AEBC, however, AEBC could defend the suit on the ground that it was not a party to the lease, and could not become a party without the written modification required by the lease.

***Murray* v. *U.S. Bank National Association***, 411 S.W.3d 926 (Tex.App.-El Paso 2013, no pet.). The Murrays defaulted on their mortgage and the Bank foreclosed. After foreclosure, the Bank sought to evict the Murrays. It sent them a notice to vacate, then went to the justice court, then to the county court, where it ultimately got a writ of possession. The Murrays complained that the eviction order should be vacated because the Bank did not affirmatively establish that the substitute trustee who executed the trustee's deed at the foreclosure sale was duly appointed and acting within the scope of her authority. As such, the Murrays claim the Bank's title is defective, no tenancy at sufferance came into being under the terms of the deed of trust, and the grant of eviction based on that nonexistent landlord-tenant relationship is void.

The Bank argued that the resolution of the possession issue in this case does not hinge on resolution of title because the Murrays did not present an actual dispute as to title. The Murrays didn't complain that the Trustee's Deed is in fact defective, nor did they provide any evidence that the trustee actually acted outside the scope of her authority in executing the deed. Instead, they argue that the Bank has the burden of proving step-by-step that the Trustee's Deed is valid. Not only does this argument subvert the Legislature's intent in expediting possession determinations and preventing protracted title litigation in the justice courts, it misapprehends the burden of proof on appeal. Because the Murrays brought a no-evidence challenge to the county court's judgment for a writ of possession, the court was required to uphold the county court's judgment upon a showing of any evidence of probative force in the record. Under this standard, bare allegations will not suffice to defeat the Bank's presumptively valid evidence of a Trustee's Deed.

Because the Bank provided an executed and presumptively valid trustee's deed, the deed of trust, and the notice to vacate, and because the Murrays did not adduce any evidence of an actual title dispute that would deprive the justice court and the county court of jurisdiction, the county court properly granted the writ of possession.

***Wells Fargo Bank, N.A.* v. *Ezell***, 410 S.W.3d 919 (Tex.App.-El Paso 2013, no pet.). Wells Fargo established its entitlement to possession of the premises as a matter of law. Wells Fargo did so primarily via three documents admitted into evidence without objection: (1) a certified copy of the deed of trust; (2) a certified copy of the substitute trustee's deed; and (3) a business record affidavit containing a copy of the notice to vacate sent to the Ezells. Section 22 of the deed of trust contains language establishing a landlord-tenant relationship between the Ezells and the purchaser of the property at a foreclosure sale. The

substitute trustee's deed establishes that Wells Fargo purchased the property at the foreclosure sale and is entitled to possession of the property. The notice to vacate provides proof of proper notice to the Ezells that they were required to vacate the premises in three days. Finally, Mr. Ezell's testimony provided evidence of his possession of the property and his refusal to vacate. Collectively, this evidence is sufficient to establish Wells Fargo's superior right to immediate possession of the premises.

## PART VII
## VENDOR AND PURCHASER

***Richmond* v. *Wells***, 395 S.W.3d 262 (Tex.App.-Eastland 2012, no pet.). In a dispute over the ownership of minerals, the question arose whether the Wellses, who had purchased the land previously owned by Richmond, were bona fide purchasers of the mineral interests in question.

The Wellses are not bona fide purchasers if they did not purchase the property in good faith, for valuable consideration, and without notice of the Richmonds' claim. The only one of those elements attacked in this case is the one that involves notice. Notice of an outstanding claim will defeat one's status as a bona fide purchaser. Notice may be either constructive or actual. Actual notice is notice that is based on personal information or knowledge. Constructive notice is that which the law imputes in various circumstances to one who does not have personal information or knowledge. One such circumstance of constructive notice arises when a purchaser is charged with notice of an occupant or a possessor's claims.

Richmond argued that the presence of a pump jack and tank batteries at the well site was constructive notice to the Wellses. But it was constructive notice only as to the claims of the well operator; it was the possessor or occupier. If the Wellses were to be charged with knowledge of the rights of the occupier or possessor of the mineral estate, those would be the mineral lessee's rights. If the Wellses had inquired about the rights of the lessee, the possessor, they simply would have discovered that it possessed the property by virtue of their fee simple determinable ownership interest. That ownership interest was created when Richmond conveyed it to the lessee; a time prior when Richmond undisputedly owned the minerals, prior to the various conveyances that called such ownership into question.

***Goldman* v. *Olmstead***, 414 S.W.3d 346 (Tex.App.-Dallas 2013). This case is also discussed under Brokers. The Goldmans requested that Hewett assist them with the purchase of a new home. They decided to make an offer to the Olmsteads to buy their house. The Goldmans obtained a prequalification letter from Band of America to submit with their offer. The Goldmans and the Olmsteads entered into a contract for the purchase and sale of the house. The Olmsteads' broker was Sally Smith, who was Mrs. Olmstead's mother.

After the contract was entered into, the Goldmans had difficulty obtaining financing. After having been turned down twice, Mr. Goldman applied for a loan from Bank of America. In connection with that application, he supplied false information regarding his employer and income. Bank of America turned the Goldmans down because they couldn't verify income. Ultimately, after making some other efforts to obtain a loan, the Goldmans were unable to close. They sent a letter to the Olmsteads terminating the contract based on their inability to obtain financing.

The Olmsteads sued and the Goldmans answered, also filing third party petitions against Hewett and her company. The claims against the broker were for negligence, breach of fiduciary duty, violations of the DTPA, fraud in a real estate transaction, common law fraud, and negligent misrepresentation. Hewett asserted a counterclaim against the Goldmans for fraud, alleging Mark Goldman provided false information to Bank of America in order to obtain the prequalification letter.

The trial court ruled in favor of the Olmsteads on the breach of contract issues, awarding over $50,000 in damages and a whole lot of attorneys' fees. The trial court also ruled against the Goldmans on their claims against Hewett and awarded her a whole lot of attorneys' fees.

On appeal, the Goldmans claimed that the contract was indefinite because it was illegible. It was a standard TREC form. The copy of the original contract was difficult to read, but the parties had executed a clean copy at the request of Bank of America as part of its loan application process. Accordingly, the court held that the contract was not indefinite because of illegibility.

The Goldmans next argued that the contract was indefinite because the sellers' names were not inserted on the first page of the contract. The court noted that the sellers' names were all over the contract otherwise and that each page was initialed and the signature page signed by the Olmsteads. That was sufficient.

The Goldmans then argued that because the contract was illegible and indefinite for failure to identify the sellers, it failed to comply with the statute of frauds. To comply with the statute, the writing must contain the essential terms of the contract, expressed with such certainty that they may be understood without resorting to oral testimony. The contract for the sale of the Stanford house was in writing, contained the essential terms of the agreement, and was signed by

both the Olmsteads and the Goldmans. It, therefore, complied with the statute of frauds.

The Goldmans finally complained about the damages that were awarded. The trial court awarded damages based on the carrying costs of the house after the breach of contract. The Goldmans asserted the proper measure of damages for breach of a residential real estate contract is the difference between the contract price and the market value of the property on the date of the breach and that the carrying costs recovered by the Olmsteads, while perhaps recoverable as part of an equitable accounting in a suit for specific performance of the contract, are not recoverable in a suit for damages.

