The Steep Price of Paying to Stay:

Baltimore City's Tax Sale, the Risks to Vulnerable Homeowners, and Strategies to Improve the Process

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– Joan Jacobson

Executive Summary

The problem

Baltimore's long-established "tax sale" of unpaid taxes and other municipal bills to the highest bidder enriches investors at the expense of the city's poorest homeowners. Under the current process a homeowner can lose a house – and all its equity - for an unpaid tax bill as low as $250 or unpaid water bills as low as $350.

Property owners whose past-due bills are sold to investors are given months – or years – to reclaim them, but at a steep price. They must pay the liens, plus 18 percent interest and hundreds of dollars in court costs, legal fees and postage. A $500 tax bill, for example, can climb to $3,000 two years after the tax sale. The windfall from the interest and fees goes, not to the city, but to investors. Investors who do not receive full repayment from the property owner are allowed to file a foreclosure.

Homeowners who are unable to repay the debts can end up in a court process to foreclose the right to redeem. As of January 31, 2014, 2,805 open tax lien foreclosure cases for all property owners were pending in Baltimore Circuit Court. In many cases the investor does not complete the deed transfer following foreclosure, leading to confusion as to who actually owns thousands of properties. What happens to the original owners (and to their properties) is usually not known, but counselors, lawyers and advocates of low income homeowners say the tax sale can lead to evictions, homelessness and property abandonment in a city already plagued with all three.

Who is affected?

Baltimore's tax sale is a large operation. In May 2014, 6,690 tax sale certificates were sold. Thirty-three percent, or 2,236, were for owner-occupied homes.

Data collected from an April 2014 clinic run by nonprofit lawyers for 82 homeowners facing tax sale shed a harsh light on the crisis. While the homeowners had lived in their houses on average for 21 years, their inability to pay the liens led them to the brink of losing their homes. Most were African Americans who live below the poverty level. Nearly half were elderly, 10 percent were veterans, while 32 percent reported being disabled. The average lien each would have to pay to avoid tax sale was $2,482. More than three-quarters of the homeowners faced tax sale for unpaid water bills, while more than half had not paid property taxes. Though most of the homeowners were likely eligible for discounted property tax programs and a senior citizen water discount, a proportionally low number were receiving them.

The findings

The tax sale process treats every commercial, industrial, and residential property the same, and makes no exceptions for owner-occupied homes.

The bottom line is that the tax lien sale and redemption process challenges and confuses homeowners seeking to redeem their properties once the city sells the liens and unduly enriches the investors purchasing them.

- At $250, Baltimore City's threshold amount at which residential liens are sold at tax sale is lower than in other cities.
- Baltimore City's 18% rate of redemption is punishingly high for homeowners seeking to redeem.
- The inclusion of water bills in the tax sale process compounds the problem, as low income households are challenged to absorb double digit rate increases in water bills or high bills due to leaks.
- Additional notice and outreach to homeowners to resolve issues leading to tax sale can make the difference between being able to pay and stay or losing a home.
- Homeowners living in their homes for 25 years or more can ill afford a recent lapse in Baltimore City's compliance with a 2008 state law requiring pre-tax sale outreach by each jurisdiction's department of aging.
- After the court foreclosure and deed transfer to a new owner, some homeowners losing their houses may be entitled to funds (from hundreds to thousands of dollars) that were bid in excess of the lien amount. While the amounts may not be sufficient to compensate homeowners for equity loss, the city does not have a clear process for notifying owners who may be entitled to the funds or make best attempts to locate them.

Baltimore Homeowner Case Study 1

An East Baltimore woman's house was sold at tax sale in 2011 for unpaid water bills that skyrocketed to $5,532 due to a water leak she didn't detect during the four years she cared for her dying husband. He had suffered a heart attack and gone blind from diabetes, leaving the household in her hands, though she didn't know how to read the tax and water bills. Then she learned she might lose her house if she didn't come up with the money. "They wanted it all at once and I didn't have it," she said.

After the certificate for the house was sold at tax sale, she went to a Maryland Legal Aid lawyer, who filed bankruptcy on her behalf, thus preventing the investor from taking ownership of the home. The lawyer also helped her appeal her water bill to the city, which subsequently credited her water bill by $3,672.

A national crisis, a range of local solutions

Tax sale foreclosures are a national crisis. A recent study by the National Consumer Law Center reported that annual tax delinquencies totaled $15 billion by 2010.

Other cities faced with similar challenges of balancing collection of past due bills with reasonable protections, including New York City, Philadelphia and Washington, D.C., have enacted consumer-friendly laws to prevent the poorest homeowners from losing their houses. These include higher thresholds for tax sale, lower interest rates for homeowners repaying investors, monthly installment plans to pay overdue bills, improved notice to property owners of resources available to prevent tax sale and the appointment of a public ombudsman to help owner-occupants keep their homes.

Recommendations

Improving and making the tax sale system fairer to Baltimore home owner-occupants will require action by both city and state officials. Key recommendations include:

Making the system fairer

- Increase the threshold lien amount eligible for sale to $1,000.
- Lower the redemption interest rate for homeowners and reduce redemption fees.
- Exempt owner-occupied properties from tax sale for unpaid water bills.
- Provide notice to homeowners about excess fee refunds and use unclaimed funds to prevent homeowner tax sales.

Assisting vulnerable homeowners

- Improve notification to homeowners about tax sales and increase assistance for low-income homeowners.
- Improve access to existing credits for low-income homeowners.
- Offer installment payment programs which allow homeowners to pay based on income.
- Exempt low-income, senior, disabled and veteran owner-occupants from tax sale.
- Create an ombudsman position in city government to assist at-risk homeowners.

Introduction/Background

Introduction

Baltimore's long-established 'tax sale' of delinquent taxes and other municipal bills to the highest bidder enriches private investors at the expense of the city's poorest homeowners. Under the current tax sale process, a homeowner can lose a house—and all its equity—for an unpaid tax bill of as low as $250. Additionally, Baltimore City can auction to investors unpaid water bills of at least $350 that are nine months delinquent, even if all taxes are paid. Given the high stakes for homeowners, the goal of this study is to analyze how Baltimore City's tax lien sale process protects owner-occupants, compared to other cities and states.

This report contains six sections: 1) an overview of the tax lien sale process; 2) analysis of the effects of the tax lien sale process on homeowners; 3) community outreach to homeowners; 4) public assistance programs available to homeowners; 5) examples of homeowner protections in tax sale processes in other cities and states; and 6) recommendations to improve the protections for homeowners to prevent tax lien sale and foreclosure.

Background

Baltimore's annual tax sale is a large operation. In May 2013, Baltimore City sold 5,935 tax sale 'certificates' for delinquent properties at an online auction. The city sells 'certificates' for about three times as many properties as neighboring Baltimore County.[1] Thirty-five percent of the certificates sold (or 2,099) were for owner-occupied homes. Delinquent standalone water bills accounted for 9 percent (or 523) of the total sold.[2] Hundreds more involved a combination of water bills and other liens. In May 2014, the number of tax sale certificates sold totaled 6,690. Thirty-three percent (or 2,236) were for owner-occupied homes.[3]

Property owners whose past-due bills are sold at tax sale are given months—or years—to reclaim them, but at a steep price. They must pay the liens, plus 18 percent interest and hundreds of dollars in court costs, legal fees, and postage. A $500 tax bill, for example, can multiply six times to $3,000 two years after the tax sale.[4] Most of the windfall goes not to the city, but to investors, lawyers, and title companies. Investors, in particular, can yield a considerable return compared to today's low interest rates earned on traditional investments. Investors who do not receive full repayment from the property owner are allowed to file a foreclosure on the right to redeem. As of January 31, 2014, there were 2,805 open tax lien foreclosure cases pending in Baltimore City Circuit Court.[5]

Homeowners do not understand the tax lien foreclosure process as well as the mortgage foreclosure process, and the number of cases is also staggering. While it is not known how many owner-occupied homes are in the process of tax sale foreclosure, open tax lien foreclosure cases for all properties at the Baltimore City Circuit Court totaled 2,355 cases in 2012 and 2,588 in 2013.[6] As of January 30, 2014, there were 2,805 open tax lien foreclosure cases.[7] These are point in time "snapshots" of the number of open cases representing foreclosure filings over multiple years. The number of mortgage foreclosure filings in Baltimore City totaled 2,794 in 2012 and 4,380 from January to November 12, 2013.[8]

Despite the high number of tax sale foreclosure cases filed, many investors do not record new deeds of ownership and fail to pay the city updated taxes. Consequently, Baltimore's Bureau of Revenue Collections has file cabinets full of thousands of unrecorded deeds for properties left in limbo. The number of deeds that are actually released by the city, allowing new owners to take title following tax lien foreclosure, is relatively small. From the 21,152 tax lien certificates sold in 2009, 2010, and 2011 tax sales, only 88 owner-occupied homes changed ownership by May 2014.[9] What happened to the original owners (and to their properties) is not known, but counselors, lawyers, and advocates of low-income homeowners—especially indigent senior citizens—say the tax sale can lead to evictions, homelessness, and property vacancies and abandonment in a city already plagued by all three.

