The Empire Report

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Tax Liens Mean Great Opportunity for Profit

by George Ross

Before I get into this month's investing topic, I want to take a few moments to talk about the economy and how to look at it realistically because it's a big issue among many of you. You see, I travel a lot all over the country for business conferences, coaching strategy sessions, and various other business related events. And I can tell you that I often get the same questions regarding the business climate and the economy, how bad it is and all the rest. And whenever people read the paper or watch the news, they really get the feeling that things are bad in this country.

How do I answer this? Why do I address it?

Well, it may be very true in some areas of the country, and less true in others. And it may true in some areas of the economy more so than others. And that is probably as accurate of a statement as I can make. Sure, things are tough right now, and perhaps things will get worse before they get better; we'll just have to see. But how do you, as someone out to improve your financial situation, handle all of this?

On the one hand, you have to assess the situation where you are; not where someone else is. Once you do that, you will be able to decide from there if the opportunities are sufficient for your needs. Also, you must understand that you are not going to change the country's economy; it's too big for you to effectively change. **But, you can change your personal economic situation.**

You control what you do, what you think, and how you react to both the particular challenges you face as well the opportunities before you. And the big economy, no matter what it does, is not the ultimate factor in how well you do. You are the ultimate factor in how well you do. So, recognize that you can't control the big economy, and focus on those things that you can control: you and your decisions, your attitude, and your money, how much or little it may be. It's your life; it's up to you to control it.

And, on the other hand—and this is important—anyone who knows me knows that I don't like exaggerations, either in favor of something, or making something sound worse than it is. So I'm not in favor of making things less than they are, nor more than they are. Neither of those situations helps anybody in the long term. But it's important to recognize that these days, because of all the hype in the media to sell newspapers and magazines, or to get higher ratings, everything is exaggerated to one extent or another. And that bothers me, and it should bother you, too. No real good comes of what they're doing, and some negative aspects can result. It tells people that there's no hope, which of course, is the biggest lie there is. There's always hope.

Now, on to this month's investment topic…

As many of you know, I've spent many years in real estate, as well as other businesses, and I can tell you from long experience that even in an economy like today's, there is still tremendous opportunity.

Now, I realize the state of the real estate market today; it's not good. That is true for all kinds of real estate: single family houses, multi-family apartments, strip malls, and even office buildings and industrial

properties. Again, not every area is as affected as the worst areas, so opportunities in the properties will vary from place to place.

But today, rather than talk about how to buy a property, I want to talk about how to capitalize on the fact that so many property owners are underwater these days. And this includes all kinds of property owners, not just homeowners whose houses are not worth the mortgage that's against them, or if the mortgage has adjusted too high or the owners have lost their jobs. It also includes businesses, even professional real estate landlords, and for all kinds of properties. The fact that so many can't afford to keep their properties means that many will, in fact, be foreclosed upon for non-payment of the mortgage. And because the foreclosure rates are quite high today, relative to historical norms, that is where the opportunity for high returns lies.

Tax Liens

If property owners aren't paying the mortgage on the property, then the chances are good that they're not paying the taxes, either. And when that happens, a tax lien is put on the property by the municipal taxing authority in the area. Buying tax liens are a very solid opportunity to make substantial returns on your money, but it has to be done just right.

So, what exactly is a tax lien?

As I mentioned, a tax liens is when a municipality places lien on a piece of real property for lack of payment. Regardless of the type of property, if taxes are not paid on it, a lien will be placed on it. When a tax lien is paid, it called "curing" or "redeeming" the tax lien. But in most cases, when a property owner is not paying the mortgage, they are not paying the taxes on the property, either.

How a tax lien works

When a tax lien is placed on a piece of property, it is ahead of most every other lien against the property, including any and all mortgages against it. What does this mean for the lien holder?

It means that at some point in time, if that tax lien is not paid, then the holder of the tax lien has the right to foreclose on that property. The result is that the mortgage holder(s) lose all rights and claims against the property, and will be completely wiped out as subordinate lien holder(s) against the property in question.

