



# Mechanic's Liens and Strong Contracts Are Still The Best Protection For Subcontractors On Distressed Projects

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## Mechanic's Liens and Strong Contracts Are Still The Best Protection For Subcontractors On Distressed Projects

The Pennsylvania Superior Court has consistently upheld the difficulties facing an unpaid subcontractor on a distressed or foreclosed project. An exemplary case on this point is *Ira G. Steffy & Son, Inc. v. Citizens Bank of Pa.*, 201 Pa. Super. 175 (September 17, 2010).

In this case, Steffy was a structural metal subcontractor on a warehouse construction contract. The owner secured nearly \$36 million in financing with Citizens through a construction loan agreement and mortgage. The value of Steffy's work, which was substantially completed, was approximately \$3 million. Citizens stopped advancing funds under the construction loan agreement, so owner, and in turn, general contractor, stopped paying lower tier contractors. The court opinion does not elaborate why Citizens stopped advancing funds.

Steffy sued Citizens, alleging various causes of action, including unjust enrichment, misrepresentation, intentional interference with contractual relations, and breach of contract as a third party beneficiary. The court rejected all of these claims at the preliminary objection stage, before discovery was even started. In doing so, the court repeatedly emphasized just how difficult it is for a subcontractor to pursue a construction lender under quasi-contractual theories of liability. The court reiterated:

The legislature of Pennsylvania has by statute provided the mechanic's lien as a means by which a contractor or subcontractor can obtain security for work done. Other security can be obtained by a contract. A court should not rewrite the contract of the parties or legislate a right to receive payment from a mortgagee who has been compelled to go into possession to preserve its security.

The *Steffy* court spent much time going through each of the causes of action, explaining why they were dismissed at the preliminary stage.



If you require more information on this decision, or any aspect of Margolis Edelstein's Construction and Litigation Practices, do not hesitate to contact John Livingood at (215) 931-5868 or [jlivingood@margolisedelstein.com](mailto:jlivingood@margolisedelstein.com)