Under the current tax sale process, a homeowner can lose a house—and all its equity—for an unpaid tax bill of as low as $250. Additionally, Baltimore City can auction to investors unpaid water bills of at least $350 that are nine months delinquent, even if all taxes are paid.

High rates of mortgage foreclosure, predatory lending, and flipping in Baltimore City have resulted in extensive public and private efforts toward homeownership preservation. The focus on the mortgage foreclosure crisis in Baltimore and Maryland, data analysis, and advocacy among many organizations and institutions, have led to a number of positive changes to state law to protect homeowners from losing their homes. In Baltimore City, the Baltimore Homeownership Preservation Coalition, comprised of housing, legal services, and neighborhood organizations, is a leading voice on these issues and has built expertise in mortgage foreclosure counseling and prevention. In 2013, Community Law Center, a member of the coalition, forged a connection between the problems of stabilizing neighborhoods with vacant properties and the issue of preventing tax sale foreclosure of low-income and senior homeowners. In response, legal services providers, housing advocates, city government representatives, and members of the coalition convened a Tax Sale Foreclosure Workgroup to examine the issue.

Research shows the tax sale process is not unique to Maryland and is used in many states as a last resort collection system, deploying private investors to purchase debts owed to the government by property owners. Other cities faced with similar challenges of balancing collection of past due bills with reasonable protections, including New York and Washington D.C., have enacted consumer-friendly laws that provide models for Baltimore on how to prevent the poorest homeowners from losing their houses.

Overview of the tax lien sale process

Each year, Maryland property owners receive bills for annual real property tax payments due by July 1. To encourage timely payment in Baltimore City, the Department of Finance provides a .5 percent savings on real estate taxes paid before July 31.[10] The Baltimore City Department of Finance mails a tax brochure insert with the bill providing information and contacts for homeowners who may be eligible for credits to reduce the amount of state and city property taxes owed. All property tax bills are posted on the Department of Finance website and they can be viewed and paid online. While the vast majority of property owners pay on time, thousands of bills are not paid promptly.

Uncollected receipts are an enormous problem for jurisdictions, as real property taxes are the primary revenue source for essential government services, including police, schools, and fire protection. Unpaid bills create a first lien on a property, meaning that when the property is sold or transferred to a new owner, the city or county must be paid first before any mortgage company or other lien holder.

Real estate tax payment delinquency

Taxes are considered delinquent by October 1 if the property owner is on an annual payment plan, or October 1 for the first installment and January 1 for the second installment if the owner is on a semiannual payment plan. Owners who do not receive tax bills (e.g., if a bill is lost in the mail or delivered to the wrong address) are still responsible for the tax, plus interest and penalties.[11] Interest and penalties on the unpaid taxes accrue at 1 percent for the state tax portion and 2 percent for the city tax portion.[12]

Delinquent bill collection

Maryland law establishes a delinquent bill collection process for local governments through the sale or auction of a "certificate" for unpaid property taxes and other liens owed. This collection process is referred to as the "tax sale," a longstanding practice in Maryland. State law has allowed its counties and Baltimore City to auction unpaid property taxes and other municipal liens dating back at least to the 19th century. One Baltimore Sun notice from 1878 reported an upcoming sheriff sale in Baltimore County. Another 1936 article noted sales in Baltimore City "to the highest bidder" if owners failed to pay taxes and other liens for "opening, widening, paving or closing of streets, lanes, alleys."[13]

Municipal liens included in tax sale

Maryland law establishes the process for government tax collectors to put up for sale 'certificates' for properties with unpaid property tax bills as small as $250. Aside from property taxes, a myriad of other unpaid municipal charges can be added to the certificate amount. They can include alley and sidewalk paving fees, streetscape and minor privilege charges, multi-family dwelling fees, cleaning and boarding charges of vacant buildings, environmental control fees including failure to remove trash, residential registration charges for rental properties, and even special benefits assessments (such as in neighborhoods like Charles Village in Baltimore City that levy an extra fee for supplemental sanitation and security). Baltimore City applies the $250 threshold to property taxes combined with other municipal charges due. Under state law, Baltimore City can also sell a certificate for unpaid water and wastewater bills as low as $350 with at least three missed quarterly payments, even if all other taxes are paid.

Tax sale notice and advertisement
Prior to the tax sale, state law requires notice of the sale, amounts owed, and the payment due date to be sent to affected property owners and published twice in area newspapers. Baltimore City must mail a "Final Bill and Legal Notice" to each delinquent property owner in February, or at least 30 days before properties are advertised for auction. A list of properties with delinquent taxes is published at least twice in general circulation newspapers, generally *The Baltimore Sun* and *The Daily Record*. They are also posted on the Baltimore City tax sale website at https://www.bidbaltimore.com/. In addition to the legally required notices, Baltimore City now sends a second, courtesy "Tax Sale Notice" in April to delinquent owners, reminding them of the deadline for paying liens before the tax sale.[14]

Tax sale auction
Baltimore City offers liens remaining unpaid after the payment due date for auction through its online "tax sale" auction, held in May of each year. Bidders must be pre-registered and the highest bidder for the 'certificate' pays the lien amounts owed and receives the right to recover payment (with interest and legal fees) from the property owner.

Post-tax sale notice
After the tax sale, the city must send, within 60 days, notice to the original owner that a 'certificate' for the property was sold. If the 'certificate' is not sooner redeemed, four months after the sale, the 'certificate' investor must send two notices (at least one week apart) to the owner by certified mail, marked "Notice of Delinquent Property Tax."[15]

Baltimore Homeowner Case Study 2

Like most of the homeowners attending the April 2014 tax sale clinic at a city library, this gentleman in his 60s looked anxious. He had been a landlord with five houses when the recession hit. He lost them all to foreclosure. "I had trouble when the economy got worse, people lost their jobs, couldn't pay rent and I had a lot of turnover," he said.

Now he was about to lose his own home in West Baltimore because of an unpaid water bill of $2,779, due to a leaky toilet. This wasn't his first time facing tax sale. In 2011, a 'certificate' for his house was sold for a $1,300 lien, but he was able to keep the house—for $5,000. Now in 2014, his house was in jeopardy again. But at the last minute, when he got an appointment to show he had repaired the leak, the city pulled the house out of the tax sale.

Redemption process
The property owner can redeem the property at any time following tax sale, but the cost can be steep; in Baltimore City the lien certificates are required to be repaid with 18 percent interest. In addition, the owner redeeming a property must pay postage, legal, and court fees, as well as updated property taxes for the current year if the redemption is made after July 1.

The redemption process can be confusing to homeowners. If a property owner redeems less than four months after tax sale, the owner pays the city. An owner redeeming after four months must make two payments: one to the certificate investor for legal fees and expenses, and another to the city for the original lien amount, plus current taxes and interest. The city then turns around and pays the investor everything except current taxes. Ultimately, the city keeps only the original lien amount and any payment for current taxes.

Tax sale foreclosure of the right to redeem
If a property owner does not pay all required amounts within the redemption period, which can last between six months or up to two years after the tax sale, the certificate investor has the right to ask the court to terminate the property owner's rights to repay the amounts owed (a foreclosure of the right to redeem) and take ownership. During that time the tax lien certificate investor has no responsibility for paying subsequent taxes until he or she actually records a new deed of ownership.

In Maryland, this foreclosure process extinguishes all other mortgages and liens on the property and no compensation is given to the original property owner for lost equity. This allows the tax sale investor to receive title to a property for a fraction of its fair market value. However, if a tax foreclosure case is not filed within two years after the tax sale, the tax sale certificate holder loses all rights to foreclose.[16]

Baltimore's TAX LIEN SALE Process

01 City Mails Tax Bill to Property Owner

TAX UNPAID

02 City Sends Final Notice

TAX UNPAID

03 City Advertises Tax Lien Sale

04 Investor Buys Tax Lien "Certificate"

TAX STILL UNPAID

05 City Informs Property Owner a "Certificate" for Their Tax Has Been Purchased

TAX PAID W/IN 4 MO.

$ Property Owner Pays City: "Certificate" Amount PLUS 18% & Current Taxes=Keeps House

TAX PAID 4-6 MONTHS

$ $ Property Owner Pays City AND Investor: ABOVE COSTS PLUS Fees=Keeps House

TAX UNPAID BETWEEN 6 MO.- 2 YRS.

TAX FORECLOSURE

Investor Must File in Court to Take Ownership. Owner Can Pay Amount Owed or Fight Case in Court Prior to Court Judgement.