So, normally, when a mortgage holder forecloses upon a property, it must cure or pay the back taxes owed in the process of foreclosure. Why? Because it has to; remember, tax liens take first place. However, notice that it doesn't matter *who* holds the tax lien; it may be the municipality, or it may be someone else who has already bought the tax lien from the municipality, such as an investor.

Now, it's important to realize that tax liens come in all shapes and sizes, depending upon the property type, the value of the property, and the tax rate of the taxing municipality. So if you are considering bidding upon a tax lien, you need to take into consideration several factors.

Important factors to consider

These factors include typical things like the real, actual value of the property, how long it's been in tax default, and what the tax rate assessed value was at the time of default, the condition of the property, and where the property is located. Not just its physical location, which of course can be an important factor also, but you also need to be familiar with the taxing authority that issues the lien. You need to know when they allow tax liens to go to auction or bid, and how long—that is how many years--the tax lien(s) have to be in force before a lien holder can foreclose upon the deficient property.

Now, let's break this down even further. First of all, let's identify the amount of the tax lien relative to the value of the property. Say the property in question

is a single family residence, with a current assessed value of, say, $500,ooo. And let's assume that it has been tax-deficient for less than a year. But, let's also assume that the value of the property today is much less than it was even three years ago. So three years ago, let's assume the property value was assessed at $750,000. So, there is a big difference between $750,000 and $500,000. And let's assume that the tax rate is 2%.

Now, just because a property has been revalued, and determined to be worth less than it was before, it doesn't mean that the tax lien will always reflect that decrease in value. It is often the case of "lagging values" in terms of tax liens, where the value of a property has dropped so quickly—as property values certainly did when the financial crisis hit in September of 2008--that tax liens were often applied on properties whose values were nowhere near the amount of the assessed value for the tax liens.

So, the property is worth $500,000, and let's say the tax lien is $50,000.

"But wait, how can this be?" you say. "With a tax rate of 2%, how can there be a tax lien of $50,000?"

Hold on—I'll get to that part in a moment. Let's continue with the calculation. So with a tax lien of $50,000 on a property worth $500,000, you can see that there is plenty of room for profit.

And there is, but there are details that have to be addressed, and these will have to be identified through a little research on your part.

How to acquire a tax lien

To begin with, how do you acquire the tax lien? You need to find out when and where tax lien auctions or bidding takes place, and how to register, and if required, demonstrate your qualifications as a qualified investor. Then, you look at the upcoming inventory of tax liens—the state or municipality will provide you with a list of the properties in tax default, the amount owed, the interest rate, and the time and place of the tax lien auction.

Before the auction takes place, have a very clear idea of which properties interest you, the amount of the tax lien on each, the condition of each of the properties, and of course the location. A couple of details here regarding the properties are very important.

First, you need to inspect the property yourself.

Why?

Because when a property is abandoned, the condition of the property can deteriorate very quickly. Often, with single family homes, the former owner will have stripped the house of all appliances, and done other damage to the property on their way out the door. This situation is quite common. Also, if the property has been vacant for period of time, then other neighborhood vandals may have damaged the property, stolen copper piping, or even moved into the property as squatters. Don't think that this doesn't happen; it happens in some very upscale neighborhoods as well as typical middle class neighborhoods. So you want to know what the condition of the property is.

Another detail is the location.

Remember, values have changed, employment areas have shifted. What was once a middle class neighborhood five years ago may have declined into one that is marked by very high house vacancies and higher crime rates. You should observe this carefully. Note the cars in the surrounding area. Are they new, or old? Are they damaged, or in good condition. Visit the area at different times of the day. What are the people in the neighborhood like? Are they working? Or are they collecting welfare checks?

Are the houses selling in the neighborhood, or are they sitting on the market? Be sure and check the sales comparable to find this out, because it's very important. I know some of this sounds a little harsh, but you must make sure that if you end up owning a

tax lien property, that your investment is secure.

