

Glossary of Terms for Tax Lien and Tax Deed Investing

- Accelerated Sale:** Tax lien sale in which the municipality is selling the current year's taxes, and not the pervious year's taxes. There are no open taxes that can be paid on liens bought at an accelerated sale.
- Affidavit:** A sworn statement in writing. Whenever you have any recording, search, or foreclosure fees you need to give the tax collector an affidavit. You should also provide the tax collector with an affidavit for any subsequent taxes that you pay. This is the only way to ensure that you get interest on your subsequent tax payments and that you receive the payments when the lien is redeemed. Some tax collectors also require affidavits to be notarized.
- Assignment:** Transfer of a tax lien certificate or tax deed from one individual or entity to another. For the transfer to be effective it must be registered with the county. Usually there is a fee involved to record the assignment of a lien/deed. If the assignment is not recorded, the taxing authority will pay the original owner of the tax lien certificate or tax deed when it is redeemed.
- Bankruptcy:** There are different types of bankruptcy, however, each one is a legal action that either functions to protect the debtor from having to pay more money to creditors than he or she could possibly pay (in the case of a voluntary bankruptcy), or, in the case of involuntary bankruptcy, to insure that creditors are paid. When a person or entity files for bankruptcy, their property is turned over by the court to a trustee to insure payment to creditors. Once bankruptcy is filed, a federal judge will order a "stay" or freeze on any actions by creditors. Depending on what type of bankruptcy is filed, if you hold a lien on the property involved, you may have to file a claim with the bankruptcy court. In any case, you will be unable to foreclose on the property on which you have a lien until the stay is lifted.

Bidder Information Sheet: This is a form that you must fill out for the tax collectors in New Jersey. Some tax collectors require that you fill out the form, together with a W-9 form, and hand it in before the sale. Most tax collectors in New Jersey will only require the form if you are the successful bidder on any liens. The form lists all your information, including your Social Security Number or federal ID Number (if you're bidding under a company name). Some states will require you to register before the sale and complete a Bidder Registration Form instead.

Bidder Registration Form: This is a form that some states require you to complete before you are permitted to bid at the sale. The form may differ from state to state, but generally it will have your bidder number, name, address, and phone number. It may also ask for your Social Security Number (or tax ID Number if bidding in a company name) and may have a disclaimer about the conditions of the sale that you are required to sign.

Bring down: Update to title search.

Clean title: Title to property that is free from any encumbrances. This type of title is usually not conveyed when you purchase property at a tax deed sale. It is conveyed by a warranty deed and not too many states that sell tax deeds will issue a warranty deed. Most deeds conveyed at tax sales are without warranty and therefore without clear title. To receive clear title to a property for which you have a deed without warranty, you will need to file a legal action know as "quiet title action."

Face value: The face value or face amount of a lien is the amount of the certificate along with any interest due, subsequent payments made by the certificate holder, interest due on the subs, and any fees incurred that will be refunded to the lien holder when the lien is redeemed. In other words, it is the amount that the lien holder would receive if the lien were to be redeemed. This value, of course, depends on the date on which the lien is redeemed.

- Foreclosure:** A legal procedure for a creditor to take possession of property in which the creditor has an interest, in order to receive payment of debt. Some states require legal action to be taken to foreclose on a tax lien or tax deed and some do not. In some states the property owner can still redeem the property even after foreclosure. If you are foreclosing on a property in a state where court action is required, you should seek legal council. Foreclosure proceedings need to be followed according to the state laws or you could loose your rights to the property.
- Lien:** A legal claim on someone's property for the satisfaction of a debt.
- Lien holder:** Person or entity in whose name a lien has been registered with the county against real property.
- Open Taxes:** Current unpaid taxes at the time of the tax sale. Most tax sales are for previous year's taxes, in which case there are subsequent taxes that can be paid once you have the tax lien certificate. Sometimes, sewer liens may also have unpaid current property taxes and once you have the certificate for the sewer lien; you are able to pay the open property taxes.
- Over the counter:** Liens and/or deeds that are not sold at the tax sale in some states are available for private bids. These are known as left over liens. "Over the counter" refers to the way they are purchased, by private bid and not at auction. If left over liens are available and purchased over the counter, they are usually purchased at the maximum interested rate. In states that sell left over deeds over the counter, they can sometimes be purchased for less than the taxes owed.
- Premium:** An amount paid to the county/municipality in addition to the lien amount. After bidding down the interest rate, bidders will frequently bid premium in order to win a tax lien or tax deed. In New Jersey, the premium is kept by the municipality and returned to the investor upon redemption of the lien, *if the lien is redeemed within 5 years*. If the lien is not redeemed within 5 years, the premium is forfeited. In some states, you receive the