Generally, the measure of actual damages in a breach of contract case is the loss of the benefit of the bargain, which would put the plaintiff in the same economic position he would have been in had the contract actually been performed. In this case, the Goldmans agreed to purchase the Stanford house for $810,000, and the Olmsteads admitted the market value of the house on the date of the breach was $810,000. Under Texas law damages are measured by the difference between the contract price and the market value of the house on the date the Goldmans breached the contract. The evidence established there was no difference in the contract price and the market value on the date the Goldmans breached the contract. The court held that the trial court had used an improper measure of damages and concluded that the Olmsteads failed to prove they suffered any damages under the correct legal measure of damages.

***G.D. Holdings, Inc.* v. *H.D.H. Land & Timber, L.P.***, 407 S.W.3d 856 (Tex.App.-Tyler 2013, no pet.). GD and HDH were negotiating a contract for HDH to sell some land to GD. HDH signed a contract form that included a provision requiring GD to pay for dozer work and cleanup if the sale didn't close. GD struck that provision when the contract got to it. When HDH found out about that it refused to agree. GD had put up $30,000 earnest money, but eventually failed to obtain financing and did not purchase the property. GD sued to get its earnest money back. HDH claimed that GD had breached a valid written contract and that HDH was entitled to the earnest money. The trial court found in favor of HDH.

GD contends that the trial court erred in awarding damages because there was no contract. The elements of an enforceable contract are (1) an offer; (2) an acceptance in strict compliance with the terms of the offer; (3) a meeting of the minds; (4) a communication that each party consented to the terms of the contract; (5) execution and delivery of the contract with an intent that it become mutual and binding on both parties; and (6) consideration. For a contract to be formed, the minds of the parties must meet with respect to the subject matter of the agreement and all its essential terms.

The material terms of the contract must be agreed upon before a court can enforce the contract. An acceptance must not change the terms of an offer; if it does, the offer is rejected. Acceptance must be identical to the offer in order to make a binding contract. A material change in a proposed contract constitutes a counteroffer, which must be accepted by the other party. A contractual provision dealing with payment is always an essential element or a material term.

Here, there is no dispute between the parties that they had not agreed in writing about what would happen to the earnest money if the sale did not close. Thus, the parties did not have a meeting of the minds on an essential term of the contract. Further, when GD struck out the term describing its responsibility to pay for clearing the nine acres, HDH's offer was rejected. Because GD's change regarded the earnest money, a material or essential term of the contract, HDH must have accepted the change for a contract to be formed.

***Magill* v. *Watson***, 409 S.W.3d 673 (Tex.App.-Houston [1st Dist.] 2013, no pet.). The earnest money contract provided that a party who wrongfully fails or refuses to sign a release of the earnest money would be liable for liquidated damages in an amount equal to the sum of (i) three times the amount of the earnest money; (ii) the earnest money; (iii) reasonable attorney's fees; and (iv) all costs of suit.

A court will enforce a liquidated damages clause if (1) the harm caused by the breach is incapable or difficult of estimation, and (2) the amount of liquidated damages is a reasonable forecast of just compensation. An assertion that a liquidated damages provision constitutes an unenforceable penalty is an affirmative defense, and the party asserting penalty bears the burden of proof. Generally, that party must prove the amount of actual damages, if any, to demonstrate that the actual loss was not an approximation of the stipulated sum. If the amount stipulated in the liquidated damages clause is shown to be disproportionate to actual damages, a court should declare that the clause is a penalty and limit recovery to actual damages. Whether a liquidated damages clause is an unenforceable penalty is a question of law for the court, but sometimes factual issues must be resolved before the court can decide the legal question.

Here, the court held that the liquidated damages provision was void on its face. The liquidated damage provision makes no attempt to quantify the actual damages that would be caused by a failure to release the earnest money. Instead, the provision merely assumes that the earnest money, which the parties have agreed will constitute actual damages for breach of the agreement in general, should be trebled and added to

the earnest money in the event that the obligation to release the earnest money is breached.

The court concluded that because the contract provision simply takes the value of the earnest money, which the parties have agreed represents the actual damages caused by the breach of the agreement, and multiplies it times three if there is an additional breach of the obligation to turn over the earnest money, the provision is an unlawful penalty and does not attempt to forecast actual damages. "We are not holding, however, that a contract can never provide liquidated damages for the failure to release earnest money. We hold only that the clause in this case, on its face, did not attempt to reasonably forecast a just compensation for a breach of the agreement to release the earnest money."

## PART VIII
## ADVERSE POSSESSION, TRESPASS TO TRY TITLE, AND QUIET TITLE ACTIONS

***Bynum* v. *Lewis***, 393 S.W.3d 916 (Tex.App.-Tyler 2013, no pet.). Bynum moved into a farmhouse. Lewis had previously bought the property where the house was located. Lewis filed an eviction action in JP court. Bynum appealed in the county court and filed a pleading stating that he was the owner of the property by virtue of adverse possession. The county court entered judgment in Lewis's favor.

District courts have exclusive jurisdiction to determine title to real property. Chapter 24 of the Property Code governs forcible detainer actions, which provide a summary method for determining the right of a party to possession of real property. To preserve the simplicity and speedy nature of the forcible entry and detainer remedy, Texas Rule of Civil Procedure 746 provides that the "only issue shall be as to the right to actual possession; and the merits of title shall not be adjudicated." To prevail in a forcible entry and detainer action, a plaintiff is not required to prove title, but is only required to show sufficient evidence of ownership to demonstrate a superior right to immediate possession. Because a forcible entry and detainer action is not exclusive, but cumulative, of any other remedy that a party may have in the courts of this state, the displaced party is entitled to bring a separate suit in district court to determine the question of title.

However, if the resolution of a title dispute is necessarily intertwined with the issue of possession so that the right of possession depends upon it, possession may not be adjudicated without first determining title. A county court at law exercising appellate jurisdiction over a justice court judgment is limited to the original jurisdiction of the justice court. Only the district court has jurisdiction to determine title.

In sum, when the question of title is so integrally linked to the issue of possession that the right to possession cannot be determined without first determining title, the justice court and, on appeal, the county court lack subject matter jurisdiction to consider the issue. The affirmative defense of adverse possession invokes a claim to title that can defeat the jurisdiction of the justice court and on appeal, the county court.

In the case at hand, when Bynum raised the affirmative defense of adverse possession to Lewis's forcible entry and detainer action, the title issue became an integral part of the proceeding. Based on our review of the record, the county court, in considering the pleadings before it, would have had to determine title to the property in order to determine whether Lewis had the superior right to possession. Because (1) the county court had no jurisdiction to determine title and (2) title may not be adjudicated in a forcible detainer action, but only in a trespass to try title action, the court held that the county court did not have subject matter jurisdiction to determine if Lewis had a superior right to immediate possession of the property.

## PART IX
## HOMESTEAD

***Thomas* v. *Graham Mortgage Corporation***, 408 S.W.3d 581 (Tex.App.-Austin 2013, no pet.). Thomas borrowed a loan from the Lender secured by a ranch. A few weeks before the loan, the title company identified a 200 acre portion of the ranch as homestead, based on a homestead designation filed by Thomas a few years earlier. Thomas argued that it wasn't homestead – that he had moved off the land some time ago. At the closing, Thomas signed a Non-Homestead Affidavit.

Thomas defaulted and the bank posted for foreclosure. Thomas sued. In that suit, Thomas maintained that the 200 acres was his homestead and that the bank's lien violated the homestead laws. The Lender foreclosed and the trial court ultimately granted it summary judgment in favor of the Lender.

