



Western Reserve Land Conservancy

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Tax Lien Certificates as an Acquisition Tool

Robin Darden Thomas

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Think of a
home valued at
\$500,000 with
a \$250,000
mortgage





Now imagine
buying that
\$250,000
mortgage for
\$50,000

Then foreclosing
and taking title
to a \$500,000
property for
\$50,000: 10% of
its value.





Impossible? No.

This is how a negotiated tax
lien certificate works.

(Sometimes)

So what is a tax certificate?

Document (paper or electronic) representing the purchase of a delinquent tax lien - the total amount of unpaid taxes, including penalties and interest, following the close of the tax collection.

STATE OF ILLINOIS

TAX SALE CERTIFICATE OF PURCHASE

CERTIFICATE NUMBER: 2007-0006

2007

Tax Purchase

I, the undersigned County Clerk in and for the County aforesaid, DO HEREBY CERTIFY that the Tax Purchase herein above set out, on the Date of Sale stated below, purchased in Public Auction, the real estate hereinafter described and situated in said County, for the taxes, interest, penalty, and costs due and unpaid thereon for the year 2007 and other and all other judgments owing to the County of Cook aforesaid.

Date of Sale: 11/08/06
Purchase Order Number: 07-15403-006
Tax Code: 2006 Property Class: 0000
Description: PARCELS 13 HIGH-RISE POLY CHLOROPRENE DOME ESTIMATED 2007

Amount of Sale: \$ 1,807.26

Penalty Rate: 10%

IN WITNESS WHEREOF, I have signed my name below this November 06, 2006

Barbara J. Hines
Signed: County Clerk

Joseph J. Hines
County Collector

Assignment of Tax Sale Certificate

In consideration of the sum of _____ to be lawfully well, legally transfer and set over to the holder, assignee, administrator and assigns, the seller Certificate of Purchase, and all its right, title and interest in or to the real estate described, is hereby sold to the holder by himself, his heirs, administrators and assigns, in his and their sole, lawful and lawful interest.

Given under the seal and hand of _____



Who sells tax certificates (and why)?

County Treasurers

- Effective tax collection tool
- Purchaser pays certificate price up-front; no risk of non-payment
- Subdivisions receive unpaid tax amounts more quickly



Who buys tax certificates (and why)?

Investors - Anticipate high returns

- First lien position
- Up to 18% interest
- Guaranteed 6% with early pay-off
- If taken to foreclosure, either receive full purchase price plus interest and fees OR take property



How do you learn more about buying tax certificates?