* Unpaid bills as small as $250 in fees can be put up for sale. Charges can also include water bills, alley paving or other fees in addition to property taxes. Standalone water bills of $350 can also be auctioned.
Information is not presented as legal advice

ABELL FOUNDATION

Analysis of tax sale issues affecting Baltimore homeowners

The sale of unpaid taxes, water bills, and other municipal liens on residential, commercial, and industrial properties are addressed in the same way. However, it is important to examine how the tax sale affects owner-occupants, especially low-income elderly and disabled homeowners, given the potential loss of home and equity. Senior homeowners whose mortgages are paid off and have no lender to manage the satisfaction of annual property taxes through a monthly mortgage escrow payment may be especially vulnerable to falling behind on payments. Homeowners who financed houses with high interest, subprime loans, or reverse mortgages may also lack monthly escrow payments, setting them up for the financial challenge of paying a large annual tax bill.

Lien amount subject to sale

The state law enables local government tax collectors to put a property lien up for auction with an unpaid tax bill of a minimum of $250. The Maryland threshold, or minimum amount owed that can trigger a sale, has been historically low. The legislature set it at $15 in 1943, increased it to $100 in 1997 and to $250 in 2008.[17]

Table 1.
Residential Lien Amount Subject to Sale

New York City	$1,000
Washington, D.C.	$2,500
Baltimore County	$500
Baltimore City	$250

Maryland law actually states that a municipality can "withhold" a property lien from sale if the unpaid lien is less than $250. City officials contend the state law mandates property liens go to tax sale with at least $250 in unpaid liens and to legally amend that amount would require a change in state law, not city law.[18] In 2010, the Baltimore City Council passed a resolution, which had no legal teeth, urging the Maryland General Assembly to increase the threshold from $250 to $750.[19] In Baltimore County, the Office of Budget and Finance administratively chose to raise the 'threshold' from $250 to $500 for residential properties in 2008 without changing the law.[20]

This threshold amount of an unpaid bill that makes an owner-occupied property eligible for auction is unforgiving, especially compared to other cities. New York City's threshold, for example, is $1,000 for taxes that have gone unpaid by homeowners for three years (compared to Maryland's one year). In Washington D.C. wide reforms proposed by the mayor and enacted by the city council in May 2014 increased the threshold for residential property to $2,500.[21]

Baltimore's water bill dilemma

Baltimore City can sell a property 'certificate' at tax sale with an unpaid water bill, even if all other taxes are paid. According to state law, the Baltimore City water bill must be at least $350 and overdue at least three quarters of the year to trigger the sale.[22] The December prior to the tax sale, Baltimore City sends notices to owners with bills meeting this criteria notifying them that failure to pay puts them at risk of tax sale. In 2013, the city auctioned 'certificates' for 523 properties with standalone water bills.[23] While that number is small relative to the hundreds of thousands of residential water accounts,[24] it represents 9 percent of the total 5,935 'certificates' for properties sold that year. In addition, many tax liens auctioned include unpaid water bills as well as past-due taxes.

The city has been auctioning properties for unpaid water bills for decades, but the practice has become problematic due to double-digit increases in water rates and a large number of homes with water leaks that result in excessive bills. The city also had a predicament in 2012 when officials discovered they had overbilled 38,000 customers who were due $4.2 million in refunds.[25] The city has since removed from the tax sale any water liens that are based on estimated water use.[26] However, legal service agencies report that clients continue to request assistance for water billing errors that are unrelated to water leaks. The city's newly announced BaltiMeter program to replace old water meters with automated meters is expected to eliminate the need for on-site meter readings and improve the accuracy of billing.

In May 2014, the number of tax sale certificates sold totaled 6,690. Thirty-three percent (or 2,236) were for owner-occupied homes.

There are two separate systems for customers to request payment adjustments and agreements for water bills though these are not advertised to property owners through water bills or delinquent bill notices, or during service calls to 311. One program, through the Department of Public Works' Bureau of Water and Wastewater, allows customers with water leaks to attend 'informal conferences' to bring repair receipts to show a leak was fixed, prompting the city to give customers who are eligible credits or refunds.[27] The need for this program is vital: The bureau's Customer Support Services Division received requests and scheduled conferences for 2,504 customers in just the first four months of 2014.[28] The second, through the city's Bureau of Revenue Collections, allows customers who cannot pay their water bills to enter into monthly installment plans, but only if a deposit of half the balance is made up front.[29] Customers who have entered into the monthly water payment agreements (and have paid all other municipal bills), or those who prove they repaired a leak, can have their properties withheld from the tax sale.

In early April 2014, the city took an additional step toward improving notice of this installment payment program by mailing instructions in its final tax sale notice to delinquent property owners, giving them the number to call to seek a "water payment agreement."[30] This paragraph was included in the letter at the request of City Council member Mary Pat Clarke. Subsequently, between April 1 and April 30, 2014, the Bureau of Revenue Collections entered into 585 water payment agreements.[31]

Table 2.
Includes Standalone Single-Family Residential Water Bills in Tax Sale

New York City	No
Washington, D.C.	No
Baltimore City	Yes

Baltimore County, by contrast, does not include properties with unpaid water bills in its tax sale for one simple reason: Baltimore City owns the public water system that serves county property owners. Therefore, the city bills county property owners for water use, though the city has no legal authority to sell the county property lien at a tax sale if those bills are not paid. Conversely, the county government cannot sell a property lien at tax sale for a water bill, though it can include delinquent sewer bills. The city can, however, turn off water to county property owners who do not pay their water bills.[32] Baltimore City code allows for cut-off of water service any time a water bill is in arrears.[33] Baltimore City turned off water for 2,418 residential and nonresidential customers in the last year. Of those, 1,254 customers had water restored, and the city's Department of Public Works reported on average those customers had water turned off for one day.

In Harford County, by comparison, 3,248 customers had water turned off in the last year, with 95 percent of them paying to have water restored within a day. Harford County also has a stricter system than Baltimore City for turning water off (30 days after an overdue bill). In Baltimore City the water turn-off policy has no set deadline for turning off water for properties with delinquent bills, though public works officials say they turn off water first for those accounts owing the most.[34] Harford County does subsequently send water and sewer liens to tax sale, but far fewer (66 in 2014) than in Baltimore City.[35]

Unlike other delinquent bills included in tax sale, a homeowner water bill is tied to household consumption, similar to a gas and electric bill. Because the city operates the water and sewer systems as a public utility, it has the privilege of first lien rights over all other creditors. Using the tax sale to enforce water bill payment by owner-occupied properties creates an extra obligation on government to ensure that the bills are accurate, that it resolves disputes in a timely manner, and that it connects eligible low-income owners to available resources that can offset the bill amounts.

New York City's law, compared to Baltimore City's, is more accommodating to homeowners who cannot pay their water bills. Single-family homeowners in

New York are exempt from tax sale for an unpaid water and sewer bill if all other municipal liens are paid. The law also prevents the city from selling a home at tax sale if the unpaid water bill is below $2,000 (compared to Baltimore City's $350).[36] In Washington D.C. owner-occupied homes cannot be included in the tax sale for standalone water liens.[37]

Baltimore City's high interest rate for redemption
State law establishes the maximum interest rate that a tax lien certificate investor can charge a property owner to redeem at 24 percent. Within that threshold, each county—and Baltimore City—sets its own interest rate charged to redeem properties after tax sale. Baltimore City's interest rate is 18 percent. The Baltimore City Council reduced that rate from 24 percent back in 1999.[38] Still, it is among the highest in the state. Only Prince George's and Montgomery counties have higher rates at 20 percent. In the Baltimore metropolitan area, Baltimore County and Harford County have the lowest rates at 12 percent.

Table 3.
Rates of Redemption

New York City	9% for homes valued at <$250,000; 18% for all other properties
Washington, D.C.	12%
Baltimore County	12%
Baltimore City	18%

In comparison, New York City has a two-tiered rate: 9 percent for homes valued at less than $250,000 and 18 percent for all other properties.[39] The Washington D.C. City Council just lowered the interest rate from 18 percent to 12 percent.[40]

Baltimore's high interest rate, along with legally allowed fees for lawyers and title companies, can make it prohibitive for low-income homeowners to redeem their properties. A homeowner with a lien sold at tax sale, for example, might be required to pay as much as $1,500 in attorney's fees (if the investor has already filed in court to foreclose any time after six months following tax sale) on top of the lien and 18 percent interest, as well as title searches up to $325, court fees, and postage.[41]

Baltimore City's redemption process
Baltimore City's two-step redemption process makes it cumbersome for homeowners to redeem their properties, even if they have sufficient funds. First, the homeowner must contact the tax lien certificate investor and pay any attorney's fees and costs that are owed. The homeowner must provide the city with proof of payment of the fees signed by the investor. Only then can the homeowner pay the city the amount of the lien, plus interest as well as the current year's taxes.

