

NO QUIET TITLE IN TITLE THEORY STATE

The U.S. Court of Appeals for the First Circuit recently affirmed the dismissal of two mortgagors' quiet title allegations against a mortgagee, holding that the plaintiff mortgagors could not assert a quiet title claim under Rhode Island law against the mortgagee defendants because Rhode Island is a title theory state, and the mortgagors' equitable interest in title to the property at issue was not adverse to the mortgagee's legal interest in title.

A copy of the opinion is available at: [Link to Opinion](#).

The plaintiff mortgagors (one of whom is an attorney) claimed uncertainty as to which entity held an enforceable mortgage on their home. They originally purchased their Rhode Island home in 2000. In 2006, they refinanced their mortgage with a lender that soon went bankrupt. Subsequently, their mortgage and note were assigned to at least two other entities.

In 2008, the mortgagors allegedly "grew suspicious" as to how their mortgage and note were being handled and "slowed" their mortgage payments. That same year, the holder of the mortgage and note contacted them and threatened to foreclose. Those threats of foreclosure continued through 2010 when foreclosure proceedings began.

Shortly after that, one of the mortgagors (the attorney) threatened to sue the law firm prosecuting the foreclosure. The foreclosure sale was put on hold.

Subsequently, the mortgagors filed a lawsuit against several "potential" mortgagees and asserted three causes of action. In Count 1, they sought "interim relief" by way of a court ordered agreement to sell their house and place the proceeds in the court registry or in escrow from which the "true holder" of the note could later be satisfied. In Count 2, they asserted a quiet title claim in an attempt to nullify the note and mortgage. Finally, in Count 3, they asserted a claim for "Credit Reporting" where they essentially sought declaratory relief in the form of a court order stating that they owed nothing to any of the defendants and a court order forcing the defendants to remove all delinquent reports from their credit history.

In their complaint, the mortgagors made a number of allegations that the district court held were utterly devoid of evidentiary support. For example, the mortgagors alleged that neither the note nor their mortgage were

executed and therefore both documents were void. Yet, copies of the fully executed note and mortgage were attached to the defendants' motions to dismiss. Thus, the district court ignored the mortgagors' baseless allegations and instead relied on those exhibits (incorporated by reference in the complaint) and held the mortgage and note were both valid and enforceable. In sum, the district court concluded the mortgagors could not possibly sustain any of their three claims and dismissed their complaint.

The First Circuit affirmed dismissal, but for different reasons.

The mortgagors only appealed dismissal of Count 2, "quieting title." In their appeal, they argued that they needed additional discovery to support their claims. They also argued that the district court should have applied Rhode Island's lower pleading standard, and under that standard should not have granted the defendants' motions to dismiss.

The First Circuit rejected both of these arguments. It held that the mortgagors were not entitled to additional discovery. It held that their flawed argument for additional discovery ignored one of the fundamental premises of federal pleadings standards where the plaintiff bears the burden of stating sufficient facts to "state a claim for relief that is plausible on its face." The First Circuit also held that the mortgagors' argument that the much lower Rhode Island pleading standard should apply was without merit because it "flies in the face of clear precedent" that **state court pleading standards are irrelevant in federal court "even as to claims arising under state law."**

The First Circuit also held that the mortgagors lacked standing to assert a quiet title claim against the defendant mortgagees.

Under Rhode Island law, a defendant or defendants to a quiet title action must have "an adverse interest" to the plaintiff(s). See, e.g., R.I. Gen. Laws § 34-16-4. The First Circuit held that the mortgagors had not and could not plead sufficient facts to establish an adverse interest and therefore lacked standing to assert a quiet title claim.

As the Court held, Rhode Island is a title theory state, "in which 'a mortgagee not only obtains a lien upon the real estate by virtue of the grant of the mortgage deed but also obtains legal title to the property subject to defeasance upon payment of the debt.'" In a title theory state, the mortgage law "splits the title [to the property] in two parts: the legal title, which

becomes the mortgagee's and secures the underlying debt, and the equitable title, which the mortgagor retains," and a "mortgagor can reacquire this defeasible legal title by paying the debt which the mortgage secures."

The First Circuit held that the mortgagors' equitable interest in title, and the defendant mortgagees' legal interest in title, were separate and complementary to one another and "not adverse." Therefore, the mortgagors could not possibly establish an "adverse" interest necessary to confer standing for a quiet title claim.

Indeed, the Court held that, although the mortgagors might be adverse to the defendants in that they dispute owing money to any of the defendants, they "cannot be heard to argue that [their]...claim is adverse" to the defendants "within the meaning of the quiet title statute." Consequently, the First Circuit held the mortgagors' quiet title claim failed for lack of standing, and affirmed the District Court's dismissal on this basis.

In reaching its holding, the Court noted that Massachusetts, like Rhode Island is a title theory state. The First Circuit relied heavily on its prior 2013 decision *Lemelson v. U.S. Bank Nat'l Ass'n*, where it had applied Massachusetts law regarding the impact of the mortgagor-mortgagee relationship on a quiet title regime.