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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

WASHINGTON, D.C. 20460

SEP 22 1987

OFFICE OF
ENFORCEMENT AND
COMPLIANCE MONITORING

MEMORANDUM

SUBJECT: Guidance on Federal Superfund Liens

FROM: Thomas L. Adams, Jr.
Assistant Administrator

A handwritten signature in dark ink, appearing to read "Thomas L. Adams, Jr.", with a long, sweeping flourish extending to the right.

TO: Regional Administrators, Regions I-X
Regional Counsels, Regions I-X
Directors, Waste Management Division,
Regions I-X

The purpose of this memorandum is to establish guidance on the use of federal liens to enhance Superfund cost recovery. Section 107(f) of the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), adds a new Section 107(1) to CERCLA, which provides for the establishment of a federal lien in favor of the United States upon property which is the subject of a removal or remedial action.

This guidance provides: (1) analysis of statutory issues regarding the nature and scope of the lien, (2) policy on filing a federal lien to support a cost recovery action, and (3) procedures for filing a notice of lien and taking an in rem action to recover the costs of a lien. Attached to the guidance is an example of a notice of a Superfund lien.

I. STATUTORY BACKGROUND AND ISSUES

A. Property Covered by Lien

Section 107(1) of CERCLA provides that all costs and damages for which a person is liable to the United States in a cost recovery action shall constitute a lien in favor of the United States upon all real property and rights to such property which (1) belong to such person and (2) are subject to or affected by a removal or remedial action. The lien applies to all property owned by the PRP upon which response action has been taken, not just the portion of the property directly affected by cleanup activities. The House Judiciary Committee Report on the lien

provision in H.R. 2817 (p. 18), which was enacted as part of SARA, states that "the lien should apply to the title to the entire property on which the response action was taken." At the same time, the Report notes that "it is not intended to extend the lien to the title of other property held by the responsible party." Id.

The lien provision is designed to facilitate the United States' recovery of response costs and prevent windfalls. "A statutory lien would allow the Federal Government to recover the enhanced value of the property and thus prevent the owner from realizing a windfall from fund cleanup and restoration activities." 131 Cong. Rec. S11580 (Statement of Sen. Stafford) (September 17, 1985). See also House Energy and Commerce Report on H.R. 2817, p. 140, indicating that one of Congress' primary purposes in enacting the lien provision was to prevent unjust enrichment.

B. Duration and Effect of Lien

The federal lien arises "at the later of the following: (A) the time costs are first incurred by the United States with respect to a response action under [SARA, or] (B) the time that the person is provided (by certified or registered mail) written notice of potential liability." (Emphasis added) (§107(1)(2)). EPA may send out two different types of notice letters to PRPs. The first, a general notice letter, will be sent early in the process notifying the recipient that he or she has been identified as a party who may be responsible for cleanup of the site or for the costs of cleanup. In addition, the Agency may send a subsequent "special" notice which will invoke and commence the settlement procedures in Section 122 of SARA. The first of those letters will satisfy the notice of potential liability required for the federal lien to arise, assuming that it does give the PRP notice of potential liability for cleanup of costs, and is forwarded by certified or registered mail.

It is EPA's position that the lien provision applies to costs incurred prior to and after passage of SARA. The lien also applies to all future costs incurred at the site. The lien continues "until the liability for the costs (or a judgment against the person arising out of such liability) is satisfied or becomes unenforceable through operation of the statute of limitations provided in section 113." (§107(1)(2))

C. Priority of Federal Lien In Relation to Other Property Liens

The federal lien is "subject to the rights of any purchaser, holder of a security interest, or judgment lien creditor whose interest is perfected under applicable State law before notice of

the federal lien has been filed [by EPA]." (§107(1)(3)) Thus, the unfiled federal lien is subordinate to rights that are perfected under applicable State law before EPA files notice of its federal Superfund lien. After EPA files notice of the federal lien, the United States establishes its priority ahead of known and potential purchasers, holders of security interests, and judgment lien creditors whose interests have not been perfected.