Visit the County Clerk's Office

You will also want to go to the County Clerk's Office to see if there are any other liens on the property, such as a federal income tax lien, or other government assessments, or whatever else may be against the property. You will also want to know about any limitations or special access or deed restrictions that may be on the property that can greatly lessen the value of the property.

Now, earlier I mentioned that you need to determine the interest rate on potential tax liens that you'll be buying. This is also very important. In fact, it is the main reason to invest in tax liens. That's because the interest rate on tax liens is what makes them such an attractive investment. You see, taxing municipalities can charge very high interest on tax liens, and usually do. Again, you will have to verify with the taxing municipality in your area, or the area(s) in which you would like to invest, to find out what those interest rate charges are. So, what's a typical interest rate on tax liens for single family residences? A realistic interest rate is around 16%. That's right; 16% interest *accrues* on the tax lien annually.

Why?

Because it is, in effect, a penalty for being late on paying the taxes. The interest rate is fixed by the municipality at the time they issue the lien.

Note that the interest accrues on the tax lien on an annual basis. However, it's crucial to understand that the interest on a tax lien does not *yield* 16% per year. It accrues 16%. By accrue, it means that the interest rate on a tax lien is added to the original amount of taxes owed. And each year the taxes remain unpaid, another tax lien is levied, and that 16% interest rate accrues against the new tax lien amount. But as holder of the tax lien, you will collect the accrued interest and return of your principle only upon the foreclosure or sale of the property. It is at that time that you make your money.

Mud Puddles...

"Every start upon an untrodden path is a venture which only in unusual circumstances looks sensible and likely to be successful."

George Ross

So, back to our example…

Our $500,000 single family residence has a tax lien of $50,000 against it. You will find out its location, determine the condition of the property, assess the surrounding neighborhood, obtain recent comparable sales data, and then decide if there is enough value in the property to justify your investment. You will also find out how long the tax lien has been on the property, and if another tax lien will be applied against the property.

Lien Terms and mortgage holder

Once you offer an accepted bid to acquire a tax lien, you need to be prepared to pay the full bid price, plus some transaction fees and any outstanding taxes. In some municipalities or states, you will be able to offer a bid with only 10% down, with 30 days to pay in full. And, in some cases, the owner in default may be able to have up to a year to redeem the tax deficiency. But that's okay because you're still earning a very high rate of interest on the lien until that happens. But procedures will differ from place to place, so be sure and understand the lay of the land before you jump in.

It is also wise to find out who holds the mortgages against the property.

Why?

Because it is most probable that the mortgage holder

will eventually foreclose on the property, which will result in them paying you back your investment plus all accrued interest.

In today's very challenging real estate market, mortgage companies and banks are often completely backlogged in their foreclosure process. What used to take a few months has been stretched out to many months or even years. This is due to several situations that transpired and continue to do so.

One is that Congress actually placed a moratorium on foreclosures in 2009 when it was discovered that short cuts were being taken by the banks and people were being kicked out of their houses before it was legal to do so. This was probably an attempt by some banks to recover as much value from the property as quickly as possible in a rapidly deteriorating market.

In many other cases, the opposite was true. By that I mean that in many cases, banks have been reluctant to foreclose too quickly because it affects their balance sheets in a very negative way. By keeping houses in the "default" category rather than moving those properties into the foreclosure category, banks' balance sheets look much better, which makes them appear much healthier than they may really be.

A third reason banks may be slow to push the foreclosure process forward is the various government sponsored loan modification programs that have been initiated to help home owners renegotiate the terms of their existing loans, reduce principle balances, lower the interest rates, and extend the terms, as a way for the homeowner to avoid losing their homes. The hope on the part of the banks that the housing market will recover enough to allow them to regain some of the value lost on the portfolio of the properties that they lent money on. This is, in fact a huge consideration for banks, with an estimated 1.7 million single family homes in the US today that comprise the "shadow inventory" of homes owned by banks.

The reason that these facts are important is because in order for a bank to foreclose on a property, all tax liens must be paid. Therefore, if banks are slow to foreclose on properties, it may take a while to be paid what you are owed as holder of the tax lien. But on the other hand, the longer it takes for the mortgage holder to foreclose, the longer the tax lien is accruing interest, and therefore, the more money you will make as holder of the tax lien when the mortgage holder is forced to pay you in order to foreclose on the property.