One of the grounds upon which the Lender moved for summary judgment was abandonment. Specifically, the Lender argued that, to the extent the property was ever Thomas's homestead property, the undisputed evidence conclusively established that Thomas had abandoned the Property as a homestead at the time the loan agreement was executed and the deed of trust lien was acquired.

A property owner does not necessarily abandon homestead property by changing residence. Even the temporary renting of the homestead does not change the homestead character of the property, when no other homestead has been established. Rather, evidence establishing abandonment of a homestead must be undeniably clear and show beyond almost the shadow,

at least of all reasonable ground of dispute, that there has been a total abandonment with an intention not to return and claim the exemption. That is, it must be clear that there has been a discontinuance of the use of the property coupled with an intention not to use it as a homestead again.

Though a change of residence does not necessarily equate to abandonment, a change in residence coupled with a disclaimer of the homestead may form the basis of a claim of abandonment by estoppel. Estoppel is a doctrine recognized and applied in a variety of contexts, but generally prevents a party from asserting rights, claims, and matters of fact that are inconsistent with those previously asserted by the party. Applying estoppel principles in the context of homestead disclaimers, Texas courts have sought to balance the importance of constitutional homestead protection with policy considerations which abhor the perpetration of fraud on creditors.

As a result, it is well established that when physical facts open to observation lead to a conclusion that the property is not the homestead of the mortgagor, and its use is not inconsistent with the declarations made that the property is disclaimed as a homestead, and these declarations were intended to be and were actually relied upon by the lender, then the owner is estopped from asserting a homestead claim. On the other hand, if the circumstances are such that a lender should have known or suspected that a homestead disclaimer was false – such as when a property owner is in actual possession of a piece of property, occupying and using the property –then courts will not enforce the disclaimer against the debtor.

In support of its motion for summary judgment, the Lender attached the affidavit of Castelhano, vice president of the Bank and loan officer for the Thomas loan. Castelhano stated that during their initial conversation, Thomas informed Castelhano that he was a doctor in Van Horn, that the Property was currently for sale, and that he wanted to borrow against the Property so that he could buy a ranch in New Mexico. Further, Castelhano explained in his affidavit that he had conducted a visual inspection of the Property with Thomas's real estate agent in the month before the closing. Castlehano stated that during this inspection, he did not observe any dwellings or living structures on the subject property except a cabin and that the real estate agent told Castelhano that employees who worked on the Property lived there and, for that reason, he could not inspect it." The agent also informed Castelhano that Thomas had not lived on the Propperty. Thomas did not dispute these facts. Under these circumstances, the Bank was justified in relying on Thomas's representation that he was disclaiming any constitutional homestead rights in the Property.

***Barras* v. *Barras***, 396 S.W.3d 154 (Tex.App.-Houston [14th Dist.] 2013, pet. pending). The divorce court, in making the property settlement, imposed an equitable lien on the husband's separate property homestead. The husband complained that the lien was an impermissible lien on his homestead. The Texas Constitution provides that homestead property is exempt from forced sale to pay debts, except for certain specified categories of debts. The constitutionally allowed exceptions to the homestead exemption include debts for: (1) purchase money of the property; (2) taxes due on the property; (3) owelty of partition by court order or written agreement; (4) refinance of a lien against the property; (5) certain work and material to improve, renovate, or repair the property; (6) certain extensions of credit; (7) reverse mortgages; and (8) conversion and refinance of a personal property lien secured by a manufactured home to a lien on real property. The constitution does not contain an exception allowing a lien to be imposed simply to achieve a " just and right" division of property upon divorce. A court may impose the lien, however, if it satisfies a constitutional exception.

In this case, the lien is supported by an implied finding that it is a purchase-money lien, and thus, it was not imposed simply to achieve a " just and right" division of the marital estate. The purchase money lien in this case was implied. When no express lien is reserved in a deed and the purchase money is not paid, a lien nevertheless arises by implication in favor of the vendor to secure payment of the purchase money.

## PART X
## BROKERS

***Goldman* v. *Olmstead***, 414 S.W.3d 346 (Tex.App.-Dallas 2013, pet. denied). This case is also discussed under Vendor and Purchaser. The Goldmans requested that Hewett assist them with the purchase of a new home. They decided to make an offer to the Olmsteads to buy their house. The Goldmans obtained a prequalification letter from Band of America to submit with their offer. The Goldmans and the Olmsteads entered into a contract for the purchase and sale of the house. The Olmsteads' broker was Sally Smith, who was Mrs. Olmstead's mother.

The Goldmans contended that the contract was void or voidable as against public policy because the Olmstead's broker, Smith, failed to disclose that she was Mrs. Olmstead's mother. Section 1101.652(a)(3) of the Occupations Code provides that TREC may suspend or revoke a broker's license or take disciplinary action if a broker engages in misrepresentation, dishonesty, or fraud when selling real property in the name of a person related to the license holder within the first degree by consanguinity. The regulations under that statute require disclosure to

be made in the contract or in writing before the contract is entered into. The Goldmans argue that the statute and the Occupations Code set out the public policy in Texas and where disclosure is required but not provided, public policy makes the contract void or voidable.

The court disagreed. Section 1101.652 of the Occupations Code relates solely to the suspension or revocation of a license. Neither section 1101.652 of the Occupations Code nor any applicable version of section 535.144 of the administrative code provides that the non-compliance of the license holder causes any related contract for the sale of real estate to be void.

***Shanklin* v. *Bassoe Offshore (USA) Inc.***, 415 S.W.3d 311 (Tex.App.-Houston [1st Dist.] 2013, no pet.). Under the Real Estate License Act, Occupations Code § 1101.754, there is a private cause of action for certain violations by a broker:"A person who receives a commission or other consideration as a result of acting as a broker or salesperson without holding a license or certificate of registration under this chapter is liable to an aggrieved person for a penalty of not less than the amount of money received or more than three times the amount of money received." The statute does not define "aggrieved person." Courts have held, as did this one, that an aggrieved person under this statute must have paid all or part of the fee or profit to the unlicensed broker.

## PART XI
## TITLE INSURANCE AND ESCROW AGENTS

***Lawyers Title Insurance Corporation* v. *Doubletree Partners, L.P.***, Nos. 12-40692 and 12-40702 (5th Cir. January 14, 2014). Doubletree bought 36 acres close to Lake Lewisville in Highland Village. In connection with the acquisition, Doubletree got a survey and an owner's title policy with the "survey exception" modified to read "shortages in area."

The survey showed a flowage easement, referring to its "approximate" location. In preparing the survey, the surveyor relied on flood insurance rate maps, but did not measure elevations and did not consult a publicly available contour map from the City of Highland Village. Based on the survey, Lawyers Title issued title insurance policy and provided the policy to Doubletree. Due to a software printing error, the original policy failed to include many of the encumbrances listed as exceptions, including the flowage easement. The original policy also failed to include the agreed-upon survey coverage. Several months later, in October 2006, Doubletree submitted a lost policy request. In response, Lawyers Title sent a copy of the policy that was identical to the original policy in all respects, including in its omission of the flowage easement exception and the survey coverage.

Turns out that the survey substantially underrepresented the area of the property that was subject to the flowage easement. The significantly larger no-building zone covered by the flowage easement meant Doubletree would be unable to proceed with its plan to build several of the residential structures it intended to build on the lakeside portion of the property.