During deliberation on the Superfund amendments, Congress considered a provision in H.R. 2005 [S. 51] which provided for constructive notice of an EPA lien. Under that provision, if EPA failed to file its notice of lien in a timely fashion, the EPA lien would nonetheless have had priority over a third party lien which was filed prior in time if the third party had or reasonably should have had actual knowledge that EPA had incurred costs which would have given rise to a lien. See Environment and Public Works Report on S. 51, p. 45. Thus, since this provision was ultimately deleted from the Act, EPA must file its lien in order to achieve priority over any other secured parties, and cannot rely on constructive notice.

D. State Superfund Liens

Most States have passed "Superfund" statutes similar to the federal law. However, a State Superfund lien only applies to response work paid for by a State. Some of the State statutes, such as those in Massachusetts, New Hampshire, New Jersey, Arkansas and Tennessee, contain "superlien" provisions which provide that any expenditures made pursuant to the statute constitute a first priority lien upon the real property of a hazardous waste discharger. Several other States provide that expenditures from the hazardous waste fund will constitute a lien in favor of the State, although not a first-priority lien.

II. POLICY ON FILING FEDERAL LIENS IN COST-RECOVERY ACTIONS

EPA has the authority to file notice of a lien on any real property where Superfund expenditures have been made. Regional offices should carefully evaluate the value of filing notice of a lien whenever the Agency has identified a landowner as a potentially liable party under Section 107. Filing of notice of the federal lien will be particularly beneficial to the government's efforts to recover costs in a subsequent Section 107 action in the following situations:

- (1) the property is the chief or the substantial asset of the PRP;
- (2) the property has substantial monetary value;

- (3) there is a likelihood that the defendant owner may file for bankruptcy. See Revised Hazardous Waste Bankruptcy Guidance, Office of Enforcement and Compliance Monitoring, May 23, 1986;
- (4) the value of the property will increase significantly as a result of the removal or remedial work; or
- (5) the PRP plans to sell the property.

Regional offices should not file notice where it appears that the defendant satisfies the elements of the innocent landowner defense pursuant to Section 107(b)(3).

Where existing perfected non-Superfund liens on the property equal or exceed the value of the property as enhanced by the Superfund expenditures, it may not be worthwhile to file notice of the federal lien. However, in some cases, a foreclosing party, such as a bank, may take over the property, and EPA may believe that the foreclosing party is liable under Section 107. See United States v. Maryland Bank and Trust Co., 632 F. Supp. 573 (D. Md. 1986). In such cases, EPA should file a lien as to the foreclosing party after foreclosure and after other acts creating liability have taken place.

Pursuant to Section 545(2) of the Bankruptcy Code, a lien unperfected as of the time of filing of the bankruptcy petition will be invalidated by the bankruptcy trustee. Thus, where there is a likelihood of a bankruptcy filing, notice of the Superfund lien should be filed as early as possible. Finally, note that filing notice of the lien is not subject to pre-enforcement review of the liability of the landowner for the response costs.^{1/}

III. PROCEDURES FOR FILING LIENS

Notice of the federal lien should be filed at the time that the owner is provided notice of potential liability. By this time, the lien will have arisen since EPA will have incurred costs, e.g.,

^{1/} Courts have rejected claims that owners are entitled to notice and hearing prior to filing of the lien. In Spielman Fond, Inc. v. Hanson's Inc., 379 F. Supp. 997 (D. Ariz.) (3 judge court), summarily aff'd, 417 U.S. 901 (1974), the court held that filing of a mechanic's lien did not amount to a taking of significant property without due process, since it did not prohibit the transfer of title. Subsequent court decisions have followed this holding. See, e.g., B & P Development v. Walker, 420 F. Supp. 704 (W.D. Pa. 1976).

in conducting a PRP search. The government's priority will relate back to the date that the notice of the lien was filed. See Uniform Commercial Code, §9-312(5)(a). Unlike some State Superfund lien provisions, Section 107 does not establish a deadline by which notice must be filed.

