HOMES FOR THE TAKING LIENS, LOSS AND PROFITEERS

$500 tax bills turn into lost homes

LIENS FROM A1

closed on nearly 200 houses since 2005 and are now pressing to take 1,200 more, many owned free and clear by families for generations.

Investors also took storefronts, parking lots and vacant land — about 500 properties in all, or an average of one a week. In dozens of cases, the liens were less than $500.

Coleman, struggling with dementia, was among those who lost a home. His debt had snowballed to $4,999 — 37 times the original tax bill. Not only did he lose his $197,000 house, but he also was stripped of the equity because tax lien purchasers are entitled to everything, trumping even mortgage companies.

"This is destroying lives," said Christopher Leinberger, a distinguished scholar and research professor of urban real estate at George Washington University.

Officials at the D.C. Office of Tax and Revenue said that without tax sales, property owners wouldn't feel compelled to pay their bills.

"The tax sale is the last resort. It's also the first resort — it's the only way in the statute to collect debt," said deputy chief financial officer Stephen Cordi.

But the District, a hotbed for the tax lien industry, has done little to shield its most vulnerable homeowners from unscrupulous operators.

Foreclosures have upended families in some of the city's most distressed neighborhoods. Houses were taken from a housekeeper, a department store clerk, a seamstress and even the estates of dead people. The hardest hit: elderly homeowners, who were often sick or dying when tax lien purchasers seized their houses.

One 65-year-old flower shop owner lost his Northwest Washington home of 40 years after a company from Florida paid his back taxes — $1,025 — and then took the house through foreclosure while he was in hospice, dying of cancer. A 95-year-old church choir leader lost her family home to a Maryland investor over a tax debt of $44.79 while she was struggling with Alzheimer's in a nursing home.

Other cities and states took steps to curb abuses, such as capping the fees, safeguarding houses owned by the elderly or scrapping tax sales altogether and instead collecting the money themselves.

"Where is the justice? They're taking people's lives," said Beverly Smalls, whose elderly aunt lost her home in Northeast Washington. "It's just not right."

In a 10-month investigation, The Post chronicled years of breakdowns and abuses in a program that puts at risk one of the most fundamental possessions in American life.

- Of the nearly 200 homeowners who lost their properties in recent years, one in three had liens of less than $1,000.
- More than half of the foreclosures were in the city's two poorest wards, 7 and 8, where dozens of owners were forced to leave their homes just months before purchasers sold them. One foreclosed on a brick house near the Maryland border with a $287 lien and sold it less than eight weeks later for $129,000.
- More than 40 houses were taken by companies whose representatives were caught breaking laws in other states to win liens.
- Instead of stepping in, the D.C. tax office created more problems by selling nearly 1,900 liens by mistake in the past six years — even after owners paid their taxes — forcing unsuspecting families into legal battles that have lasted for years. One 64-year-old woman spent two years fighting to save her home in Northwest after the tax office erroneously charged her $8.61 in interest.

Every Wednesday, homeowners plead their cases at D.C. Superior Court, where they are pitted against industry lawyers who have filed more than 7,000 foreclosure cases in the past eight years alone. Families pace the hallways waiting for their names to be called in last-ditch efforts to rescue their homes.

"This is highway robbery," said Brenda Adjetey, who showed up in court last week to protect her home in Southeast Washington after her $1,100 tax bill nearly quadrupled because of legal fees charged by the investor.

Tax lien purchasers defend the industry, saying that most people who buy liens are local investors just trying to earn interest — not take homes — and that the law gives owners six months to repay their debts before a foreclosure case can be filed.

"This is an opportunity to make some money, but it is also an opportunity for the city to get paid and to help its citizens," said Richard Cockerill, a veteran bidder from Virginia.

In a written statement, the tax office added, "Property owners are given multiple opportunities to pay both before and after the tax sale."

Officials also said the tax office has made improvements to the program in recent years, including additional warnings to homeowners before liens are sold, and the office recently stopped selling liens on houses for less than $1,000.

But officials acknowledge that limit was set to manage the caseload and is not a permanent policy change.

At a public hearing this past October, housing advocates presented a list of reforms to the D.C. Council, including capping the fees charged by purchasers and offering payment plans to struggling homeowners. But the changes were never made.

"That's a failure on the part of government," said Stephen Fuller, director of the Center for Regional Analysis at George Mason University. "This has punitive consequences. People have been damaged."

OUTSIDERS COME TO TOWN TO COMPETE FOR LIENS

Liens are generally sold the year after a homeowner fails to pay a tax bill, for the same amount as the debt. Homeowners receive several warnings before their liens are put up at annual auctions.

Once a lien is sold, owners have six months to repay the investor with interest. If that does not happen, the investor can move to foreclose.