Now, what happens if, as can certainly be the case, that the mortgage holder does not foreclose? What are your options?

High return or owning property

Depending upon the rule of the municipality or the state, there will most likely need to be at least two or three years on of tax delinquency before a tax lien holder has the right to foreclose on a property. Every state or municipality sets its own required time limits, so I'm speaking in general terms. For specific time requirements, you will have to check with the governing municipality of the property you are interested in.

But by all means, know this information before you acquire the tax lien. This is a key part of investing in tax liens, and that is you need to know how to protect your position. In most instances, the earliest tax lien gets priority. However, it is may be smart to buy the latest tax lien as well to protect your position by not having to buy it from another investor for a higher price because he'll know you own the prior tax lien.

But it is important to understand that, at the end of the process, you will either get paid with a nice rate of interest on your money, or you will end up owning the property.

Some Risks to consider

Of course, the danger of buying more tax liens is that you have more money invested in the property, and therefore more at risk. You will need to reassess the value, condition, and neighborhood of the property

before making that decision. With continuing declining values, the spread between the growing tax lien balance and the remaining balance will begin to narrow and the cost of deferred maintenance on the property will likely increase as well. That means that if you end up owning the property, you will not receive the accrued interest at all. Nor will you receive your principle back, unless you are able to sell the property for an amount greater than what you have put into it. In this case, it's not only $50,000, but also the costs of any repairs, and sales commissions.

The point here is that a terrific rate of return is quite literally there for the taking if you are willing to do the leg work necessary to position yourself for success. An easy way to obtain contact information for all the different counties in the country is to use the National Associate of Counties website, which is www.NACO.com.

But also, be aware that you will be competing with some larger investor groups and even companies that try to buy tax liens in large numbers, but don't be discouraged, either. Today there is so many available that you will be able to acquire a tax lien pretty easily. And the more you do it, the easier it will get; and, you'll be making a very high return on your money.

All the best,
George

The Gorrie Details

by James R. Gorrie

Casino Capitalism

Watching the latest presidential debate was both a frustrating and hopeful experience at the same time. While not agreeing with every position that every candidate took on the issues, there were definitely some very strong points made with regard to the economy.

But one question which wasn't really answered well by any of the candidates was the question regarding the stock market.

The question about the stock market being "turned into a casino" was asked of Herman Cain and others.

He dodged the question, as did the other candidates.

But it is a question that needs an answer—the right answer—and quickly.

I have touched upon this issue before, here in The Gorrie Details, and but let's break it down for the candidates, shall we?

The Purpose of the Stock market

Business is the main ingredient in any modern economy. After all, it businesses that provide jobs, tax revenue, vital products and services, as well as technological innovations and inventions that often create whole new markets, which create more jobs and tax revenues. Contrary to the social justice crowd on the Left, there is not a finite amount of wealth—wealth is created and dispersed in a well-functioning market economy. We will talk more to that aspect later, but the reality is that business is really the engine of any modern and healthy economy.

And, the fact is, all businesses were, at one time, small businesses. In order to grow, small companies need to raise capital, either by increasing sales, getting loans, obtaining venture capital in exchange for large and often controlling interest in the firm, or by raising money in the stock market.

Raising money in the stock market allows thousands,

even millions of investors to own small fractions of the company by buying its stock. The great thing about raising capital by selling stock is that the money never has to be paid back by the company. This is a major way in which small companies become huge companies.

Do all companies is the market do well?

No; some do well for a time, then fail, others do okay, and some do very well.

The financial incentive—or profit motive—is a very powerful force; and the possibility of getting rich is a major reason why America has led the world in business and innovation.