A. Preparing the Notice

Regional enforcement personnel should refer to State requirements for filing notice of the lien. We encourage the Regions to work with State Attorney General Offices to assure that the Regions accurately interpret State law, and to consult with OECM and DOJ in determining whether to file notice of the lien.

Notice should generally include: (1) the name of the property owner, (2) a precise legal description of the property on which the lien will arise, (3) an explanation by the Regional official of the basis for the lien, (4) the address of the Regional Administrator or other Regional official delegated authority to sign notices of liens, and (5) a provision that the lien shall remain until all liability is satisfied. The notice should cite CERCLA Section 107(1) and be notarized with the Agency seal.

Notice may also include such information as: (1) the amount of fund expenditures upon which the lien is claimed and (2) a description of labor performed and materials supplied, including dates. However, since the statute does not require specification of costs, the notice should clarify that, where response work is ongoing, the amount of the lien will increase as the costs incurred increase. The property description to be included in the notice of the lien should be the legal description (i.e., metes and bounds, or lot, block and subdivision) rather than a general post office or street address. We have attached an example of a notice of a federal lien.

Under the recent SARA delegation, the Regional Administrator has been delegated authority to sign the notice of filed lien. The Regional Administrator may redelegate this authority at his/her discretion.

B. Where to File

To establish its priority among other secured parties and creditors, EPA must file notice of the lien "in the appropriate office within the State (or county or other governmental subdivision), as designated by State law, in which the real property subject to the lien is located." (§107(1)(3))

Where the State has designated an office, such as a County recording office, the lien should be filed in that office. This will likely be the same office where State Superfund liens are filed or where general real property liens, e.g. mechanic's liens, are filed. "If the State has not by law designated one office for the receipt of such notices of liens, the notice shall be filed in the office of the clerk of the United States district court for the district in which the real property is located." (§107(1)(3))

Where there is any doubt as to the designated State office, the lien should be filed both in the office of the clerk of the United States district court for the district in which the real property is located and in the most appropriate local office for recording property interests. Filing in the appropriate local office is important, since parties with an interest in the property are more likely to review liens in the local office than in federal district court.

IV. IN REM ACTIONS FOR RECOVERING COSTS CONSTITUTING THE LIEN

Under Section 107(1)(4), "[t]he costs constituting the lien may be recovered in an action in rem in the United States district court for the district in which the removal or remedial action is occurring or has occurred." An in rem action is an action against the property of the PRP. In order to institute a proceeding in rem, the property must "be actually or constructively within the reach of the court." 36 Am. Jur. 2d Forfeitures and Penalties §28 (1968). By contrast, the typical cost recovery action is an in personam action against the PRP.

In rem actions should be considered where the litigation team believes that an action to recover costs covered by the lien will enhance its efforts to recover all costs incurred in a response action. Such actions will be particularly useful where the property constitutes a significant asset of the PRP, and where the government is having difficulty reaching an expeditious cost recovery settlement. The in rem action, which will seek an order directing sale of the property,^{2/} should generally be combined with an in personam action for costs. Before bringing an in rem action, the regional office should consider the amount of the claim, the

^{2/} An in rem action may be delayed by an automatic stay, obtained in a bankruptcy proceeding, which serves to stay "any act to create, perfect, or enforce any lien against property of the estate." (Emphasis added) 11 U.S.C. §362(a)(4). The automatic stay also prohibits perfection of a lien, through filing notice of the lien, against a bankruptcy debtor.

condition of the site after the response action and the likely marketability of the site. Note that an in rem action will require the same elements of proof as any cost recovery action.