Homeowners report to legal service providers that getting an accurate payoff statement is difficult and can take time. In the meantime, the homeowners' hands are tied because they cannot proceed with the redemption process without first paying the tax lien investor. With interest accruing daily, homeowners are understandably frustrated by delays in the redemption process that increase their costs at the benefit of the investor.

Baltimore Homeowner Case Study 3

Each month, City Councilwoman Mary Pat Clarke takes a 91-year-old constituent to the bank. Clarke helps the woman, a former business owner suffering from memory loss, make an unusual monthly payment to an investor who bought the 'certificate' for her house at a tax sale. Though the law only allows an owner to redeem a home by paying a lump sum to a tax sale investor, this installment plan was arranged with the investor to prevent the woman's eviction from the house where she's lived all her life.

"I've got a bunch of elderly folks with not much money who get caught in this," said Clarke. As for her elderly constituent, she doesn't recall how her house ended up on the tax sale list. But Clarke says if the monthly payments had not been arranged, "She would be on the street—a single woman with no relations."

Loss of homeowner equity: A little known fund of $2.3 million
If a tax sale investor paid more for the certificate than the outstanding lien amount, state law requires the 'excess' money be remitted to the owner losing a property as a result of a tax sale foreclosure. The 'excess' is the difference between the lien amount and the highest bid, less any amounts the court requires to be paid to creditors, such as mortgagees. After a foreclosure is approved in court—and a deed is recorded—the final judgment from the court directs the city's disbursement of the funds; Baltimore City has a designated account for these funds that now totals $2.3 million.

The money, often thousands of dollars per property, is available only after the property changes hands, years after the tax sale. By then, there may be no easy way to find the former owner and most owners do not know to ask for it. The law nevertheless requires the city to keep the 'excess' money in a special fund, while seeking former owners to claim it. Former mortgagees may also be entitled to the funds.[42] After three years the city can seek court approval to move the unclaimed money to Baltimore's general fund for other use, but has not done so in the last decade.

The city does not notify owners that they are entitled to refunds if their properties are auctioned at amounts higher than the liens. The city has made occasional efforts to locate former owners (only months or years after the property changes hands), but has not tried to contact anyone in the 12 months leading up to the May 9, 2014 tax sale. Neither has the city published or advertised the list (as the state does with unclaimed property).[43] The list is posted on the city's *bidbaltimore* website under the heading "Tax Sale Excess Funds List," but there is no accompanying explanation of excess funds or instructions on how to apply for them.

As of March 4, 2014, the 'excess fund' contained 1,044 properties transferred from owners since 2000. The amounts owed per property range from less than $100 to many thousands of dollars. One entry lists $108,857 in unclaimed funds for a modest rowhouse on the 300 block of E. 31st Street in the North Baltimore neighborhood of Abell near Charles Village.[44] City officials do not know how many of the properties were once owner-occupied. Neither do they know how many former owners have successfully claimed funds over the years. Former owners sometimes learn they are entitled to the money from a few businesses that reach out to help them reclaim the funds—for a fee.[45] Generally, the amounts have no relation to the owner equity and any excess amount returned to the homeowner would not compensate for the loss of equity in a house lost to tax sale foreclosure.

Baltimore County, by contrast, makes an effort to track down former owners who are owed excess funds. But the county has far fewer properties (less than five each year) in the 'excess' category where the bid amounts were higher than the lien amounts.[46] Nevertheless, the county's customer service manager says the search for former owners is "tedious and requires a lot of work," especially when a former homeowner has died, leading officials to the county's Register of Wills to locate an estate's trustee.

Additional notice of tax sale for senior homeowners

Baltimore City seniors are especially at risk of losing their homes at tax sale for unpaid property taxes and water bills due to limited income, illness, dementia, and limited literacy, despite the availability of tax credits and water discounts available to them. One long-time city worker at the Department of Aging who counsels poor seniors said she has even assisted a few homeless seniors living under the Jones Falls Expressway who lost their homes through tax sale foreclosure.

A $500 tax bill, for example, can multiply six times to $3,000 two years after the tax sale.

In 2008, the Maryland legislature passed a law aimed at helping older homeowners whose properties are scheduled for the tax sale. The law requires the city (and all other Maryland subdivisions) to send a list to the local Department of Aging of all homeowners on the tax sale list who have owned their properties for at least 25 years. The list must be sent to the agency at least 30 days before the tax sale is first advertised, so the agency can contact the owners to offer help.[47]

Baltimore City, however, was not following the law in 2014, when this researcher asked city officials about it. Subsequently, the city's revenue office compiled a list of 1,500 long-time homeowners and sent it to the Baltimore City Health Department Office of Aging and CARE Services (OACS) in March. The agency used the list to send notices to the property owners with contact information for legal assistance and a new loan program administered by the nonprofit Neighborhood Housing Services of Baltimore to help pay liens prior to the tax sale. City officials say prior to 2013, the required notices were sent and staff turnover led to the subsequent lapse.

Community outreach by housing and legal service providers in Baltimore City

In 2013, the Community Law Center, in partnership with the Baltimore Homeownership Preservation Coalition, convened a group of nonprofit lawyers, housing counselors, private foundation representatives, and city and state officials to study the city's tax sale process and prevention of tax sale foreclosure. The group, calling itself the Tax Sale Foreclosure Workgroup, was further inspired by a *Washington Post* series that investigated the negative impact of the District of Columbia tax sale on homeowners.[48]

Consequently, a loan fund was made available in 2014 for the first time to help Baltimore's low-income homeowners pay their delinquent tax bills and avoid the tax sale. The Neighborhood Housing Services of Baltimore (NHS) offered loans of up to $1,500 through a $220,000 program, funded in part by the Abell and Goldseker Foundations. The NHS staff discovered that most of the people seeking help to repay their liens to avoid tax sale were too poor to qualify for the loans. Nevertheless, housing counselors were able to help numerous homeowners navigate the labyrinthine system, especially those with liens for unpaid water bills.

NHS reported that in July 2014, it had received 66 loan applications and was able to make loans to 14 homeowners. Another 10 owners were saved from tax sale after housing default counselors called mortgage lenders, who paid the liens. NHS also gave names of 24 owners with unpaid water bills and no other liens to the city's CitiStat office, which helped put the owners on repayment plans that saved them from tax sale.[49]

In the spring of 2014, just weeks before Baltimore's annual tax sale, members of the Tax Sale Foreclosure Work Group, the Pro Bono Resource Center of Maryland, and the Maryland Volunteer Lawyers Service hosted two clinics offering free legal aid to homeowners facing tax sale. The clinics were held at two public libraries where dozens of worried and confused homeowners met with lawyers. They also applied for low-interest loans with NHS. City government representatives were also there to see if attendees qualified for other assistance.

One woman, living in her home for 19 years with a teenage daughter, said she was unable to pay her water bill and sidewalk paving fees from her income as a part-time Giant cashier. Another homeowner in her 40s said the house where she has lived all her life was incorrectly assessed as a rental home, resulting in taxes that were too high.

An elderly woman in a wheelchair, who lives with her granddaughter and two great-grandchildren, said she could not afford her $600 water bill. She said she subsists on her disability payments and her late husband's pension from his job as a city sanitation worker.

The Pro Bono Resource Center compiled data from the clinics' participants, finding that the homeowners had lived in their houses on average for 21 years. It found that 44 percent were at least 60 years old. The average attendee reported a monthly household income of $1,782, which is below poverty guidelines for a family of four.[50] Eighty-eight percent were poor enough to qualify for legal help under Maryland Legal Services Corporation guidelines. Ten percent were veterans and 32 percent reported being disabled. Seventy-seven percent were behind on their water payments, while 59 percent were behind on property taxes. Forty-eight percent were paying mortgages on their properties. The homeowners said they had been unable to pay property taxes, water bills, and sidewalk paving fees due to financial hardship; many low-income homeowners simply do not have the money or support networks to keep them afloat financially when they lose employment, their medical bills go up, or their roof is in urgent need of repair.

The average lien of those who attended was $2,482. Though most were likely eligible for property tax credits and water bill pay assistance, only 4 percent were receiving the Senior Citizen Water Discount, only 20 percent received the Homestead Tax Credit for owner-occupants, and only 19 percent were registered for the Homeowner's Property Tax Credit for households of limited income.

One problem that surfaced at the clinics—and an issue of concern citywide—involved homes financed with reverse mortgages. Unlike traditional mortgages, where the mortgage company pays property taxes from an escrow account, reverse mortgage companies do not pay taxes for a homeowner, resulting in many homeowners (unaware their mortgage companies did not pay their taxes) facing tax sale. Ten percent of the people attending the clinics had reverse mortgages. Ten percent of attendees also lived in homes that were legally in someone else's name—usually a deceased relative—leaving them unable to sell their homes, seek refinancing, or claim the Homeowner's Property Tax Credit.