Doubletree filed a title insurance claim with Lawyers Title. Doubletree alleged the existence of the flowage easement on the property caused $850,025 in damage from the diminution of the property's value for its intended purpose. The claim did not rely on the error in the survey but instead relied on the original policy, which did not contain an exception for the flowage easement and did not include a provision for survey coverage. In response, Lawyers Title denied the claim, explaining that, based on the title commitments, the flowage easement was meant to come within an exclusion to coverage under the policy.

Doubletree resubmitted the claim to Lawyers Title, again relying on the fact that the title policy contained no exception relating to the flowage easement, and insisting that the title commitment containing that exception was no longer in force. Lawyers Title again denied the claim, but this time it provided a corrected policy with the denial. The corrected policy included the flowage easement exception as reflected in the final title commitment, as well as the standard survey exception as amended to reflect the purchase of survey coverage. By the time Lawyers Title sent its second letter denying Doubletree's claim, Doubletree had been unable to go forward with its development as planned and was eventually unable to meet its loan obligations on the property. The property was subjected to foreclosure proceedings and sold at a public auction to the Trust for Public Land, a conservation organization.

Lawyers Title sued Doubletree asking for a declaratory judgment and reformation of the original policy. Doubletree counterclaimed. The magistrate judge at the district court held in favor of Lawyers Title. The magistrate judge's opinion reformed the title insurance policy to reflect the corrected policy issued by Lawyers Title. The magistrate judge further held that exclusion 3(a), which appeared in both the corrected policy and original policy issued by Lawyers Title, barred Doubletree's claim. According to the court, under exclusion 3(a), Doubletree "suffered, assumed or agreed to" the flowage easement as an encumbrance on title by accepting the final title commitment, the vesting deed, and the leaseback agreement, each of which referenced the easement. In addition, the magistrate judge held that, even under the corrected policy, the survey coverage purchased by

Doubletree did not cover the survey error in identifying the easement; the type of title insurance Doubletree suggested it purchased is not available in Texas; and the exception for the flowage easement excluded the entire flowage easement from coverage in any event. For all of these reasons, the magistrate judge held that Doubletree could not recover on its breach of contract claim based on the title insurance policies.

The Fifth Circuit first held that the magistrate judge correctly reformed the policy. The final title commitment before closing reflects agreement on the terms of the title insurance policy. That agreement included both an exception for the flowage easement and the survey coverage purchased by Doubletree. Further, the summary judgment evidence shows that Doubletree paid an additional premium to amend the survey clause to obtain survey coverage. Based on this evidence, the first part of the contract reformation test is satisfied. And, even though the mistake in issuing the policy without the exceptions or the survey deletion was the unilateral mistake of Lawyers Title, Doubletree clearly had knowledge of this mistake since it paid a premium for survey coverage and received the final title commitment reflecting the coverage, but later received a policy from Lawyers Title that differed materially from the agreed-upon terms in the final title commitment. Indeed, the two title insurance claims Doubletree submitted to Lawyers Title were based on the original, flawed policy, and those claims noted that the policy it received lacked the flowage easement exception. Therefore, there is no question that Doubletree knew of the unilateral mistake by Lawyers Title in reducing the agreement to writing. Because a unilateral mistake by one party and knowledge of that mistake by the other party is equivalent to mutual mistake, the second part of the contract reformation test is also satisfied.

As to whether the reformed policy covered survey errors in identifying the location of the flowage easement, the court held that it did.

As to survey coverage, the magistrate judge erred in concluding that it is not permitted under Texas law. Texas law requires title insurers to use policy provisions approved by the Texas Department of Insurance. The standard title insurance form contains the standard survey exclusion identical to the one set forth in the original policy. However, the Texas Department of Insurance explicitly allows title insurance companies to provide survey coverage by amending the standard survey exclusion. In that event, the Texas Department of Insurance requires the standard survey clause to be modified to exclude only “shortages in area.”

Also, when a disputed provision in the title insurance policy is an exclusion, the insurer has the burden of establishing that the exclusion applies. If an exclusion is ambiguous, the court must adopt the construction of an exclusionary clause urged by the insured as long as that construction is not itself unreasonable, even if the construction urged by the insurer appears to be more reasonable or a more accurate reflection of the parties’ intent. As to whether the survey coverage clause in the corrected policy provides coverage for the survey error in locating the flowage easement, the court held that both parties' interpretations of the clause are reasonable. As a result, it adopted Doubletree's interpretation.

Lawyers Title argued that survey coverage doesn’t cover all alleged defects in the survey, but only errors in identifying boundaries. Doubletree argued that the survey coverage it purchased covers all errors in the survey, including the error in describing the location of the flowage easement.

Lawyers Title then argued that the flowage easement exception precludes coverage for the survey error in this case. The exception for the flowage easement identified the easement and added “and shown” on the survey. Lawyers Title argued that the “and shown” wording was merely a notation to indicate that the surveyor had identified the easement as affecting the property and doesn’t affect the substance of the exception. Alternatively, Lawyers Title argued, as held by the magistrate judge, that the “and shown” wording actually expands the scope of the exception, precluding coverage for the flowage easement as it exists in the real property records and as it is described in any other documents, like the survey.

Doubletree argued that the addition of the “and shown on survey” language to the flowage easement exception limits the exception to cover the easement only to the extent the easement is shown in the real property records and on the survey. Thus, any error in identifying the location of the easement in the survey would not be excepted from coverage.

The court held that Lawyers Title’s first argument and Doubletree’s argument were reasonable, so it was required to pick Doubletree’s.

Finally, the court held that the Acts of the Insured exclusion from the policy did not bar Doubletree’s claim. Exclusion 3(a) to the policy excludes coverages for matters “created, suffered, assumed or agreed to by the insured claimant.” Lawyers Title argued that the district court was correct in concluding that Doubletree “suffered, assumed, or agreed” to the flowage easement as a defect in title under exclusion 3(a). Lawyers Title contends that Doubletree did so by virtue of three documents. First, in the sales contract, Doubletree agreed to purchase the property with the easement listed as a title defect. Second, Doubletree accepted a deed stating that title was being conveyed “subject to” the flowage easement. Third, in the final title commitment, the flowage easement was specifically identified as an exception.

Doubletree argued that it could not have suffered, assumed, or agreed to the flowage easement as a title defect because it did not know the actual location and size of the recorded easement. Doubletree also maintained that the language of the deed—that it took the property "subject to" to the easement—does not establish that it suffered, assumed, or agreed to the flowage easement as a defect in title. Finally, Doubletree noted that the deed and other closing documents referred to the flowage easement as it was shown in the real property records and on the survey. Thus, even if it did assume the flowage easement as a defect in title, it only assumed it to the extent it was shown in the real property records and the survey.

The court said "suffered" means "permit" and implies the power to prohibit or prevent the lien which has not been exercised. The term "assume" requires knowledge of the specific title defect. Courts have held that an insured does not assume something affecting title merely by taking the property subject to it. "Agreed to" connotes "contracted for," requiring full knowledge by the insured of the extent and amount of the claim. All of these require some degree of intent to acquire the property with defects in title. The court said that, under exclusion 3(a), the insurer can escape liability only if it is established that the defect, lien or encumbrance resulted from some intentional misconduct or inequitable dealings by the insured or the insured either expressly or impliedly assumed or agreed to the defects or encumbrances in the course of purchasing the property involved. The courts have not permitted the insurer to avoid liability if the insured was innocent of any conduct causing the loss or was simply negligent in bringing about the loss.