Section 107(1)(4) further states that "[n]othing in this subsection shall affect the right of the United States to bring an action against any person to recover all costs and damages for which such person is liable under subsection (a) of this section." Thus, where the government seeks to enforce the federal lien, it is not precluded from recovering the balance of its response costs directly from the landowner or any other liable party.^{3/}

DISCLAIMER

This memorandum and any internal procedures adopted for its implementation are intended solely as guidance for employees of the U.S. Environmental Protection Agency. They do not constitute rulemaking by the Agency and may not be relied upon to create a right or a benefit, substantive or procedural, enforceable at law or in equity, by any person. The Agency may take action at variance with this memorandum or its internal implementing procedures.

Attachment

^{3/} Moreover, after EPA obtains a judgment, it should consider using state judgment lien provisions, which may cover all real property of the debtor.

NOTICE OF FEDERAL LIEN

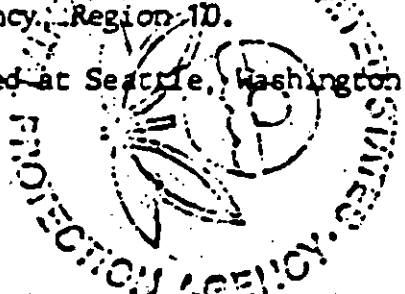
NOTICE IS HEREBY GIVEN by the United States of America that it holds a lien on the Lands and premises described below situated in the State of Washington, as provided by Section 107(f) of the Superfund Amendments and Reauthorization Act of 1986 (SARA), Public Law No. 99-499, amending the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), 42 U.S.C. §9601 et seq., to secure the payment to the United States of all costs and damages covered by that Section for which Western Processing Company, Inc. and Garret J. Nieuwenhuis (and the marital community composed of himself and his wife) are liable to the United States under Section 107(a) of CERCLA as amended. The lien for which this instrument gives notice exists in favor of the United States upon all real property and rights to such property which belong to said persons and are, have been, or will be, subject to, or affected by, removal and remedial actions as defined by federal law, at or near 7215 South 196th in the City of Kent, County of King, State of Washington, including the following described land:

That portion of the Southeast Quarter (S.E. 1/4) of the Northwest Quarter (N.W. 1/4) of Section One (1), Township Twenty-Two (22) North, Range Four (4) East, Willamette Meridian, lying Westerly of the Puget Sound Electric right-of-way less than North Thirty (30) feet of Drainage Ditch No. One (1), containing 12.9 acres more or less.

This statutory lien exists and continues until the liability for such costs and damages (or for any decree or judgement against such persons arising out of such liability) is satisfied or becomes unenforceable through the operation of the statute of limitations as provided by Section 113 of Public Law 99-499.

IN WITNESS WHEREOF, the United States has caused this instrument to be executed through the United States Environmental Protection Agency, and its attorney, in his official capacity as Regional Counsel of the United States Environmental Protection Agency, Region 10.

Dated at Seattle, Washington, this 23^d day of JANUARY, 1987.

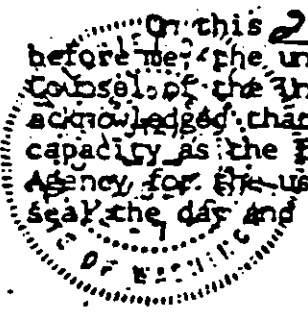


UNITED STATES OF AMERICA and
UNITED STATES ENVIRONMENTAL
PROTECTION AGENCY

By: John T. Hamill, Acting
James R. Moore
Regional Counsel
U.S. EPA, Region 10

United States Of America)
State of Washington) ss
County of King)

On this 23^d day of JANUARY, 1987, there appeared personally before me, the undersigned Notary, James R. Moore, known to me to be the Regional Counsel of the United States Environmental Protection Agency, Region 10, and he acknowledged that he signed the foregoing NOTICE OF FEDERAL LIEN in a representative capacity as the free and voluntary act and deed of the United States and its said Agency for the uses and purposes therein mentioned. GIVEN under my hand and official seal the day and year first stated above.



Valerie D. Bader
NOTARY PUBLIC in and for the State
of Washington residing at Seattle

My Commission Expires: 12/7/90