Local organizations have only been able to offer stop-gap measures to keep owners from losing their houses. At Maryland Legal Aid and the Maryland Volunteer Lawyers Services, for example, lawyers have filed Chapter 13 bankruptcy for individual homeowners, an action that prevents a tax sale investor from taking ownership of a home while a homeowner in bankruptcy makes monthly payments to the court. If all the payments are made, the debts are satisfied and the owner can keep the house. Lawyers have also been able to get exorbitant water liens reduced when a leak has been found in a home by helping a homeowner appeal a water bill.[51]

A legal aid lawyer was recently able to help an elderly Northwest Baltimore couple who received a surprising notice from the city in 2012, telling them they had one month to pay $9,000 in taxes without interest or penalties, dating back 11 years. Thereafter, they would owe nearly $27,000 with the added interest and penalties. The couple, retired and in poor health, had each filed bankruptcy years before, which prevented the city from seeking tax payments. The cases were dismissed in 2003, but the city did not learn of it until 2012; hence, the letter seeking so many years in back taxes.

The legal aid lawyer was able to negotiate a waiver of interest and penalties, but the couple still could not pay. The lawyer filed a new bankruptcy case, keeping them from losing the house at tax sale. The lawyer also appealed the assessment for their small rowhouse, getting the value reduced from $78,100 to $45,000, which lowered their annual property taxes by more than $500.[52]

Maryland Volunteer Legal Services and other community organizations have referred several clients to the city's Department of Housing and Community Development for assistance.
Each month, the department convenes a group of city agency representatives, nonprofit service providers, attorneys, and housing counselors to discuss critical housing situations that threaten health and safety or continued occupancy of low-income homeowners. These convenings enable the implementation of complex solutions involving multiple agencies and funding sources. In some cases, the coordinated efforts help homeowners resolve payments due the city, preventing situations that might otherwise lead to tax sale. One senior homeowner had a water leak she could not afford to repair, leading to a large water bill. The department combined weatherization funding and other financial sources to replace the water line, repair the roof, weatherize the property, and provide a benefits analysis of other public funding programs she was entitled to receive. With the leak fixed, she was able to request a hearing for an adjustment to her water bill.
Another homeowner, a disabled veteran, experienced both a fire in his home and burst water pipe leading to a large water bill he could not pay. The work to repair the damage was done without permits and the owner received fines for housing code violations. The department combined multiple funding sources to repair the property, including weatherizing the plumbing. Maryland Volunteer Legal Services staff accompanied him to the hearing where his fines were reduced and he received a loan from Neighborhood Housing Services to pay the overdue water bill to prevent tax sale.[53]

Baltimore Homeowner Case Study 4

The large house on a quiet street in Northwest Baltimore sat empty in July 2014, the grass uncut, debris under the porch, and dirty curtains flapping in the windows. A backdoor was flung open to the elements. An investment company that had purchased it at tax sale had evicted four tenant families two months before. A judge had transferred the deed to the new owner and approved the eviction. The previous owner was a man who said he had arranged with one of his tenants to pay the taxes and water bills with rent from other tenants in a 'rent to own' arrangement that hadn't worked out.

The tenant was an elderly electrician, now legally blind, living on disability payments and unable to pay the lien that had grown to $16,500. By spring his apartment was full of boxes, ready for the reluctant move. "I wired this house myself," he said, "I put in new windows."

At Belair Edison Housing Services, which helps homeowners in its Northeast Baltimore neighborhood, housing counselors used a fund of more than $30,000 from donations to help homeowners pay delinquent water bills. The funds ran out in 2012, but the organization continues to mail notices offering counseling to every homeowner in the neighborhood whose house is advertised on the annual tax sale list.[54]

The Pro Bono Resource Center (PBRC) will continue to provide clinics and one-on-one advice to homeowners facing tax sale foreclosure for the 2015 tax sale through its Tax Sale Prevention Project (TSPP). The project will provide legal assistance, resource information, and education to Baltimore City homeowners at risk of losing their houses through tax sale.

Tax relief and discounts for homeowners

While it is not known how many owner-occupied homes are in the process of tax sale foreclosure, open tax lien foreclosure cases for all properties at the Baltimore City Circuit Court totaled 2,355 cases in 2012 and 2,588 in 2013. As of January 30, 2014, there were 2,805 open tax lien foreclosure cases.

Key to low-income homeowners' ability to remain in their homes in the face of high property taxes is the affordability of tax payments and other municipal fees. State laws have been enacted in Maryland to provide property tax credits, and the city offers a number of programs, including water bill relief, to low-income and senior homeowners, described by program more fully below. In order to take full advantage, property owners have to know about the programs. Many city agencies and City Council offices and websites offer information on the programs, and the city sends notice of three tax relief programs as inserts in annual tax bills. But currently, the city sends no notices of the programs with water bills or notice of tax sale, and there is no single government website that posts the information in one location. Additionally, some programs require annual renewal applications, which can be a challenge for homeowners, especially those who may have limited literacy, limited mobility, and/or limited Internet access.

Homeowners' Property Tax Credit Program
The Maryland Homeowners' Property Tax Credit Program (formerly known as the "circuit breaker") gives credits against a property tax bill for homeowners with household incomes below $60,000. The tax credits are available on a sliding scale, depending on household income, which includes earnings of everyone living in the house. The state's website uses the example of a household with income of $16,000, which has a tax limit of $420. "You would be entitled to receive a credit for any taxes above the $420," the website explains. "If your actual property tax bill was $990, you would receive a tax credit in the amount of $570—this being the difference between the actual tax bill and the tax limit."[55] Applicants must apply each year and provide proof of household income.

Homestead Tax Credit
The Homestead Tax Credit program helps a homeowner deal with large assessment increases on a principal residence so taxes do not skyrocket if a home value increases. In Baltimore, the credit is calculated on any increased assessment exceeding 4 percent from one year to the next. The credit is applied against the taxes due on the portion of the reassessment above the 4 percent homestead cap. A homeowner has to apply for this credit only once.[56]

Targeted Homeowner's Tax Credit
Owner-occupied properties eligible for the Homestead Tax Credit also receive a reduction on real property taxes under the Mayor's 20 Cents by 2020 program to reduce the effective property tax rate.

Blind Persons' Partial Exemption
A blind Maryland homeowner can receive a partial tax exemption of $15,000 in reduction of the assessment on a dwelling.

Disabled Veterans and Surviving Spouses
Full property tax exemptions are available to Maryland armed service veterans who are 100 percent disabled and unmarried surviving spouses of military personnel killed in the line of duty.[57]

Future Tax Savings Program
The program offered through the city's Bureau of Revenue Collections allows property owners to make periodic payments from July 1 to June 1 and have them applied to their real property tax bill for the following year. This program may be especially useful for homeowners who do not make monthly escrow payments for property taxes through a mortgagee.[58]

Senior Citizen Water Discount Program
One of the programs available to help low-income homeowners and tenants in Baltimore City pay water bills comes from the city's Senior Citizen Water Discount Program. The program, which reduces water and sewer charges by 39 percent,[59] is available to low-income homeowners and tenants with water bills in their names who are at least 65 years old. Each applicant for the program must be the principal resident and have a household income of no more than $25,000. Applicants must also prove they either own their homes or have rental leases in their names.[60]

Low-Income Water Discount Program
Low-income homeowners facing water service shut-off, a delinquent water bill, or a tax sale notice can seek assistance from the Department of Public Works. The city offers an annual credit to a water bill (of $161 as of 2014) for residents who meet income eligibility requirements.[61]

Hardship Exemption from Stormwater and Bay Restoration Fees
Some low-income homeowners may be exempt for hardship reasons from both stormwater and Bay Restoration fees that are charged on water bills if they meet income criteria and receive public assistance, or veterans' or Social Security disability benefits.[62] The exemption is for one year only and must be applied for each year.[63]

A national crisis, a range of local solutions

The city has been auctioning properties for unpaid water bills for decades, but the practice has become problematic due to double-digit increases in water rates and a large number of homes with water leaks that result in excessive bills.