Based on these standards, Doubletree did not suffer, assume, or agree to the undisclosed magnitude of the flowage easement for three main reasons. First, all four documents at issue include the "and shown on survey" language that the corrected policy contains. Because the survey failed to disclose the full extent of the easement, Doubletree did not suffer, assume, or agree to the full extent of the easement as a defect in title. Second, Doubletree did not suffer, assume, or agree to the undisclosed magnitude of the flowage easement because it did not have the requisite intent to do so. There is simply no summary judgment evidence to prove Doubletree had any intent to acquire the property with the full scope of the flowage easement as a title defect. Third an insured does not suffer, assume, or agree to an encumbrance under this exclusion when it lacks knowledge of the true scope of the encumbrance. Most importantly, exclusion 3(a) would completely nullify the survey coverage if interpreted as Lawyers Title suggests. The magistrate judge was incorrect in concluding that the exclusion barred Doubletree's claim here.

***Dunmore* v. *Chicago Title Insurance Company***, 400 S.W.3d 635 (Tex.App.-Dallas 2013, no pet.). In 2001, Dunmore entered into a contract to buy lots 8 and 9. Chicago Title was the escrow agent and title company. The closing took place at Chicago Title. The documents executed at closing included a General Warranty Deed with Vendor's Lien and a Deed of Trust in favor of Dunmore's lender. Unfortunately, both the Deed, the Deed of Trust, and the owner's title insurance policy referenced only lot 9. The lender collected and escrowed taxes only for lot 9. In 2009, the taxing authorities sued the seller to collect taxes on lot 8, and Dunmore was joined in the lawsuit.

Dunmore sued Chicago Title asserting breach of contract, negligence, breach of fiduciary duty and violations of the insurance code. Chicago Title asserted limitations and other defenses. It paid claims related to lot 9, but refused to pay anything related to lot 8.

A statute of limitations is a procedural device operating as a defense to limit the remedy available from an existing cause of action. A cause of action accrues, and the statute of limitations begins to run, when facts come into existence that authorize a claimant to seek a judicial remedy. The general rule governing when a claim accrues, to start limitations running, is the "legal injury rule," which provides that a claim accrues " when a wrongful act causes some legal injury, even if the fact of injury is not discovered until later, and even if all resulting damages have not yet occurred." a breach of contract claim accrues when the contract is breached. A cause of action for negligence accrues on the date the negligent injury producing act is committed. Breach of fiduciary duty claims generally accrue when the claimant knows or in the exercise of ordinary diligence should know of the wrongful act and resulting injury.

Here, the breach of contract, negligence, and breach of fiduciary duty causes of action are based on the allegation that Chicago Title, as escrow agent, failed to properly describe and include lot 8 in the various documents that were filed more than nine years before Dunmore's claims against Chicago Title were filed. Because of this time difference, limitations had run, unless there is some basis for tolling the limitations periods.

Dunmore claims that, because Chicago Title had a fiduciary duty to them, the mistakes were not discoverable until the problem was corrected nine years later. Chicago Title argued that Dunmore knew or should have known of the error at the time of the closing.

An escrow agent owes a fiduciary duty to the parties to the transaction, seller and buyer under a contract. In cases where alleged injuries arise from a breach of fiduciary duty, a fiduciary's conduct may be inherently undiscoverable. Nonetheless, once the

fiduciary's conduct becomes apparent, the claimant cannot ignore it, regardless of the fiduciary nature of the relationship. In other words, even in a breach of fiduciary duty case where a fiduciary's misconduct is inherently undiscoverable, a breach of fiduciary duty claim accrues when the claimant knows or in the exercise of ordinary diligence should know of the wrongful act and resulting injury.

The court held that, in this case, the wrongful act and resulting injury were not inherently undiscoverable. The undisputed evidence was that the closing documents showed only lot 9. Parties are presumed to have consented to the terms of agreements they sign and are charged with knowledge of the legal effect of the documents. Accordingly, Dunmore should have known of the injury at the time of closing.

## PART XII CONSTRUCTION AND MECHANICS' LIENS

***Lyda Swinerton Builders, Inc.* v. *Cathay Bank***, 409 S.W.3d 221 (Tex.App.-Houston [14th Dist.] 2013, no pet.). This case is also discussed under Taxation. The Builder agreed to improve the Developer's property, but the project never progressed very much. The property consisted of Parcels A and B. The Builder began work in February 2007, completing dirt and utility work. After the Builder began work, the Bank made two loans to the Developer, one for $800,000 secured by a deed of trust on Parcel B only and one for $500,000 secured by a deed of trust covering both parcels. In October 2007, work stopped due to "payment issues" and was never resumed. That month the Builder filed a lien affidavit as to parcel A for about $3.2 million. The court noted that, generally, mechanic's liens like this one relate back to the start of work for priority purposes, regardless of when the mechanic files its lien affidavit. Thus, although the Builder filed its affidavit after the Bank had obtained its deed of trust liens, the Builder's lien nonetheless had priority because it related back to the start of work in February 2007.

Later on that October, the Bank made another loan of about $1.9 million to the Developer, secured by a deed of trust covering both parcels. The Builder was paid $1.5 million and filed a release of lien which recited the amount received and purported to release the entire $3.2 million lien.

On the same day as the Builder's release, the Bank used a portion of the loan to satisfy outstanding tax liens on the property. It did not comply with the tax lien transfer statutes in doing so.

In November, the Builder filed an amended lien affidavit reciting a debt of approximately $2.9 million. This sum included both the unpaid portion of the Developer's pre-release debt (approximately $1.7 million) and amounts for post-release expenses that the Builder had since incurred. Like the first lien affidavit, this covered only Parcel A. Although the Builder stated in its lien affidavit that it had incurred post-release expenses, no post-release work had occurred on the property. The Builder contends that even though it had stopped working, it remained on the site at the Developer's request. The post-release expenses reflected in the affidavit were administrative and equipment rental costs related to maintaining the site at an estimated $200,000 per month. Over the ensuing months, the Developer made at least one partial payment, but none of the Developer's payments kept up with the Builder's accruing expenses. The Builder sent demand letters and threatened to leave the site, but never did. Eventually, the Builder filed this suit, in which the Bank intervened, claiming a superior interest in the property. The trial court severed the lien priority suit from the Builder's action against the Developer.

While the suit was pending, the Builder filed another lien affidavit in January 2009, over a year after the last work on the project, six months after its termination letter, and three months after filing the lawsuit.

The Builder finally left the property in March 2010. The Bank foreclosed on its deed of trust The Bank purchased the property and contends that it was foreclosing on the senior tax lien and that that foreclosure wiped out all junior liens, including the Builder's.

The trial court held in favor of the Bank and the Builder appealed.

First, the court of appeals dealt with the Builder's release of lien. Boiled down, the release simply said that, in consideration of $1.5 million, the Builder "does hereby release and discharge the property from this lien." The parties present multiple alternative interpretations of the simple release. The Builder argued that, that notwithstanding the release, it could "re-file" a lien for the unpaid portion of the same debt against the same parcel of land. The court disagreed because allowing the Builder to do so would render the release meaningless. The release extinguished the Builder's initial lien and prevented it from reasserting the same lien against Parcel A for the unpaid portion of the pre-release debt.