For years, the auctions came and went with little fanfare, drawing local investors who would plunk down a few hundred dollars to buy up liens in neighborhoods they knew well. Most were looking to earn the interest, and if there was a foreclosure, it was handled by the tax office.

But the work overwhelmed the agency, and in 2001, city leaders made a critical change: They told investors to head directly to court to file a foreclosure case.

The move empowered investors to start charging legal fees and court costs — a game changer that allowed them to turn minor delinquencies into insurmountable debts.

Companies from Florida, Illinois, Maryland and New York came to town, prepared to spend millions.

In 2007, more than 150 purchasers spent five days competing for 2,000 liens, first on properties downtown near the Capitol, then Georgetown, followed by Dupont Circle, Chinatown and finally the neighborhoods near the Anacostia River, long stricken by poverty.

When it was over, just six companies had swept the bidding, snaring two-thirds of the liens, which totaled $5 million, on properties worth more than $666 million.

One of those purchasers was under federal investigation at the time for rigging tax auctions in Maryland, where he was suspected of scheming to win liens — then demanding excessive fees from homeowners. Lawyers for a second firm would also come under investigation in the same case.

Their companies and others bought into every ward of the District in 2007, including Deanwood, one of the city's oldest predominantly African American neighborhoods. On long stretches of Dix Street, where the recession hit hard and lingered, 33 liens were sold between 2005 and 2008, on properties scattered amid food banks and "Cash 4 Gold" signs.

Across the city, the rate of foreclosure cases has nearly doubled in the past five years — in a single week in January, tax lien companies filed more than 180 cases. Of the 13,000 liens sold since 2005, more than half have ended up in court.

With no caps on fees, families have paid a steep price, facing bills for legal fees and court costs often more than triple their original tax debts, The Post found. Rates for the attorneys hired by the tax lien companies have reached $450 an hour.

Even the smallest expenses have been passed on — including the paper that ordered property owners to court at 25 cents per page. One attorney billed for preparing the bill itself — $25.

Time and again, the bills came without receipts or breakdowns justifying the costs.

MICHAEL S. WILLIAMSON/THE WASHINGTON POST

Bennie Coleman walks past his former house earlier this year on the way to the corner store. He said he could not look at it — the memories were too painful.

"I just don't know what he's trying to charge me for," said longtime community activist Barbara Morgan, 80, standing outside the courtroom earlier this year with a $2,700 legal bill that doubled the tax debt on her home of 50 years. "It's ridiculous."

Local judges have taken purchasers to task. One was so critical of the fees charged by Aeon Financial of Chicago, he slashed them in half last year. Aeon wanted $6,300 in fees for a $1,680 tax lien.

A senior attorney billed at $450 an hour. A junior attorney charged $325. Legal assistants tacked on $110 an hour. Plus, there was $800 in expenses, including $27.60 for "dismissal costs."

"Unreasonable," Judge Joseph E. Beshouri said in his ruling.

In 2009, D.C. Attorney General Peter J. Nickles also stepped in, seeking an injunction against Aeon over fees that he called "unlawful" and "predatory."