In 2012, the National Consumer Law Center released a comprehensive study of laws that allow the sale of past due bills of property owners who fall behind on property taxes, water bills, and other municipal charges. The study, *The Other Foreclosure Crisis, Property Tax Lien Sales*,[64] finds that the number of properties with delinquent taxes rose during the recent recession, representing $15 billion in unpaid taxes by 2010.[65]

The study surveyed city and state tax sale laws and practices, noting that tax sale procedures are extremely complicated and are often best understood by the investors who purchase the tax lien certificates. The study found that interest rates for redemption have remained high for decades (many at 18 percent or higher) and have not been adjusted to reflect current market conditions, unduly benefiting investors. In most communities, when homeowners lack funds to pay the high redemption cost, a subsequent foreclosure means the loss of a home and all its equity. "This equity may represent their sole savings and security for retirement. As a result, tax lien sales may destabilize communities," the study concludes.[66]

The study shares best practices of governments that have recently passed laws to reduce the number of homeowners losing their houses, such as New York City, which exempts seniors, the disabled, and military veterans from the sale and requires multiple notices to delinquent homeowners whose properties face the tax sale. The study makes the following recommendations to increase protections for homeowners:[67]

- lower interest rates to make redemption of homes affordable and keep investor profits reasonable;
- reduce the amount of additional fees homeowners must pay, such as title searches and attorneys' fees;
- encourage enrollment in homeowner property tax relief and abatement programs;
- allow partial payments and payment plans for repayment of taxes and other liens over a longer term;
- adopt tax deferral programs to permit homeowners experiencing temporary loss of income to defer paying property taxes;
- require personal delivery of a final foreclosure notice to homeowners, rather than relying solely on first-class mail delivery;
- provide additional notice from local social service agencies to at-risk homeowners; and
- create emergency loan funds for homeowners who face losing their houses through tax sale foreclosure.

Baltimore County: More protections for homeowners

While Baltimore County's tax sale falls under the same state law as Baltimore City's, the county has found ways to make administrative changes to the tax sale to protect homeowners. For the last six years, for example, the county's finance department has raised the 'threshold' of unpaid liens for residential properties subject to tax sale from the $250 minimum set by state law, to $500. This was done administratively without any legislation.[68] In addition, county law establishes a 12 percent interest rate of redemption[69] while Baltimore City charges 18 percent interest.[70]

Baltimore County allows struggling homeowners to pay taxes in monthly installments in cases of temporary hardship. In addition to the state Homeowners' Property Tax Credit for income-eligible homeowners, the county offers a supplemental credit of $160.[71] New homeowner applicants over the age of 70 may apply for three years of retroactive credits.

Baltimore County also mails a tax brochure with annual property tax bills that lists 16 phone numbers to call for information on tax credits and other services. It summarizes tax credits available to homeowners and explains how to apply for the county's hardship installment plan. It also spells out the basic details of a tax sale if county liens go unpaid.[72] Advertised on the county website, the Baltimore County Department of Aging offers assistance to elderly and disabled residents to complete the tax credit applications.

Baltimore's high interest rate, along with legally allowed fees for lawyers and title companies, can make it prohibitive for low-income homeowners to redeem their properties.

In response to the state law that passed in 2008, the county began to aid seniors with tax liens who have owned their homes for at least a quarter of a century. Every January the county sends a list to the local Department of Aging of homes owned by the same owners for at least 25 years. The Department of Aging then contacts the homeowners to make sure they have filled out the Homeowners' Property Tax Credit application. In 2013, the county sent such notices concerning 1,850 properties.[73]

New York City: Best practice

New York City has one of the most progressive, homeowner-friendly tax sale laws in the country.[74] It allows homeowners to pay their taxes in installments to avoid tax sale, and it bans the sale of homes for back taxes owned by low-income disabled and senior citizens, as well as veterans and active military personnel. It also significantly reduces the interest rate charged to homeowners to redeem their houses to 9 percent from the customary 18 percent if their houses are valued under $250,000. It requires four notices to be mailed to property owners informing them of a pending sale. The law even requires the city's finance department to send a list of homeowners who qualify for exemption from the sale to the New York City Council so council members can make sure their constituents file timely paperwork to ensure their exclusion from the sale.

The New York City tax sale also has a much higher threshold for lien amounts that can put homeowners in jeopardy of losing their houses at tax sale, compared to Maryland: $1,000 in property tax debt (three years overdue) for a one-, two-, or three-family home. For unpaid water and sewer bills, liens on single-family homes cannot be sold. Liens on two-family and three-family homes can be sold for standalone water and sewer bills of $2,000.

New York City has an overall consumer-advocacy approach to the tax sale: In 2012, the city's comptroller conducted a study on the history of the law and the impact on its homeowners. The study analyzed homeowners who were the most vulnerable, based on household income and race, and how the law protects homeowners from losing their houses.[75]

History of the New York City law

While Maryland's local governments have been selling properties at tax sales since the 19th century, New York City only began tax lien sales in 1996, after decades of taking ownership of abandoned houses with delinquent liens. By the early 1990s, the city government had become New York's biggest landlord, spending $2.2 million to maintain each property, which the city owned, on average, for 19 years.[76] To end the exorbitant municipal expenses and to regain tax revenue, the city enacted its first tax lien sale law in 1996.

In 2011, the New York City Council passed sweeping changes in the tax sale law with numerous other protections for homeowners:

- Homeowners were offered 'zero down payment agreements' to pay their taxes in installments to avoid risk of tax foreclosure.
- The interest rate for redeeming a house after tax sale was reduced from 18 percent to 9 percent for properties valued at less than $250,000.
- Single-family homes are exempt from tax sale for unpaid water and sewer bills, and the threshold for water and sewer liens on other properties was doubled, from $1,000 to $2,000.

The new law also enhanced the level of 'outreach' to vulnerable homeowners:

- New York's Department of Finance must contact homeowners eligible for exclusion from the sale by sending an "eligibility checklist." The homeowner must follow up with a formal application for exemption. The city also sends the New York City Council a list, broken down by councilmanic district, of property owners who filled out the checklists but failed to submit a timely application before the tax sale.[77]

- The city sets a deadline each year for homeowners to enter into an installment agreement to pay their taxes.
- The city must also notify property owners that their homes are on the tax sale list with four first-class notices (90, 60, 30, and 10 days before the sale).[78] Maryland's law only requires one notice to be mailed to property owners 30 days before tax sale.

Washington D.C.: Swift reaction

In 2013, *The Washington Post* published a series of articles entitled "Homes for the Taking; Liens, Loss and Profiteers." The series showed flaws in the District of Columbia tax sale, describing a "predatory system of debt collection for well-financed, out of town companies that turned $500 delinquencies into $5,000 debts—then foreclosed on homes when families couldn't pay."[79] The *Post's* description of the District of Columbia tax sale system mirrors that of Baltimore's own program.

The D.C. government's response to the articles was swift, with the city council passing temporary legislation in 2013 to protect homeowners and enacting a permanent law in May 2014, similar to New York City's law, which creates a consumer-friendly system aimed at protecting homeowners from losing their properties.[80]

In addition to requiring ample notice of a tax sale, the new law prevents homes from being sold at auction with liens less than $2,500. As in the past, owner-occupied homes cannot be sold with water liens. The law also creates an Ombudsman to assist owner-occupants facing tax sale foreclosure and to work with legal aid providers and housing counseling services. Property owners can apply for a one-year "forbearance," or exemption, from sale that will automatically be approved for owner-occupied properties owing less than $7,500. The D.C. Mayor will have discretion to grant an exemption from the tax sale. The law also lowers the interest for redeeming a property from 18 percent to 12 percent.

Perhaps the most progressive part of the new law is its protection of homeowners from losing all equity after tax sale. In contrast, Maryland law has no similar protection. The D.C. law now requires any owner-occupied home subject to a tax sale auction to be handled by the D.C. Superior Court through a trustee sale so any excess proceeds will be turned over to the former homeowner.

Philadelphia: Installment plans

For decades the city of Philadelphia had one of the worst property tax collection systems in the country. Nine percent of the city's 2011 property taxes had gone uncollected. By April 2012, property owners owed the city and its school district $515 million in taxes, interest, and penalties on 102,789 properties. One-quarter of them had been delinquent for more than a decade, according to a study by the Pew Charitable Trusts.[81]

A previous expose by *The Philadelphia Inquirer* and PlanPhilly.com, an alternative media website, found that properties with unpaid taxes had been delinquent on average for more than six years. They ranged from homes in the city's poorest neighborhoods to valuable land slated for a casino and property near the historic Rittenhouse Square. The city had no tax sale program, though it did foreclose on tax delinquent properties.[82]

New York City has one of the most progressive, homeowner-friendly tax sale laws in the country.

In response, the Philadelphia City Council passed legislation in 2013 to remedy the city's "culture of noncompliance." The new laws include a tax sale program, balanced with aid to low-income homeowners, who are now allowed to enter payment plans that could forgive some of the interest and penalties charged as late fees.[83] Low-income seniors are also eligible to have their taxes capped. Members of the military on active duty are eligible for tax credits.[84]

Comparing Philadelphia to other U.S. cities, the Pew report notes that other cities "have lower percentages of poor people, stronger real estate markets, and higher shares of homeowners who pay their taxes through mortgages." In Philadelphia, one in six properties is paying property taxes on installment plans.[85]

Rhode Island: Public investors

Today Rhode Island may have the most intensive, hands-on program in the country to prevent homeowners from losing their houses. In addition to giving ample notice to homeowners of pending tax sales, it authorizes the state's housing agency, Rhode Island Housing, to investigate tax-delinquent, owner-occupied properties and offer homeowners help to prevent tax sale and eviction.