The Bank argued that the release did other things, but the document in front of us does not mention them. For example, the Bank argued that the release not only released the lien, but also forgave the unpaid portion of the initial debt. The release doesn't say that. The Bank also argued that the release prevented the Builder from filing liens for subsequent expenses. The release does not say that either. Finally, the Bank contended that the release prevented the Builder from securing the unpaid portion of its initial debt with a lien on Parcel B. The release also does not say that – in only

mentions Parcel A. The court discussed these conclusions at length.

The court then turned to whether the Builder’s post-release lien affidavits were for “materials” as defined in the statutes. The Bank claimed that, even if the Builder’s release did not preclude it from filing subsequent affidavits, those affidavits were nonetheless ineffective because (1) they were not timely and (2) the expenses referred to in them were not for materials furnished for construction, as required by the mechanic’s lien statute.

The court discussed the timeliness issue at length, ultimately concluding that fact questions remained, so summary judgment on the issue was not appropriate. It sent that issue back to the trial court.

As to whether the post-release expenses were for “material furnished for construction” the court did basically the same thing. Mechanic’s liens secure payment for, among other things, the labor done or material furnished for the construction or repair. There was no contention that the Builder did any labor, so the entire question was whether its services after construction ceased were “material furnished.” The court said it couldn’t determine from the summary judgment evidence the extent to which the Builder’s expenses were for equipment or services delivered to prosecute the work. Standing alone, the fact that no work ultimately occurred does not answer the question. Moreover, to obtain a mechanic's lien for rental expenses, the equipment must be not only " delivered for use," but also " reasonably required" for use in the direct prosecution of the work. In this case, the Builder continued to incur rental expenses for several months after work had ceased even though the Developer already owed over $1.7 million and the project had no apparent prospect of adequate financing. At some point, continuing to incur these expenses may have become unreasonable, regardless of the parties' intent. Whether and at exactly what point these expenses stopped being " reasonably required" are questions of fact that cannot be answered conclusively on this record. Back to the trial court.

***Plains Builders* v. *Steel Source, Inc.***, 408 S.W.3d 596 (Tex.App.-Amarillo 2013, no pet.). Plains Builders' checks made jointly payable to Steel Source and Construction Services totaled $1,223,275.71. Steel Source deposited these checks to its bank account. But it ultimately received only $806,410 because it remitted the remaining amount totaling $417,165.71 to Construction Services via cashier's checks. The maximum claim of Steel Source under its subcontract with Construction Services was $943,410. The fact it issued joint checks in amounts substantially more than Steel Source's maximum claim, Plains Builders argues, supports its affirmative defense of payment.

What Plains Builders is asserting here is application of the " joint check rule," which has expressly been adopted by several states. As restated by the California Supreme Court, the rule is that,when a subcontractor and his materialman are joint payees, and no agreement exists with the owner or general contractor as to allocation of proceeds, the materialman by endorsing the check will be deemed to have received the money due him.

However, noted the court of appeals, the cases in which the joint check rule has been applied are cases enforcing materialmen's liens or bonds securing payment or performance of the construction contract. In this case, the joint check agreement the parties here signed does not address the subject of allocation of a check's proceeds between Construction Services and Steel Source. The court agreed with Steel Source that Plains Builders' argument in effect asks the court to read into the joint check agreement a provision it does not contain. In the absence of contract language warranting the inference Steel Source had an obligation to retain funds necessary to keep its account current from each joint check as issued, the court refused to apply the joint check rule to support Plains Builders' payment defense.

***Trinity Drywall Systems, LLC* v. *TOKA General Contractors, Ltd***., 416 S.W.3d 201 (Tex.App.-El Paso 2013, no pet.). It is well-settled that a constitutional lien requires a person to be in privity of contract with the property owner and, therefore, that lien does not apply to derivative claimants such as subcontractors. Property Code § 53.026 provides a way to elevate a subcontractor or materialman to an original contractor where the original contractor acquired the status by virtue of a sham relationship with the owner. Here, the owner argued that Texas case law is clear that § 53.026 was never meant to be applied to a constitutional lien, but was only meant to apply in the statutory lien context.

The court disagreed with the owner. the mechanic's and materialmen's lien statutes of Texas are to be liberally construed for the purpose of protecting laborers, materialmen, and owners. The argument raised by Vineyard is contrary to this rule. The Legislature codified Chapter 53 of the Property Code for the speedy and efficient enforcement of mechanic's liens as mandated by Article 16, section 37 of the Texas Constitution. While the Legislature has no power to affix conditions of forfeiture of lien created by the constitutional provision, it may provide means for enforcement of such lien and, in doing so, prescribe necessary things for the protection of owners or purchasers of such property. Although the owner here asserts that the subcontractor is attempting to use the statutory scheme to alter a constitutional right, the court noted that Article 16, section 37 itself does not

limit liens to "original contractors" rather, it states "[m]echanics, artisans and material men, of every class, shall have a lien ...." and then directs the Legislature to provide for the enforcement of such liens.

Section 53.026 specifically provides that where a sham contract exists, the legal fiction is to be ignored and the subcontractor is deemed to be an original contractor. Accordingly, under the sham contracts provision, a subcontractor is placed in direct privity with the property owner for purposes of the mechanic's and materialman's lien statutes. As a result, by changing a subcontractor's position in the construction contract chain, the statutory provisions allow a subcontractor hired under a sham contract to assert and enforce a constitutional lien because he is deemed to have a direct contractual relationship with the owner.

***Sanchez* v. *Shroeck***, 406 S.W.3d 307 (Tex.App.-San Antonio 2013, no pet.). Cope borrowed a construction loan from Stock Loan. The loan agreement stated that no construction or delivery of materials was allowed to occur before the deed of trust was recorded. Cope signed an affidavit stating that construction had not begun and no materials had been delivered before the date of the loan agreement. Sanchez filed a mechanics' lien affidavit about six months after the loan agreement was signed. Cope later defaulted on the construction loan and the lender foreclosed. It acquired the property at the foreclosure and later sold it to Shroeck.

Sanchez sued Shroeck and the trial court held that Sanchez had a valid lien and ordered foreclosure. That order was set aside, however, and the trial court later held that the mechanics' lien was extinguished by the foreclosure of the construction deed of trust.

A valid foreclosure on a senior lien (sometimes referred to as a "superior" lien) extinguishes a junior lien (sometimes referred to as "inferior" or "subordinate" ) if there are not sufficient excess proceeds from the foreclosure sale to satisfy the junior lien. For the purpose of determining whether a mechanic's lien is superior, as a general rule, a properly perfected mechanic's lien relates back to a time referred to as the inception of the lien for the purpose of determining lien priorities. In general, mechanic's liens whose inception is subsequent to the date of a deed-of-trust lien will be subordinate to the deed-of-trust lien.

However, if there is a general contract regarding the construction of improvements to the property, courts apply the relation-back doctrine to determine the time of a mechanic's lien's inception. Under this doctrine, the inception date of subsequently perfected mechanic's liens will relate back to the date of a general contract for a building or other improvement between the owner of the land and a contractor for the construction of which the mechanic contributed.

Sanchez argued that, although her work was done after the deed of trust was recorded, the inception of her lien relates back to a construction contract in existence before the deed of trust was recorded. The court agreed that this argument raised a material fact question precluding summary judgment in favor of Shroeck.

