A WASHINGTON POST INVESTIGATION

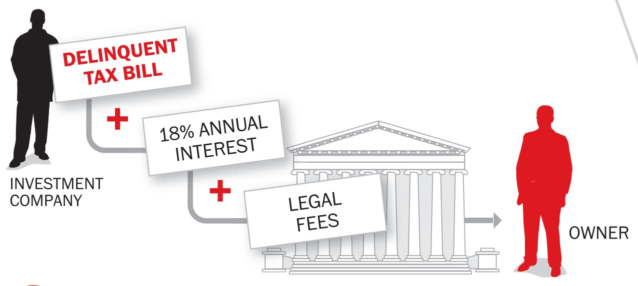
# How a small bill becomes a big problem

Property owners in the District risk losing their homes over relatively small amounts in unpaid property taxes. Here's a look at the process and how it affected one homeowner.

**HOW THE PROCESS WORKS**


## 1 Small debts . . .

The District, rather than collecting delinquent property taxes and penalties directly, sells the tax debt to an investor, usually a company. The investor gets a **lien**.




## 2 . . . with the possibility of high fees . . .

If the tax bill, plus interest, goes unpaid for six months, the company can go to court to foreclose on the house. The investor's legal fees are added to the owner's debt.


## 3 . . . and the risk of foreclosure

Owners who don't or can't pay all tax bills and interest, plus the legal bills of the investor, can lose their property and their equity.

**STORY OF ONE HOME** in Northeast D.C. lost to foreclosure over a tax lien of **$317**

Bennie Coleman, a retired Marine sergeant, was 76 and struggling to live alone in a house he owned free and clear for 19 years. He forgot to pay a $134 property tax bill. The tax office added $183 in interest and penalties.

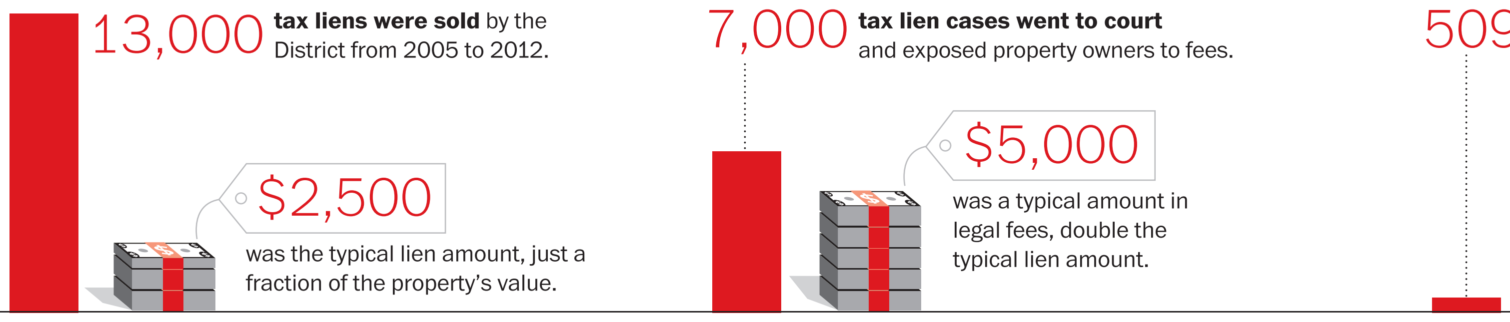
The next year, the District sold that debt to an investment company.

The investor who bought Bennie Coleman's $317 debt went to court to press for foreclosure. His family found out and paid his tax bills, and a judge put the foreclosure on hold. But in order to keep his home, Coleman also had to pay the company's legal fees of $4,999.

Only $700 was paid toward the investor's legal fees.

Coleman lost the house. It sold soon after for $71,000 and was valued then at $197,000. Coleman now lives in assisted living and is being treated for dementia.

**BY THE NUMBERS**



**13,000 tax liens were sold** by the District from 2005 to 2012.

**$2,500** was the typical lien amount, just a fraction of the property's value.

**7,000 tax lien cases went to court** and exposed property owners to fees.

**$5,000** was a typical amount in legal fees, double the typical lien amount.

**509 tax lien foreclosures** have been identified by The Post, including 195 houses and apartments. Most are located in minority neighborhoods.

Note: The District no longer sells tax liens on houses for delinquent tax bills under $1,000. Lien amounts include property taxes, penalties and interest. The District doesn't track legal fees charged to homeowners. The estimates of legal fees is based on a Post study of more than 200 cases.

Source: Data from D.C. Office of Tax and Revenue and D.C. Superior Court

BY TED MELLNIK AND LAURA STANTON/THE WASHINGTON POST

LIENS FROM A8

In one case, Steve Segears, who lives in the house his father bought after World War II, was charged $5,500 in fees by Aeon, nearly double his $2,900 tax bill.

