

What is a Tax Lien Certificate?

In most jurisdictions, when a property owner is late on paying real property taxes, the county or municipality will issue a **tax lien** on that person's property. Certain states allow the tax lien to become a first lien on the property, which is then turned around and sold at auction as a tax lien certificate.

After placing a successful bid, buyers of a government-issued tax lien certificate will then get one of two things:

1. A state-mandated yield from the lien, which the delinquent taxpayer must pay in order to release the lien, or
2. Title to the property (after a certain amount of time, set by the jurisdiction) if the delinquent taxpayer fails to pay up.

Individuals have been snapping up tax liens more and more because of these two benefits. A fixed percentage rate, mandated by a government agency, or the title to property at a substantial discount are incredible benefits rarely seen with other real estate transactions.

The rewards of tax liens seem promising. Who would balk at the chance to pay a fraction of the cost for a new home, either to collect a fixed penalty from the homeowner or (in case of default) the property itself?

However, what many tax lien buyers find out is that, if they did not do proper title and bankruptcy research, their tax liens can become worthless. For instance, creditors and the IRS can take priority over tax lien holders in cases where the original owner of the property declares bankruptcy. In addition, many people purchase properties sight unseen, going just on the description posted prior to auction. Without actual inspections and geographical surveys, sometimes these deeds are worth little more than the paper they're printed on.

Imagine the surprise of a property owner in Texas who, at auction, thought he got a deal on 2 acres of property for \$11,000... only to realize the property is completely flooded twice a year.

Yet institutions, like banks and credit unions, have always been able to overcome many of these conditions. Why? Because they had the resources to build relationships with local real estate agents, do the proper title searches and property inspections.

These firms realized the potential in tax liens, provided they could "cover their bases" and ensure each tax lien purchase was a sound one. Individual tax lien purchasers are often burned without doing full inspections of each property they purchase. At auction, tax liens are usually issued based on lot number. Purchasers have no idea whether they're buying a four-bedroom house or a plot of dirt without inspecting the property. Physical inspections take time, energy and money, and often limits tax lien purchasers to properties within a small area.