## PART XIII
## CONDEMNATION

***El Dorado Land Company, L.P.* v. *City of McKinney***, 395 S.W.3d 798 (Tex. 2013). El Dorado sold several acres of land to the City to use as a park. The deed provided that the conveyance was "subject to the requirement and restriction that the property shall be used only as a Community Park." If the City did not use the property for that purpose, El Dorado had the option to purchase the property for the lesser of what the City paid for it or market value. El Dorado had the right to inspect the property and had to close within 90 days after inspection.

Ten years after acquiring the property, the City built a library on it. The City did not offer El Dorado the right to purchase the property or even give notice before building the library. After learning about the library, El Dorado notified the City by letter that it intended to exercise its option to purchase. When the City failed to acknowledge its obligations, El Dorado sued for inverse condemnation. The City countered that El Dorado's claim did not involve a compensable taking of property, but a mere breach of contract for which the City's sovereign immunity had not been waived. The trial court and court of appeals agreed with the City.

El Dorado argues that its right to purchase this property is a real property interest, in the nature of a reversionary interest, and more particularly described as a right of reentry. The City, on the other hand, contends that El Dorado's option is not a real property interest but a mere contract right. As such, the City argues that the option is unenforceable against it absent an express waiver of the City's governmental immunity. Because the Legislature has not chosen to waive governmental immunity for this particular type of contract claim, the City concludes that the court of appeals correctly affirmed the dismissal of El Dorado's claim.

The court of appeals similarly reasoned that the deed restriction and option were merely contract rights that were not compensable against a governmental entity under the Texas Constitution. The court of appeal accordingly rejected El Dorado's argument that, pursuant to the deed provision, it held a reversionary interest or the possibility of reverter' in the property.

The Supreme Court agreed that the deed did not create a possibility of reverter, but disagreed that El Dorado did not retain another type of reversionary interest in the property.

Under the deed, El Dorado's possessory interest was contingent on the property's use. If the City violated the deed restriction, El Dorado retained the power to terminate the City's estate. The deed referred to this power or right as an option, but it effectively functioned as a power of termination, or as El Dorado labels it, a right of reentry. El Dorado's deed conveyed a defeasible estate (i.e., a fee simple subject to a condition subsequent), retaining a conditional future interest -- the power to terminate the City's defeasible estate on the occurrence of a condition subsequent. The Supreme Court has previously equated this right to an estate or interest in land.

Contrary to the court of appeals, the Supreme Court held that El Dorado retained a reversionary interest in the property. It likewise disagreed with the court of appeals' analysis of El Dorado's claim as a contract right dependent on a statutory waiver of the City's governmental immunity. A statutory waiver of immunity is unnecessary for a takings claim because the Texas Constitution waives governmental immunity for the taking, damaging or destruction of property for public use.

The court ultimately held that the reversionary interest retained by El Dorado would support a takings claim. The court did not express an opinion as to whether a taking had occurred and remanded the case for that determination.

***City of Lorena* v. *BMTP Holdings, L.P.***, 409 S.W.3d 634 (Tex. 2013). Here, the municipality approved a subdivision plat and subsequently enforced a moratorium against the property, citing the municipality's additional sewage system capacity requirements. The landowner sued for a declaratory judgment that the moratorium did not apply against its approved development and for damages arising from a regulatory taking under an inverse condemnation claim. The trial court granted summary judgment in favor of the municipality on the declaratory judgment and inverse condemnation claims and awarded attorney's fees to the municipality. The court of appeals reversed, holding that the moratorium could not apply to the property in question because it had been approved for development before the moratorium took effect. The court remanded the inverse condemnation and attorney's fees claims. The Supreme Court held that the moratorium cannot apply to the property because the municipality approved the property for subdivision before it enacted the moratorium, and the owner is therefore entitled to prevail on its declaratory judgment claim.

***State of Texas* v. *Moore Outdoor Properties, L.P.,*** 416 S.W.3d 237 (Tex.App.-El Paso 2013, no pet.). The billboard structure in this case was held to be a fixture, so the State is obligated to compensate for it in a condemnation action. However, the sign permit, being a license or privilege, is not a compensable property right in the context of a condemnation proceeding.

## PART XIV
## LAND USE PLANNING, ZONING, AND RESTRICTIONS

**In re *Hai Quang La***, 415 S.W.3d 561 (Tex.App.-Fort Worth 2013, pet. denied). La and Nguyen, homeowners in the subdivision filed a motion under Government Code § 51.903 seeking a determination that restrictive covenants filed in the Tarrant County records were a fraudulent lien or claim and should not be accorded any status. They alleged that the restrictive covenants were not signed by the true owner of the property and because the document laced a notary’s signature, the document was fraudulent.

The Government Code provides an expedited proceeding for challenging a fraudulent lien or claim against real or personal property, the foundation of which is found in section 51.903. That section, which is largely a suggested form motion and order, allows a purported debtor or obligor or a person who owns an interest in real or personal property to ask for a judicial determination of the legitimacy of a filed or recorded document or instrument purporting to create a lien or interest in real or personal property.

For purposes of a § 51.903 action, a document or instrument is presumed to be fraudulent if it purports to create a lien or assert a claim against real or personal property and if it meets a few other criteria. Based on the plain language of the statute, a proceeding under § 51.903 must first involve a document or instrument that purports to create a lien or assert a claim against real or personal property or an interest in real or personal property. The court said that restrictive covenants are not liens or claims against real property, and therefore, are not subject to a § 51.903 proceeding. A lien is a legal right or interest that a creditor has in another's property, lasting usually until a debt or duty that it secures is satisfied. A restrictive covenant, on the other hand, is defined in the Property Code as any covenant, condition, or restriction contained in a dedicatory instrument, whether mandatory, prohibitive, permissive or administrative. Although restrictive covenants restrict or otherwise limit permissible uses of the land, they do not create or purport to create a " lien or a claim" on the owner's property within the meaning of § 51.903.

***Wasson Interests, Ltd.* v. *Adams***, 405 S.W.3d 971 (Tex.App.-Tyler 2013, no pet.). Wasson is the owner of a 3.014 acre tract burdened by restriction limiting its use to "residential development only." In 1983, the City conveyed the 3.014 acre subject tract to M.G. Moore by a general warranty deed that contained the " residential development only" covenant. Wasson became the successor in interest to the subject tract on April 21, 2010.

The area where the subject tract is located is rural in character. In the past, the property contained a pecan orchard and a peach orchard. There is no evidence of a residence on the property until January 2009 when Wasson moved a mobile home there. Wasson removed the mobile home when he received complaints that it violated the restrictions on the property. Thereafter, Wasson began putting hogs, goats, and other livestock on the property. He also placed an inoperable 1957 Chevrolet and an old dump truck near the road. At one point Wasson kept sixteen pigs, seven goats, three sheep, two horses, thirty chickens, five guinea fowl, and two peacocks on the 3 .014 acres. The result of this concentration was not only unsightly but evil smelling.

The Adamses sued to enforce the “residential development only” restriction. Wasson contends that the Adams lack standing to enforce the restriction burdening the 3.014 acres.

In order for a party to enforce a covenant burdening land against a successor to the party with whom he covenanted, the covenant must run with the land. For a covenant to run with the land, the covenant must be made between parties who are in privity of estate at the time the covenant was made, and must be contained in a grant of land or in a grant of some property interest in the land. Privity of estate between covenanting parties means a mutual or successive relationship exists to the same rights in property. A restrictive covenant is ordinarily enforceable only by the contracting parties and those in direct privity of estate with the contracting parties.