"Enough is enough," Michael J. Wilson, Segears's attorney, wrote to the court. "The Aeon juggernaut keeps rolling along by demanding payment of unreasonable and extortionate attorneys' fees and other alleged expenses, including those which have not actually been 'incurred.' "

Aeon did not respond to repeated calls and letters seeking comment.

Other places acknowledged abuses years ago and took steps to guard against them. New York City won't allow tax liens to be sold on homes owned by low-income seniors and the disabled, as well as veterans. Some counties in Michigan have scrapped tax lien sales altogether and collect the money themselves. Maryland, fearing that taxpayers were being gouged, limits the legal fees to $1,500.

Most homeowners are in no position to fight and rely on the government to protect them from unfair practices, said Howard Liggett, former director of the National Tax Lien Association, who has spoken out nationally against excessive fees.

But D.C. leaders have not provided key protections, including caps on fees.

"It's embarrassing," said Liggett, who is familiar with the District's tax auctions and bidders. "You're always going to have unscrupulous [investors]. You've got to self-police."

### LONG BATTLES OVER BILLS

Threatened with mounting fees, some families simply gave up. In court files and interviews, they described large bills and long battles with lawyers while interest grew on their tax debts.

"We just didn't have the money to fight these people," said Michael McRae, who tried unsuccessfully to save his brother's house from a tax lien firm from Florida.

In the past eight years, investors have foreclosed on a condominium just a few blocks from the U.S. Capitol and another just down the street from the Embassy of Peru, a single-family home near Rock Creek Park and dozens of houses in poor neighborhoods along the Anacostia River.

The Post found investors have taken nearly 200 homes since 2005, assessed at $39 million. They sold most of them, sometimes within weeks, after paying off any back taxes or city fines.

One of the most aggressive investors was Heartwood, whose lawyers were investigated and disbarred as a result of Maryland's criminal bid-rigging case. Formerly a subsidiary of Florida's BankAtlantic Bancorp, Heartwood has taken more than 20 houses through foreclosure and sold them all, including a brick duplex in Northeast Washington with a $535 lien for $169,610.

One of the houses was owned by Michael McRae's brother, Thomas, a flower-shop owner, who was in and out of a coma and under hospice care while Heartwood was pressing to take his house over what began as a $1,025 tax debt. Thomas McRae died in June 2006 — three months after a judge approved the foreclosure.

Family members found out and fought back, saying no one told them about the lien or foreclosure.

Heartwood eventually paid the family $80,000 to settle the case and quickly sold the brick house on a bustling corner of Sherman Avenue NW for $175,000. Longtime neighbors still recall how Thomas McRae had filled the sidewalk with flowers.

"We're just regular people, and we don't have $200,000 to fight a big organization from Florida," his brother said.

In a written statement, the tax office said the $1,025 tax bill was "not a small debt." A spokesperson for Heartwood declined to discuss the foreclosure cases but said the company is no longer buying tax liens in the District and Maryland.

PHOTOS BY MICHAEL S. WILLIAMSON/THE WASHINGTON POST

$44.79 Daisy Dolsey, right, is visited by her sister, Beadie Miller, in the nursing home where she lives. Dolsey, struggling with Alzheimer's, lost her home over a $44.79 tax debt.

Bennie Coleman was ousted from his house two years ago in a flurry of foreclosures that swept the poor neighborhoods of Ward 7.

The retired Vietnam veteran bought the tidy brick duplex in Northeast for $57,500 with life insurance money that he received when his wife died of breast cancer in 1988.

Known in his working-class neighborhood as "Tops," he spent two decades in the house without a mortgage. But in recent years, Coleman began showing signs of dementia — he would forget to pay bills or buy food. His next-door neighbor would often bring him plates of chicken and carrots.

In 2006, he forgot to pay a $134 tax bill, prompting the city to place a lien on the home and add $183 in interest and penalties. His son paid the $317 bill in 2009, records show, but that wasn't enough.

The Maryland company that had bought the lien had already gone to court to put a foreclosure in motion. To lift the lien, the company's lawyer was demanding steep legal fees and expenses — $4,999.

Coleman's son couldn't pay and wrote to the court for help: "I would hate for him at his age to lose his home." One payment was made for $700 in 2009, but when no additional payments followed, the court approved the foreclosure in June 2010.

His son couldn't be reached for comment. In the summer of 2011, federal marshals showed up at the door when Coleman refused to leave.

"He had no clue what was going on," said neighbor Patricia Johnson. "I went over and told my mom, 'Looks like they are going to get Tops out.' "

That night, he slept in a chair on the front porch.

The court later appointed a conservator, who told The Post that Coleman was incapable of responding to the emergency unfolding in his life, including showing up in court to fight for his house.

"He had no chance," said attorney Robert Bunn. "He has dementia. He did not understand the ramifications of what was going to happen to him."