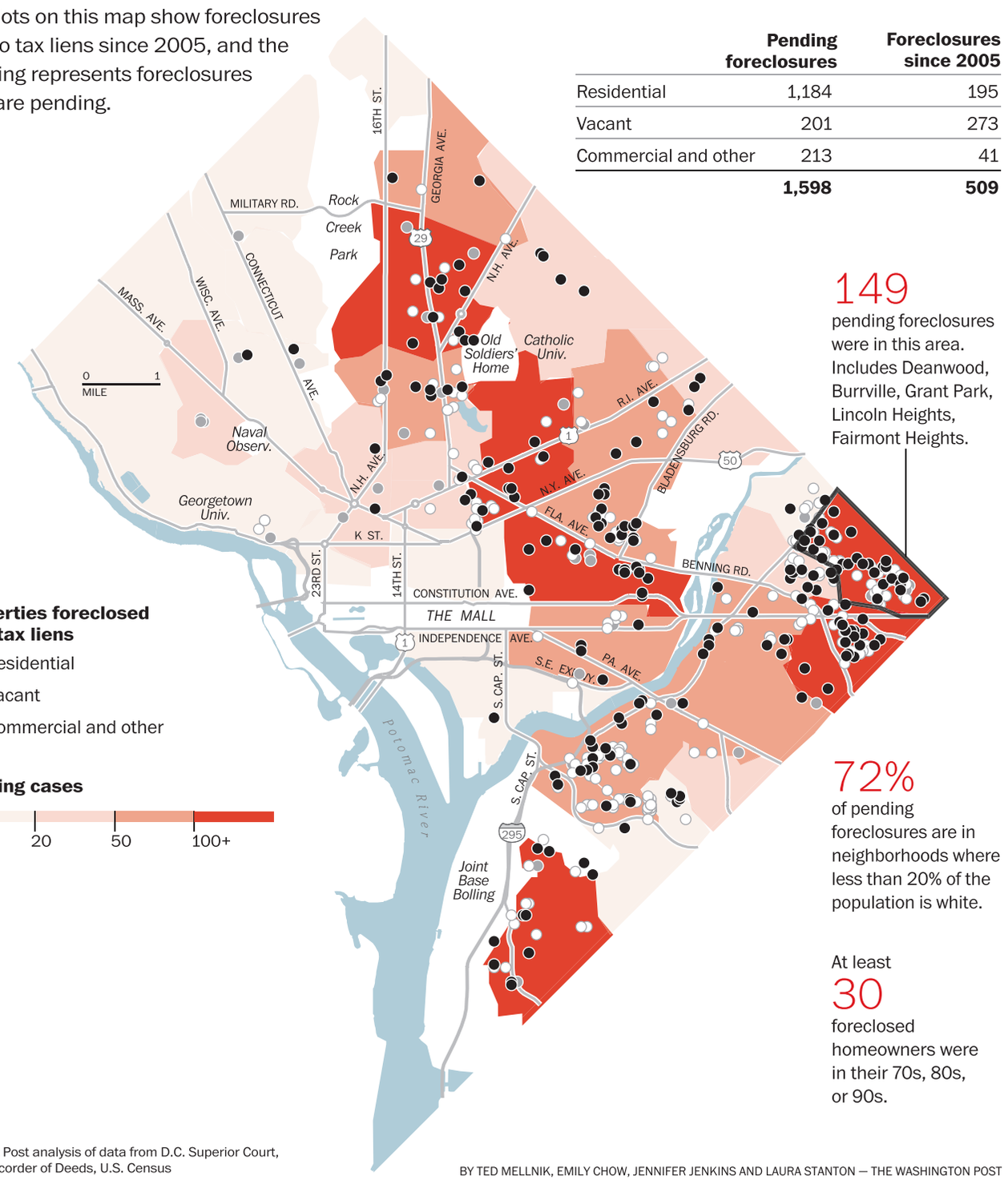
"Aeon's excessive attorney's fee demands are likely to result in at least some homeowners not being able to redeem homes," according to the motion.

LIENS CONTINUED ON A9

Eastern District faces most foreclosures

The dots on this map show foreclosures due to tax liens since 2005, and the shading represents foreclosures that are pending.

	Pending foreclosures	Foreclosures since 2005
Residential	1,184	195
Vacant	201	273
Commercial and other	213	41
	1,598	**509**



149 pending foreclosures were in this area. Includes Deanwood, Burrville, Grant Park, Lincoln Heights, Fairmont Heights.

72% of pending foreclosures are in neighborhoods where less than 20% of the population is white.

At least 30 foreclosed homeowners were in their 70s, 80s, or 90s.

Source: Post analysis of data from D.C. Superior Court, D.C. Recorder of Deeds, U.S. Census

BY TED MELLNIK, EMILY CHOW, JENNIFER JENKINS AND LAURA STANTON — THE WASHINGTON POST

About this investigation

The Washington Post spent 10 months examining the District's tax lien program, which the city has used for more than 100 years to recover unpaid property taxes.

Reporters began by examining every lien sold on properties since 2005 — 13,000 in all. About half were lifted after property owners paid their back taxes, plus interest. The rest turned into foreclosure cases, most often affecting homes in the city's poorest neighborhoods.

Through a computer analysis, the newspaper found about 1,200 active foreclosure cases on houses, plus hundreds more affecting land, storefronts and commercial buildings.

To find the nearly 200 homes ultimately taken by investors, reporters manually combed through thousands of property records at the D.C. Recorder of Deeds and the District's Real Property Assessment Database.

The Post also studied how much tax lien purchasers charged homeowners after they moved to foreclose in court, obtaining more than 200 fee statements from court cases, families, lawyers and housing advocates.

Coming Monday As federal agents investigated a sweeping bid-rigging scheme at Maryland's tax auctions, some of those same suspects were in the District, engaging in dozens of rounds of unusual bidding.

Coming Tuesday District tax officials have made hundreds of mistakes in recent years by declaring property owners delinquent even after they paid their taxes, forcing them to fight for their homes.

At wapo.st/taxliens

Explore an interactive map showing details of the D.C. neighborhoods and homes at risk.

View more photos of the people affected by the D.C. tax lien system.

Add your voice to the conversation about the lien system and its effects.