When the City (the covenantee) granted the subject 3.014 acres to M.G. Moore (the covenantor), there was a mutual relationship to the same rights in the property described in the grant. Hence they were in privity of estate as to the 3.014 acres. As successor covenantor to the interest of M.G. Moore, Wasson succeeded to the burden imposed by the covenant and is in privity of estate with the City.

The Adams' predecessor, who held the leasehold in 1983, was not a party to the grant to M.G. Moore or the covenant therein created. When the covenant was made in 1983 burdening the 3.014 acres, there was no mutuality of interest in the tract between the then current lessee of the Adams' subdivision lot and M.G. Moore. Therefore, the Adams have not succeeded to the interest of the City as covenantee in the estate created in 1983 grant containing the restrictive covenant.

The Adams argue that since they and Wasson both derive title from the City, they are in privity of estate. But privity of estate requires more than a common source of title. As successors to Bill Canino, the covenantor in the covenants created in 1962 in the original grant by the City of their subdivision lot, they are successor as covenantors to the burdens he assumed in the 1962 covenant. Hence, they are in privity of estate with the City under the 1962 covenant. But they are not successor covenantees to the rights of the City, the original covenantee, in the covenant created in the City's 1983 grant to M.G. Moore. Therefore, there is no privity of estate between the Adams and Wasson. The Adams lack standing to enforce the covenants restricting the use of Wasson's 3.014 acre tract.

## PART XV
## AD VALOREM TAXATION

***Lyda Swinerton Builders, Inc.* v. *Cathay Bank***, 409 S.W.3d 221 (Tex.App.-Houston [14th Dist.] 2013, no pet.). This case is also discussed under Construction Issues. The Builder agreed to improve the Developer’s property, but the project never progressed very much. The property consisted of Parcels A and B. The Builder began work in February 2007, completing dirt and utility work. After the Builder began work, the Bank made two loans to the Developer, one for $800,000 secured by a deed of trust on Parcel B only and one for $500,000 secured by a deed of trust covering both parcels. In October 2007, work stopped due to “payment issues” and was never resumed. That month the Builder filed a lien affidavit as to parcel A for about $3.2 million. The court noted that, generally, mechanic's liens like this one relate back to the start of work for priority purposes, regardless of when the mechanic files its lien affidavit. Thus, although the Builder filed its affidavit after the Bank had obtained its deed of trust liens, the Builder's lien nonetheless had priority because it related back to the start of work in February 2007.

Later on that October, the Bank made another loan of about $1.9 million to the Developer, secured by a deed of trust covering both parcels. The Builder was paid $1.5 million and filed a release of lien which recited the amount received and purported to release the entire $3.2 million lien.

On the same day as the Builder’s release, the Bank used a portion of the loan to satisfy outstanding tax liens on the property. It did not comply with the tax lien transfer statutes in doing so. The project was ultimately stopped, the Builder sued, the Bank intervened, and the Developer filed Bankruptcy. There

is more discussion of these facts in Construction Issues.

The principal issue in the dispute of the effect of the Bank's foreclosure is whether the Bank became subrogated to a senior tax lien that it satisfied with part of its loan proceeds. With a few exceptions that are not relevant here, tax liens are senior to other liens. Thus, if the Bank became subrogated to tax liens, these liens would be senior to the Builder's mechanic's liens. As a result, foreclosure of the subrogated tax liens would have extinguished the Builder's mechanic's lien because the foreclosure sale proceeds were insufficient to satisfy both.

Subrogation is liberally applied and is broad enough to include every instance where one person, not acting voluntarily, pays another's debt. The Bank's subrogation arguments focus on a clause in its deed of trust signed by the Developer, so it contends this provision entitles it to subrogation under a contractual subrogation theory. However, the Bank's right to subrogation also depends upon equitable considerations.

The Builder first argues that the Bank is not subrogated to the tax lien because it failed to comply with sections 32.06 and 32.065 of the Tax Code. After a lengthy discussion, the court concluded that these statutes supplement common law subrogation doctrines for tax liens. Still, the court declined to uphold summary judgment for the Bank on the subrogation issue. A balancing of equities is required, even as to contractual subrogation. Here, said the court, subrogation would prejudice the Builder because it would alter the foreclosure requirements that otherwise apply to tax liens. The requirements for foreclosing on a tax lien protect intervening lien holders and permitting the Bank to merely foreclose on its deed of trust would eliminate them.

In sum, before subrogation, the tax lien could only be foreclosed through a judicial proceeding requiring the Builder as a party, but after subrogation, the Bank could foreclose (thereby extinguishing the Builder's lien) without even notifying the Builder. Indeed, the Builder has offered evidence that it had no knowledge that any tax lien existed or that the Bank was asserting the taxing authority's priority position in its foreclosure. So, because so many fact issues remained, the court remanded the subrogation issue to the trial court.

## PART XVI
## MISCELLANEOUS

***Strickland* v. *Medlen***, No. 12-0047 (Tex. April 5, 2013). "Texans love their dogs. Throughout the Lone Star State, canine companions are treated—and treasured—not as mere personal property but as beloved friends and confidants, even family members. Given the richness that companion animals add to our everyday lives, losing "man's best friend" is undoubtedly sorrowful. Even the gruffest among us tears up (every time) at the end of Old Yeller."

In this case, poor old Avery, a "mixed breed dog" (a/k/a, mutt) owned by the Medlens, escaped their back yard and was picked up by animal control and taken to the pound. The Medlens went to retrieve him, but didn't bring enough money to spring Avery. The shelter hung a "hold for owner" sign on Avery's cage to alert employees that the Medlens were coming for him. Despite the sign, Strickland mistakenly placed Avery on the euthanasia list and he was put to sleep.

The Medlens and their children learned of Avery's fate a few days later. Devastated, they sued Strickland for causing Avery's death and sought "sentimental or intrinsic value" damages since Avery had little or no market value and could not be replaced.

The trial court dismissed the suit, stating that Texas law barred such damages. The Dallas court of appeals reversed, becoming the first Texas court to hold that a dog owner may recover intangible loss-of-companionship damages in the form of intrinsic or sentimental-value property damages. Stating that Texas has changed, and noting that in several non-dog cases where property has little or no market value courts have awarded damages based on sentimental or intrinsic value. "Emphasizing these iron truths—that "[d]ogs are unconditionally devoted to their owners" and owners, reciprocally, have a deep attachment "to their beloved family pets" —the court of appeals declared "the special value of 'man's best friend' should be protected."

The Supreme Court, despite the sloppy sentimentality about Old Yeller, did not agree. The "true rule" in Texas remains this: Where a dog's market value is unascertainable, the correct damages measure is the dog's "special or pecuniary value" (that is, its actual value)—the economic value derived from its "usefulness and services," not value drawn from companionship or other non-commercial considerations.

"We recognize that the benefit of most family dogs like Avery is not financial but relational, and springs entirely from the pet's closeness with its human companions. Measuring the worth of a beloved pet is unquestionably an emotional determination — what the animal means to you and your family — but measuring a pet's value is a legal determination. We are focused on the latter, and as a matter of law an owner's affection for a dog (or ferret, or parakeet, or tarantula) is not compensable."