But the market isn't just about getting rich; it's also about enriching our lives by funding innovation, whether in lifesaving drugs or technology or whatever. It allows people to create and move our world forward; at some point, the money becomes secondary at best. Think about it; Steve Jobs, for example, could have retired in 1985. Apple had made him rich. But he didn't retire. Sure, he was wealthy enough to do so, but the drive to innovate and invent was still within him, and the capital obtained in the stock market to allow him to bring many more world-changing technologies to billions of people worldwide. It is not an overstatement to say that the stock market is a central part of market capitalism.

Investing in Value

Note that the key to the stock market is to grow companies. The stock market began as place for Investors to invest in companies that they assessed as possessing at least the potential to increase in value. Investment companies hire thousands of analysts and spend millions of dollars every year trying to determine which listed companies show the most potential for becoming the next Apple or Wal-Mart.

But listed companies also provide another kind of value: that is regular income in the form of dividends, to stockholders. Broadly speaking, companies can be categorized as growth companies or income-yielding companies; or sometimes both. But the point is that the share price of a company is based upon rational assessment of that company's current value, based upon a variety of analyses and metrics such growth potential, market share, net revenues, new products, dividend history, and so forth. The bottom line is that there is a definite and definable relationship between value and share price... And if the company does well, the rewards go not only to the companies themselves, but to the investors as well. And the key here is to understand that the when a company experiences stock market-derived success, the wealth is spread around to millions and millions of investors nationwide and around the world.

Or at least, this used to be the case.

Casino Capitalism Strips Value Out of the Market

The question in the presidential debate characterized today's stock market as a casino—and it is the right analogy. Because there is very little rationality left in the stock market. Value determinations for stock pricing have been marginalized. Stock prices are more reflective of high speed, computer programmed and highly leveraged trading systems managed by huge (and often off-shore) hedge funds and foreign sovereign funds that have absolutely nothing to do with determining the value of any particular company. They are mostly momentum-based trading programs that place billions of trades per second electronically at the speed of light.

Massive share price shifts also occur due to predatory rumors, coordinated mass shorting, and other techniques and strategies that have less to do with whether a company is functioning well, and

much more to do with capturing quick profits on huge price swings. Slandering a firm by either rumor or via mass shorting leads to a self-fulfilling result that is destructive to the companies, its millions of shareholders, those who work for the company, and the economy at large. Such actions often come from offshore trading adversaries or others for whom the goal is quick profits regardless of the cost.

Note the change in terms; trading rather investing. Trading is fine in and of itself, but when it hollows out the value calculus of the market, then it ceases to be a market; it has become a casino. This shift from investing to trading—from market capitalism to Casino Capitalism—has become hugely detrimental to our economy for several reasons.

Casino Capitalism strips the idea of value and merit based upon hard work and ethics from our national consciousness. It tells people that success isn't based upon talent, skill, dedication, and foresight, but rather, is based on luck. Or worse, Casino Capitalism replaces the American Idea of success with a Third World, banana republic, cock-fight mentality for achieving "success," where that upon which the bet is made—the chicken or any given company—is often destroyed in the process. Because that is what Casino Capitalism does; it destroys tangible, valuable entities involved for quick profit.

This is easily seen when more than 70% of all trading in the market is done via computer programs, and this proportion is rising rapidly.

Again, this issue was raised by the debate panel, but was completely ignored by Cain and the others. But just what can be done about this?

Returning Value to the Stock Market

The popular notion of technology outpacing our ability to adapt is a fitting description for the emergence of Casino Capitalism. The solutions must involve the objective of returning the concept of value to the market as a core principal.

This is easier said than done, and must involve a fundamental restructuring of the stock market; with limits on programmed trading, over leveraged trading such as synthetic ETFs, and other trading practices products that suck value out of stock prices and crush investor confidence in the validity of the stock market.

The idea is to limit or even eliminate those products or activities that become further removed and leveraged from the core market functions from which they are based. As it is, such products have become intangible abstractions, subject to great levels of manipulation and abuse. We saw this with the derivatives markets leading up to the 2008 Meltdown.

And another uncomfortable reality is that the US stock market is a target for adversaries abroad. They realize that much of our strength is based upon the health of our economy. The stock market is a huge part of the economy and so it is also a security concern. Trading programs mentioned herein may well provide another insidious means of harming the country.