The Maryland company that took Coleman's house sold it for $71,000 two months after evicting him. The company was owned by Steven Berman, who was convicted in 2008 in the Maryland bid-rigging case. He declined to comment. The law firm for Berman's company said it was willing to reduce Coleman's bill to $3,500 but could not reach him.

The tax office would not comment on the case, saying only that the lien would "not have been sold if the tax sale were today" because it was less than $1,000, the agency's current threshold.

Coleman said he thought he would stay in his house for many more years, sipping cold drinks on the porch and talking to neighbors over the fence. Now, he's in a group home one mile from the home that is no longer his.

On an overcast morning earlier this year, he walked past the old house, now boarded up, on the way to the corner store to buy margarine and a bag of sugar. He looked back briefly, then turned away.

"I have nothing," he said.

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THE ELDERLY AT RISK

# Without safeguards from city, housekeeper, 86, loses family's legacy

BY DEBBIE CENZIPER, MICHAEL SALLAH AND STEVEN RICH

It wasn't much of a house, shrouded by overgrown trees and low-slung power lines on a dead-end street in Southeast Washington.

Eugene Dorsett bought the three-bedroom duplex in 1971, a gift for his mother, Hattie, who had spent decades cleaning other people's rooms at the Washington Hilton.

Hattie filled her tidy home with dogs and cats, her kitchen with the smells of chicken and collard greens. Her son and grandson, Eric, moved in upstairs, and three generations melded into the working-class neighborhood along the Anacostia Freeway.

Hattie was 86 years old when a tax lien purchaser filed a civil case to take her home.

In some other cities, it wouldn't have happened: Laws are in place to protect the elderly from losing their homes in tax lien foreclosures. Not so in the District, where dozens of older homeowners — often sick, impoverished or mentally incapacitated — have been forced out, some for just a few hundred dollars in back taxes.

"There needs to be an element of compassion," said Dorsett's grandson, Eric, now 51, who used to read Scripture with his grandmother in the living room and learned to ride his bike on the neighborhood's narrow streets. "You're taking their legacy away."

Sick with diabetes, Hattie Dorsett moved to an assisted-living facility in South Carolina in 2004, closer to family. She had been living alone in the District: Her son had died years earlier, and her grandson was living in Hawaii.

On a housekeeper's salary, she had paid her property taxes — about $150 a year — made affordable by homestead, senior citizen and tax-cap benefits.

But the city determined that the benefits should be removed in 2007 and applied the higher tax rate not only to that year, but also to the two previous years. The city also declared her house vacant, which raised her tax bill even more.

Suddenly, Dorsett faced an $8,000 debt — nearly 50 times her yearly bill.

Deputy Chief Financial Officer Stephen Cordi said the law required that the exemptions be removed. "She wasn't living in the District and had no claim to those benefits," he said.

Her grandson said the bill ultimately cost the lifelong District resident her home.

NO PROTECTION

The yearly $150 bill on Hattie Dorsett's home surged after the city took away tax benefits when she entered an assisted-living facility.

"She was very disciplined as it relates to personal responsibility, making sure bills were paid," Eric Dorsett said. "It's not like you have $8,000 lying around."

When the family couldn't pay, the tax office placed a lien on the house, then sold the lien at auction in 2008 to the highest bidder. The company was owned by Steven Berman, who had recently pleaded guilty to rigging tax lien auctions in Maryland.

The company filed to foreclose in D.C. Superior Court in 2009.

Eric Dorsett said he spent months trying to save the house, which his grandmother owned free and clear. It wasn't just a matter of sentimentality: The house represented the family's financial security. It was everything they had, equity they planned to pass down.

"This was my childhood home," he said.

Through his attorney, Berman declined to comment about the case. The law firm that represented his company said it was willing to reduce its legal fees and costs but that Dorsett told the company that he no longer wanted the property.

Dorsett denied that, saying, "I wasn't in the position to come out of pocket for the ridiculous number that they had on the table, and they knew that."

Other cities and states that sell tax liens have introduced a host of protections to prevent the elderly from losing their homes.

Rhode Island, where an 81-year-old woman lost her home just before Christmas, passed a law that empowers the state's housing agency to buy liens, then work with homeowners to clear up their tax debts.

In Michigan, many counties have foreclosure specialists and offer payment plans for struggling homeowners.

Cordi said the tax office takes steps to assist older people, including tax breaks to help them manage their bills. "The District provides all these protections up front," he said.

But Joanne Savage, a lawyer with AARP's Legal Counsel for the Elderly, said those benefits don't help elderly or sick homeowners who have fallen behind.

"At a time when they may be particularly vulnerable, they also have the most to lose," she said.

In 2010, Eric Dorsett learned that a judge had approved the foreclosure on his grandmother's house. In 2011, Berman's company sold the property for $177,000.

Hattie Dorsett died that year. Her grandson said he never told her what happened.

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Jennifer Jenkins contributed to this report.