One facet of the law that is highly unusual authorizes local governments to sell tax delinquent properties to Rhode Island Housing, instead of selling them to private bidders. The state agency subsequently takes homeowners under its wing, allowing them to stay in their houses and arranging monthly lien payments (for up to five years), and offering other financial assistance, if necessary.[86] "By providing Rhode Island Housing, rather than private speculators, the first option to purchase these liens, homeowners are helped rather than thrown out into the street," states a report from the state agency on early years of the program.[87]

Called the Madeline Walker Tax Lien Program, the law took effect in 2007. Legislation that created the program was sparked by the highly publicized story of 81-year-old Madeline Walker who failed to pay a $496 sewer bill for the home where she lived for more than 50 years. A private corporation bought the house at tax sale for $836, then sold it for $85,000. Ms. Walker eventually got her house back, but only after a settlement was reached with the new owners to resell the property to her.

Since the program's beginning the state has purchased 596 tax liens, averaging $3,600 and ranging from $224 to $18,994. They totaled $2.1 million. The agency also provided outreach to 7,504 Rhode Island homeowners in 66 local taxing authorities, who they contacted with "Can we help?" letters required by law before tax sale.[88]

Recommendations

The National Consumer Law Center's national study; recent laws enacted in New York City, Washington, D.C., and Rhode Island; and the tax sale system in neighboring Baltimore County offer a good roadmap for improving Baltimore's tax sale process to better protect the poorest homeowners from losing their homes while pursuing municipal bill collection through the tax sale. Recommendations for changes to state and local law and practice are as follows:

Increase threshold lien amount
Baltimore City should increase the lien amount that triggers an owner-occupied home eligible for tax sale from $250 to $1,000 in owed taxes either administratively, or if required statutorily, though an amendment to state law.

Redemption rate
The 18 percent redemption interest rate set by the Baltimore City Council should be lowered for owner-occupants to a level reasonable for property owners to financially afford to redeem their properties, but high enough as an incentive for investors to bid on properties. A reasonable rate for all properties is 12 percent, the same rate as Baltimore County. However, this report recommends additional protection for owner-occupied homeowners by creating a two-tiered system requiring them to pay an even lower rate (6 percent) to redeem a property after tax sale. Alternatively, the homeowners' rate of redemption could be tied to an indexed rate, fixed annually before tax sale. This would allow the rate to rise and fall with the market for other investment instruments over time.

Installment programs
Baltimore City should consider offering owner-occupants monthly installment plans for taxes and other municipal liens, similar to plans offered for water bills, before a property is threatened by tax sale. After tax sale, the city should also consider allowing a monthly installment payment plan for owner-occupants to reclaim their properties, rather than requiring them to pay the investor a lump sum.

Tax lien exemptions
Owner-occupants should be exempt from the tax sale if they are low income, senior citizens, on active military duty, veterans, or disabled. An application process for exemption should be established to make sure government agencies—such as the Community Action Centers, Department of Social Services, Department of Aging and CARE Services, and Baltimore City Council—can provide outreach to contact vulnerable homeowners.

Water lien exemption
All owner-occupied homes should be exempt from tax sale for water liens. The city's Department of Public Works should investigate high water bills among senior and

low-income owner-occupants to resolve water payment problems early and prevent water shutoffs and tax lien sales. The processes for residential customers to address high bills due to water leaks, appeal water bills, and apply for payment plans should be advertised widely. Payment plans offered by the city should have clear guidelines for establishing payments based on homeowner income and budgeted expenses.

Redemption fees

In the case of owner-occupied homes, the limit on court fees and legal fees an owner must pay to redeem a property after tax sale should be significantly reduced to make it more affordable to reclaim a property.

Streamlining payment for redemption

Currently, an owner reclaiming property after four months following tax sale must go two places to repay and redeem: to the tax sale investor to pay legal costs and other fees, and to the city to pay the lien, accrued interest, and current taxes due. A tax sale certificate investor should be required to respond to an owner's written request within 10 days when a homeowner seeks to redeem a property after tax sale. This will prevent interest from accruing if a certificate holder delays in responding to a request for redemption. Ideally, the process for redeeming property, whether in a lump sum or in an installment plan, should be streamlined so the owner redeeming a property need only go to the city, which should calculate what is owed.

Notification of tax sale

Baltimore City should send two additional notices of a pending tax sale to home owner-occupants. Similar to New York, the notices could be sent 90, 60, 30, and 10 days in advance of the auction. Notices should also be written in large, easy-to-read type in the simplest form for seniors and others with disabilities or limited literacy.

The city should ensure it follows the state law requiring additional notice and outreach to 25-year homeowners.

Public notice of discounts, tax credits, and other aid to homeowners

The notices to property owners delinquent on taxes and other bills issued by the city offer a prime opportunity to provide information on state and city programs to help homeowners and vulnerable populations.

The city currently sends tax bills with a brochure listing several tax credit programs and how to apply for them. The distribution of a brochure could be extended beyond annual tax bills to water bills, delinquent bill notices, and tax sale notices to property owners. This brochure could be expanded to list all discounts, tax credits, installment payments, and other aid available for paying property taxes, water bills, and other municipal liens; provide information on how to apply for assistance; and outline the tax sale consequences of not paying the liens. The notice could also provide information on city housing resources and community resources, including housing counseling and legal services. The brochure or flyer should be designed in bold, large print so that seniors can easily read it.

The same information should be posted on a city webpage and appropriate agency webpages that are easy to find and read.

The constituent services provided by Baltimore City councilmembers are a valuable resource for residents seeking assistance. Each year the city's tax collection division should send a list of properties up for tax sale, divided by city council district, to each council member.

Ombudsman

The city should consider hiring an ombudsman or public advocate to help at-risk homeowners navigate payment of city liens and to coordinate outreach with legal services providers and housing counselors and social services.

Key to low-income homeowners' ability to remain in their homes in the face of high property taxes is the affordability of tax payments and other municipal fees.

The ombudsman's office could help low-income homeowners who may be eligible for tax credits, discounts, and other public support including food stamps that could help stabilize household finances. Benefits checks similar to those provided by the Community Action Centers in conjunction with applications to energy assistance and weatherization programs could be completed in tandem with installment plans.

Improve access to credits

To increase utilization by eligible low-income households, the Homeowner's Tax Credit application process could be improved by replacing an annual income review with a renewal every three years. The application could be connected with income and household size information provided in Maryland's personal income tax filings for verification of eligibility. Additionally, the state could send out application forms to homeowners at the time of renewal to increase continued enrollment of eligible households.

To the extent possible, credit, discount, and exemption programs should be linked so if a homeowner meets eligibility criteria for one program, this could automatically be applied to other programs for which the homeowner is eligible.

Notice of excess fee refunds

When the Baltimore City Circuit Court orders a tax sale foreclosure and deed transfer to a new owner occurs, that is the opportune time for the city to locate the original homeowner and return any excess funds owed to them. This practice could assure some equity is returned to a homeowner losing a house.

The city should include in the post-tax sale notice to all homeowners whose properties were sold for more than the lien amounts, a notification that they may be entitled to refunds if the deed is later transferred to the highest bidder. The notice should include details of how to apply to the city for refunds. A list of remaining unclaimed funds from excess bids should be publicly advertised at least once a year.

Dedicate unclaimed excess funds to homeowner tax sale prevention
Excess funds remaining unclaimed after the statutory time limit should be dedicated to Baltimore City programs that provide outreach and assistance to low-income, elderly, and/or disabled homeowners to prevent situations leading to tax sale and to help them remain in their homes.

Increase assistance for vulnerable homeowners
Baltimore's new Tax Sale Foreclosure Workgroup members should continue their work, annually conducting clinics to help homeowners keep their properties off the tax sale list and offering both grants and loans to pay liens.

The grant and loan programs and outreach resources of Baltimore City and the Maryland Department of Housing and Community Development, such as home improvement deferred loan programs and grants and the Baltimore Energy Challenge, should be examined for their potential use and expansion in addressing issues to prevent tax sale among low-income homeowners.

Areas for additional research
The disposition of owner-occupied properties that have been subject to tax sale foreclosure is not well understood and a study to determine current ownership and vacancy would document the effect of tax sale on neighborhoods.

Examination of new laws passed in the District of Columbia and Rhode Island that address homeowners' loss of equity after tax sale should lead to a legislative solution to protect Maryland homeowners.

The [D.C.] law also creates an Ombudsman to assist owner-occupants facing tax sale foreclosure and to work with legal aid providers and housing counseling services.