The bottom line is that everything in life—every system, every medicine, every law—can be abused, over used, over applied, and distorted from its original purpose. This is what has happened with the stock market today. The damage to the economy can be huge. In a free market, like free speech, there are responsibilities that come with it. It is not an easy path, nor is it very popular, but we either restore the market's original functions and intent, or it will be destroyed for us by those who do not value such purposes.

And those are…*The Gorrie Details.*

Member Mailbag

Questions for Empire Report? Submit them here: http://www.theempirereport.com/questions/

Q. *George, as person new to the business world, how do I go about developing relationships with successful people who can help me along the way?*

A. That's a very reasonable question. You can either meet successful people at places where they frequent, like certain restaurants, country clubs, and such, or you can also meet them at incidental places, like Chamber of Commerce mixers, industry events, and conferences. This is the preferred way, I think, because it shows right away that you have mutual interests. But that's just the beginning. Find a way to meet the person, be straightforward in your communications, and ask how you can help that person with a project, research, or somehow make a part of their life easier.

When they ask why, tell them the truth; you are looking to be successful and you thought that they would be a great person to learn from. Not only is this the truth, but it is also flattering. Will they help you? Maybe; maybe not. But eventually, one will. Especially if you are easy to get along with.

But once you have the opportunity, be careful not to blow it. Nothing kills a relationship faster than not being trustworthy. This means doing what you say you're going to do, when you say you're going to do whatever it may be.

Another deal breaker is disloyalty. This can be as simple as divulging information you shouldn't, or just not be able to comport yourself in a way that reflects well upon that person associating with you.

But if you prove your worth, you stand to gain not only stature in the eyes of your mentor, but also stature in the eyes of your mentor's equals. This is important because people want to do business with those they can trust, and who have credibility. By proving yourself in the smaller duties, and learning along the way, you will earn yourself an opportunity to partake in larger opportunities down the road.

Q. *George, in a tight economy such as we have, I am looking for every edge I can find to not only hold onto the customers I have, but to get more. What can I do?*

A. There is always a way to make your existing customers feel better for using your services or buying your product. That's called the "Wow Factor." First, apply the wow factor to your existing customers in the form of top notch service and a pleasant experience when they do business with you. Depending upon your budget, you need to identify how you can "wow" every customer that you have.

But if you're spending money, then spend it where it will be seen and noticed. The "wow factor" may be a better lobby—plants and pleasant pictures on the wall and free candy with nice music and magazines available, or it may be a more lavish business environment, more lenient payment options, or even a free item or service after so many purchases. The point is to let your existing customers know, personally or in writing, that you appreciate their business and their loyalty. You can also how that appreciation by providing something unexpected, some added value to them. It doesn't even have to be related to your business. All it has to do is send the message that their business is appreciated.

The next wow factor is to obtain new customers. There are two ways to obtain new customers, advertising and referrals. You need to do both. Let your existing customer base know that you want their referrals, and reward them for each.

The second avenue is advertise to create a "wow

factor" for new customers by providing value that they couldn't get elsewhere. Is this new? No, it's not. Look, business is still about people, about relationships. If you cultivate and maintain a strong relationship with your customers and prospects, you will do fine. Again, it's not new, but often, we need to be reminded of it.

Q. *George, I'm trying to balance my business life to do more with less of me. How do I do this? Is there a structural model I can follow?*

A. What you have to do is make an actual accounting of what you do every day, how long you do each activity, and why. Then, analyze where your most profitable and crucial work load really is for your skills and knowledge. After this, determine what you can delegate to others. If it can possibly be delegated, delegate it!

Now, you may have to "create" the right personnel to whom you can delegate specific tasks or areas of responsibility, but it can and should be done. You want people who can make a decision working for you, and you need to be able to live with a decision that that person makes. In reality, most decisions won't need your approval; the vast majority will be dictated by common sense. Taking these steps will be difficult at first, but you will multiply your productivity, and expand your personal time as well.

—*GR*

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