1. Watch an infomercial at 3 a.m.



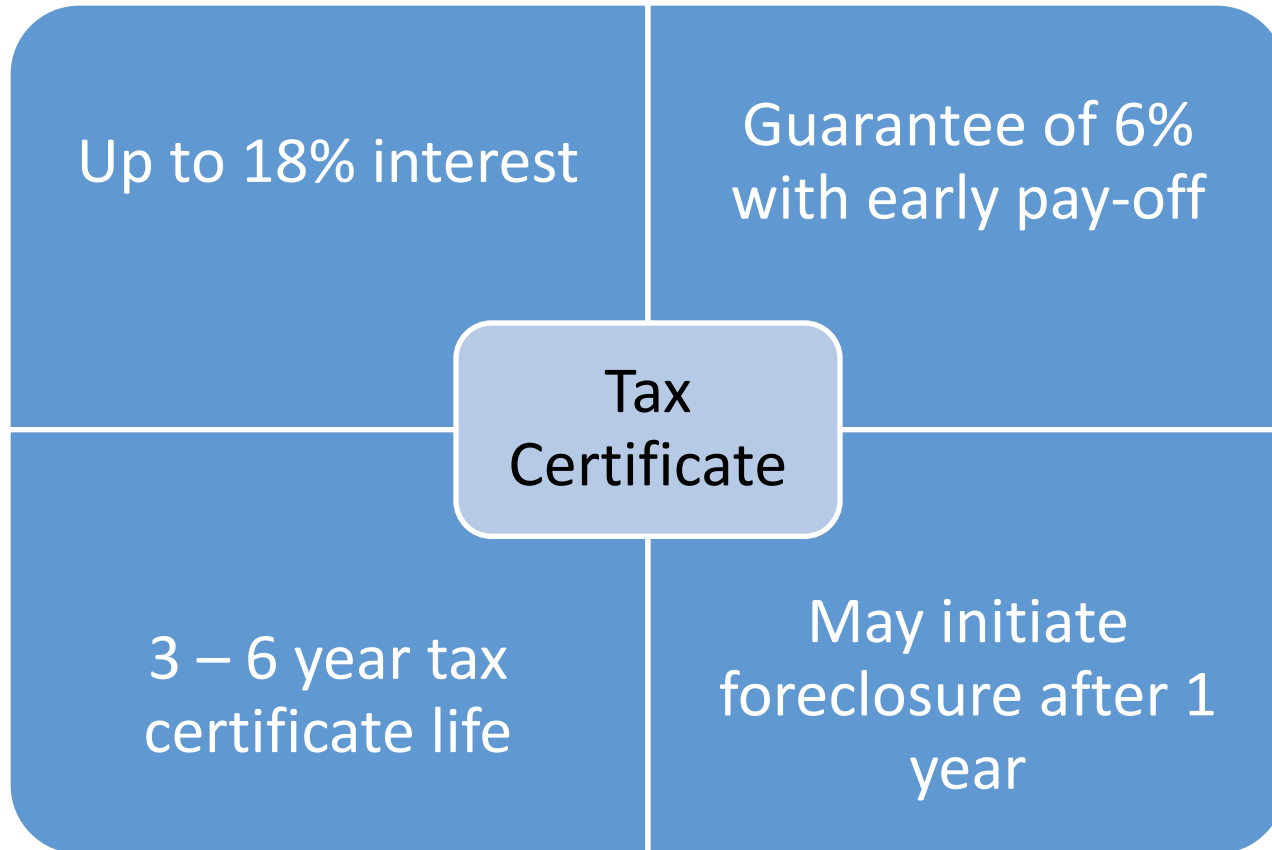


2. Read the Ohio
Revised Code
(Sections 5721.30 -
5721.43)

3. Talk to the County Treasurer about how tax certificates are sold in their county.



Characteristics of tax certificates



Selection of tax certificates for sale

May sell tax lien for any property except:

- Taxes, assessments, etc. are paid in full
- Valid payment plan in effect
- Bankruptcy



Other possible exclusions:

- Properties under certain value
- Homeowners qualify for Homestead Exemption (senior, income, disability)
- Properties awaiting decision on tax exemption
- Delinquent taxes under specified amount
- Vacant lots
- Other



So how does it work?

1. Tax lien auction

- Individual tax liens are offered for sale
- Cost of certificate is amount of delinquent taxes, penalties, interest, etc.
- Additional fees may be included
- Bidding starts at 18% interest rate and is bid down in quarter increments
- Lowest bid wins



2. Bulk auction

- Similar to auction of individual certificates
- Liens are sold as one package or bundles of liens are offered separately
- Bundles include both “good” and “bad” liens
- Lowest interest rate bid wins



3. Negotiated Tax Lien Sales

- County Treasurer and Tax Lien Purchaser negotiate terms of sale
- Competitive bid not required
- May be one year only or contract for several years.
- Purchaser may “cherry pick” – rejecting certificates they feel will not redeem
- May purchase at discount or premium



Negotiable Items

Interest rate

Payment plan terms

Buy back provisions

Discount or premium

Method of payment

Subsequent liens

Collection processes

Contact with property
owner

Foreclosure fees

Foreclosure time frame

Other





Objections to tax lien sales

- Impact on senior citizens and working poor
- Added costs, high interest
- Less “friendly” collection methods
- Difficult to monitor
- Expired tax certificate without foreclosure
- Foreclosed properties not maintained



How can this be legal?

Original legislation – Am. Sub. HB371 was approved and became effective in 1999

- Sale by auction for counties over 200,000
 - Summit County held first bulk auction
- Negotiated sale for counties over 1.4 million
 - Cuyahoga County held first negotiated sale

Various amendments over the years.

Population requirement removed.





How Can Tax Liens Sales Benefit County Land Banks?

A negotiated tax lien sale can help land banks acquire vacant and abandoned property at minimal cost.






How It Could Work

1. Land bank identifies one or more properties it wishes to acquire
2. Certificate purchase price is determined – delinquent taxes, penalties, interest, costs, fees, etc.
3. Discount percentage is established



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4. Land bank pays for tax certificate with cash, non-cash consideration or notes.
 5. Land bank may begin foreclosure immediately after purchase.

Example

Land bank selects one parcel – a property in a first ring suburb that is condemned, vacant and tax delinquent. Land bank has demolition funds to raze the house and plans for reuse of the vacant lot.



Tax Status

Delinquent taxes	\$10,000
Treasurer's admin fee	<u>1,000</u>
Certificate Purchase Price	\$11,000



Discount

Certificate Purchase Price	\$11,000
Discount: 50%	<u>- 6,500</u>
Amount Due	\$ 6,500



Payment with Note

- Land Bank issues note for \$6,500 to Land Bank
- Payment of note is contingent upon property being redeemed or purchased at foreclosure sale
- If Land Bank ultimately takes title to property through foreclosure, note is forgiven



Foreclosure

- May begin any time after purchase
- May file with Court or Board of Revision
- Redemption cost is **full** amount of tax certificate (prior to discount) plus accrued interest and fees (\$11,000 +)
- If county auditor values property at less than redemption cost, property may be transferred directly to land bank.



When would tax certificate purchase be a better option than tax foreclosure?

- Sale of tax certificate can happen as soon as delinquent land list is complete
- Foreclosure filing is a private foreclosure rather than tax foreclosure – treated like mortgage foreclosure
- Prosecutor workload for tax foreclosure alleviated by use of private attorney





Just another option.....

Land banks have multiple options for property acquisition – tax foreclosure, forfeiture, deeds in lieu of foreclosure, donations or direct purchases.

Tax certificate purchase is just another option.





Questions?



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**Robin Darden Thomas
Land Bank Program Director
Western Reserve Land Conservancy**

www.wrlandconservancy.org

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