Endnotes

[1] Baltimore County offered 2,070 tax sale certificates at its 2013 tax sale, selling 1,983 to private investors, according to Robert Franke, customer service manager, Baltimore County's office of budget and finance.

[2] Calculations by the Baltimore City Bureau of Revenue Collections for the Abell Foundation.

[3] Ibid.

[4] Calculations by the Baltimore City Bureau of Revenue Collections for the Abell Foundation, 2014.

[5] Case data provided by Baltimore Circuit Court, July 22, 2014.

[6] Case data provided by Baltimore Circuit Court, July 22, 2014.

[7] Case data provided by Baltimore Circuit Court, July 22, 2014.

[8] Data compiled by Baltimore Neighborhood Indicator Alliance for the Baltimore Homeownership Preservation Coalition. http://foreclosures.bniajfi.org/filings-ratified-sales.php

[9] Calculations by the Baltimore City Bureau of Revenue Collections for the Abell Foundation, 2014.

[10] Baltimore City Code, Tax Article 28, Section 6.1, last amended by ordinance 14-194.

[11] Baltimore City Tax FAQs. https://www.bidbaltimore.com/main?unique_id=UtVatQoJEAEAADubPow&use_this=view_faqs

[12] Baltimore City Code, Tax Article 28, Section 6.2, last amended by ordinance 14-194. https://www.bidbaltimore.com/

[13] *The Sun*, Jan 15, 1878
Tax Sales in Baltimore County
The Sun, Sept. 14, 1936
Municipal Notices: Tax Delinquents List No. 15 - Tax Delinquents Bureau of Receipts City Collector's Office.

[14] Sample of the April 7, 2014 "Tax Sale Notice" from the Bureau of Revenue Collections.

[15] Maryland Annotated Code: Tax-Property 14-833.

[16] Maryland Code, Tax-Property 14-833.

[17] Maryland Department of Legislative Services.

[18] Maryland Code Tax-Property 14-811. http://mgaleg.maryland.gov/webmga/frmStatutesText.aspx?article=gtp&section=14-811&ext=html&session=2013RS&tab=subject5

[19] *The Sun*, July 3 2010: City Asks Legislators to Curtail Home Loss Because of Tax Liens: Council Resolution Seeks Higher Limit Before Lien Can be Sold to Investors; by Schulte, Fred; Protess, Ben.

[20] Interview with Robert Franke, Customer Service Manager, Baltimore County's Office of Budget and Finance. February 25, 2014.

[21] In the Council of the District of Columbia: Council bill 20-23
Just How Magical Is the Tax Sale Threshold? D.C. Tax Chief Weighs In.
Posted by Aaron Wiener on Sep. 16, 2013 at 4:43 pm
http://www.washingtoncitypaper.com/blogs/housingcomplex/2013/09/16/just-how-magical-is-the-tax-sale-threshold-d-c-tax-chief-weighs-in/

[22] Maryland Code, Tax-Property 14-849.1.

[23] Data from Frank Derr, Deputy Chief, Baltimore City Revenue Collections.

[24] As of August 28, 2014, the Baltimore City Department of Public Works reported 443,494 residential water accounts.

[25] *The Sun*, April 22, 2012
Water bill errors swell sewage fees: Mistakes by city are compounded threefold for Balto. Co. customers, by Julie Scharper
The Sun, August 12, 2012, Businesses behind in water bills by millions: City's DPW allows some big organizations to run up costly delinquent accounts, by Luke Broadwater

[26] Jeff Raymond, Chief of Communications, Department of Public Works.

[27] Interview with Baltimore City Department of Public Works officials: Yvonne Moore Jackson, Chief of Customer Support and Services; India Murray, Director of Billing Supervisor; Jeff Raymond, Chief of Communications.

[28] Data from Jeff Raymond as of April 25, 2014.

[29] Interview with Baltimore City Department of Public Works officials: Yvonne Moore Jackson, chief of customer support and services; India Murray, director of billing supervisor; Jeff Raymond, chief of communications.

[30] Baltimore City Tax Sale Notice, 4/7/14. The water payment instructions were inserted at the suggestion of City Council member Mary Pat Clarke.

[31] Data from Jeff Raymond.

[32] Interviews with Baltimore City and Baltimore County tax collection officials.

[33] Article 24 §2-3 of the Baltimore City Code.

[34] Baltimore Department of Public Works water turnoff policy.

[35] Kathryn L. Hewitt, Treasurer, Harford County government.

[36] The New York City Tax Lien Sale: History and Impact, by the New York City Comptroller's office, 2012:
http://media.wix.com/ugd/ddda66_963850318f3b1bd4fca4083cb61cd17e.pdf
Supplement to the City Record; the Council – Stated meeting of Wednesday 2, 2011;
http://www.nyc.gov/html/dcas/downloads/pdf/cityrecord/cityrecord-supplement_4-8-11.pdf

[37] D.C. City Council Bill 47-1340; and Joanne Savage, Senior Staff Attorney, Legal Counsel for the Elderly, AARP.

[38] City of Baltimore Ordinance 99-517 Council Bill 99-1078; City Code Article 28; Subtitle 8: Tax Sales.

[39] The New York City Tax Lien Sale: History and Impact, by the New York City Comptroller's office, 2012.
http://media.wix.com/ugd/ddda66_963850318f3b1bd4fca4083cb61cd17e.pdf

[40] D.C. law passed in May, 2014. Congress did not initially fund the lowering of the interest rate from 18 to 12 percent, but the council is hopeful it will be added to a supplemental budget: Kevin Stogner, General Council to the Committee on Finance and Revenue for the District of Columbia City Council.

[41] Maryland Code, Tax-Property, 14-843. Reimbursable expenses.

[42] Maryland Code Tax Property 14–818, 819.
http://mgaleg.maryland.gov/webmga/frmStatutesText.aspx?article=gtp&section=14-818&ext=html&session=2013RS&tab=subject5

[43] Interviews with Frank Derr, Deputy Chief, Bureau of Revenue Collection and Mary Keenan, Division Chief, Collections Division in the City's Law Department.

[44] Link to the excess fund list on bidbaltimore.com:
https://www.bidbaltimore.com/main?unique_id=UyidrgoJCwEAAGe%400Qo&use_this=view_documentation; 302 E. 31st Street is listed on page 59.

[45] Derr and Keenan.

[46] Interview with Robert Franke, Customer Service Manager, Baltimore County's Office of Budget and Finance.

[47] Article - Tax – Property §14–812.
http://mgaleg.maryland.gov/webmga/frmStatutesText.aspx?article=gtp&section=14-812&ext=html&session=2013RS&tab=subject5
2008 chapter 668: House Bill 722; signed by Governor O'Malley May 22, 2008.
http://mgaleg.maryland.gov/2008rs/chapters_noln/Ch_668_hb0722T.pdf

[48] The Washington Post, September 8, 2013, Homes for the Taking; Liens, Loss and Profiteers.
http://www.washingtonpost.com/sf/investigative/2013/09/08/left-with-nothing/

[49] Figures from Cathy Semans, Director of Lending for NHS Baltimore.

[50] U.S. Department of Health and Human Services, Poverty Guidelines for 2013. http://aspe.hhs.gov/poverty/13poverty.cfm#thresholds

[51] Interviews with staff of Maryland Legal Aid and Maryland Volunteer Lawyers Service.

[52] Interview with Legal Aid Staff Attorney Kay Harding, who provided the homeowners' documents.

[53] Interview with Ken Strong, Deputy Commissioner Division of Green, Healthy and Sustainable Homes, Department of Housing and Community Development, September 26, 2014.

[54] Interview with Johnette Richardson, executive director Belair Edison Housing Services Inc.

[55] Maryland Homeowners Property tax Credit program. http://www.dat.state.md.us/sdatweb/htc.html

[56] Maryland Homestead Tax Credit
http://www.dat.state.md.us/sdatweb/homestead.html
Baltimore City: http://finance.baltimorecity.gov/Portals/Finance/documents/tax%20credits/HomesteadTaxCredit.pdf

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[58] Tax Savings Payment Plan: http://finance.baltimorecity.gov/

[59] The Mayor's Neighborhood Newsletter announced the increase in the discount raise from 35 to 39 percent on July 1, 2014, designed to help defray the hike in city water and sewer rates.

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[63] Clean Water Baltimore. http://www.cleanwaterbaltimore.org/Stormwater-Senior-Low-Income-Exemptions.asp

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[66] Ibid.

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[68] Interview with Robert Franke.

[69] Baltimore County Terms of Tax Sale: Section 11-2-402 of the 2003 Baltimore County Code, as amended, provides for interest at the rate of 12 percent per annum for redemption of property sold at the tax sale. http://www.baltimorecountymd.gov/Agencies/budfin/customerservice/taxpayerservices/tax_sale/terms.html

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