

PRESS RELEASE FROM GILA COUNTY TREASURER'S OFFICE

SUBJECT: DELINQUENT PROPERTY TAXES

Tax Liens and Certificates of Purchase.

Each year, county treasurer offices throughout Arizona auction off tax liens on properties for which no one has paid property taxes. Investors are given the chance to purchase these liens with the hopes of getting their investment back with interest or perhaps of having the opportunity to foreclose on the property in the future.

Here's the way the process works. A property owner fails to pay property taxes on a parcel of property. This creates a tax lien against the property for the unpaid taxes. After about a year, if the property owner fails to pay the taxes to satisfy the lien, the Treasurer is required to auction the tax lien on the property to the investor who is willing to pay the taxes on the property and charge the lowest interest rate for his investment. The investor then receives a certificate of purchase for the parcel. This does not mean that he has purchased the property. It only means that he has purchased the tax lien on the property.

Once an investor has a certificate of purchase on the property, the property owner is sent a letter explaining that he can redeem the property by paying an amount equal to the taxes the investor paid plus accrued interest. If the property owner fails to redeem the property and fails to pay the next year's taxes, the investor can update his certificate by paying the subsequent year's taxes as well. Three years from the date the tax lien was first offered for purchase, the investor will then have the right to foreclose on the property and obtain title to it. Once he obtains title to the property, he can take possession of it, improve it, or sell it.

Often, this appears to be a no lose proposition for investors who purchase these tax liens. Either they will eventually have their investments repaid with interest or they will eventually have the right to foreclose on the property and take possession of it.

But let the buyer beware. Purchasing a tax lien does not give the investor any immediate rights over the property. Investors who purchase certificates of deposit have no immediate right to take possession of the property; they cannot protest or appeal the property's assessed

valuation; and they cannot tell the property owners what they can do with the property. The investors' rights are limited to either a return of their investment plus interest or a right to foreclose on the property in the future.

Additionally, economic conditions change and so do property valuations. Property that is valuable one year may lose value in subsequent years for a variety of reasons. Aside from the general economy, things like fires, floods, zoning violations, environmental hazards, hidden defects and many other factors could cause a property that once seemed desirable to lose its appeal and hence its value. Sometimes the reason the property owners stopped paying taxes in the first place was because they were aware of some flaw that made the property lose most of its value and decided to stop paying taxes on it. Investors who purchase the tax liens on such properties are likely to find that the owners will not redeem the tax liens and that foreclosing on the properties may not recoup their original investments.

Since it is impossible to discover most hidden defects that could potentially affect the value of properties merely by reviewing the tax rolls, potential investors should be aware that purchasing tax liens is not risk free. Just like most other investment opportunities, certificates of purchase are not guaranteed to produce any particular return.

Another roadblock that can be placed in the pathway of an investor trying to recoup his investment by foreclosing on a property is bankruptcy. If the property owner files for bankruptcy before the certificate holder forecloses on the property, the certificate holder will not be able to foreclose on the property while the bankruptcy is pending.

Additionally, there are no do-overs with certificates of purchase. Once a tax lien is purchased on a particular property, the investor owns the certificate of purchase on that parcel. He cannot change his mind later when the valuation goes down and ask for his money back nor can he ask the county to trade him for a certificate on a different parcel. If the property owner fails to redeem the property, the certificate holder's only legally enforceable remedy is to foreclose on the property. If after foreclosure, the property is not worth enough to recoup the investor's investment, the investor may suffer a loss.

Of course, investors do not purchase every tax lien available. The Gila County Treasurer's Office holds its auction once each year, but investors can come in year round and buy certificates of purchase on tax liens that were not sold in previous auctions. If no one purchases tax liens on a particular property for seven years, then the title to that property is transferred to the state and the board of supervisors is then tasked with selling those properties in a separate auction. Individuals who are interested in purchasing those state owned properties should contact the Gila County Board of Supervisors Clerk's Office.

/s/ Debora Savage
Gila County Treasurer