premium or “over bid” as it is sometimes referred to, with interest or penalties when the lien or deed is redeemed. In other states, you do not get your premium back when the lien or deed is redeemed. The term premium is also used to refer to an amount over the face value paid for a tax lien when purchasing it by assignment from another investor.

Prior lien holder: A person or entity that holds a previous tax lien on a property.

Realty Transfer Fee: This is a fee that you may be required to pay in order to file a deed with the county clerk. In some states, any time real property changes hands a fee is charged.

Recording or Filing Fee: This fee is charged by the County Clerk for registration of the lien (or deed) with the county. A copy of the lien is filed in the county records. The certificate is given a book and page number where it can be found in the county records. This fee is returned to the investor when the lien is redeemed (if an affidavit has been filed with the tax collector).

Redeemable Deed: A deed that is encumbered for a period of time during which it may be redeemed by the delinquent property owner. Usually there is a penalty applied for redemption.

Redemption: A tax lien certificate is redeemed (bought back) when the owner pays the tax collector the amount of the lien plus any subsequent payments, interest, and penalties. The redemption is paid to the tax collector. The investor must send the tax lien certificate in to the tax collector to collect payment. Redeemable tax deeds may also be redeemed. In this case, the property is bought back for the price of the deed plus penalties and interest.

Redemption Penalty: A redemption penalty is assessed to the property owner upon redemption of the lien. It differs from an interest rate in that you get the full penalty; it is not calculated per annum. In New Jersey, the penalty is paid in addition to any interest that was bid and applies only to the certificate amount; no penalties are paid on subsequent tax payments. New Jersey’s penalties

are as follows: for lien amounts of \$200.00 up to \$4999.99 the penalty is 2%; for lien amounts of \$5000.00 up to \$9999.99 the penalty is 4%; for lien amounts of \$10,000.00 and over the penalty is 6%. In Florida, a 5% penalty is paid instead of interest if the interest was bid below 5%. Many states that sell redeemable deeds have penalties rather than interest rates. Texas has a penalty of 25% for every six months that the deed is not redeemed.

Redemption Period: The period of time that the property owner has to redeem a tax lien or tax deed. If a lien is not redeemed within the redemption period, the purchaser of the lien can either foreclose on the property or apply for a deed, depending on the state. If a deed is not redeemed within the redemption period, the purchaser obtains the property. In New Jersey the redemption period is 2 years.

Sewer Lien: This is a lien placed on a property for sewer taxes. Sometimes there are more sewer liens available than tax liens due to the fact that in many cases the mortgage company pays the property taxes, but the homeowner pays the sewer taxes.

Special Assessments: These are assessments levied by the city or municipality for various reasons. These are normally not extinguished by tax sales and must be paid by the purchaser of a tax deed. They also need to be paid by the purchaser of a tax lien in order to foreclose if the lien is not redeemed.

Subsequent Taxes: Also referred to as “subs.” Once you own a tax lien certificate, you can pay any subsequent taxes when the owner is delinquent in paying them. The timing in which you can pay the subsequent taxes depends on the state. Some states collect taxes annually and others collect taxes more often. In New Jersey, taxes are paid quarterly and are considered delinquent on the 10th of the month in which they are due. In Florida, taxes are collected annually and subs can be paid once a year. It is a good idea to pay the subs as soon as you can, because in most states you earn interest on the subsequent tax payments. Also, it will

keep the property on which you have a lien from showing up in the next year's tax sale.

Tax Deed: Some states do not sell tax liens. If you are delinquent in paying your property taxes, they sell the deed to your property. Some states that sell tax deeds provide a redemption period in which the owner can redeem his or her property even after it is sold in a tax sale and some do not.

Tax Lien: A legal claim on someone's property for the satisfaction of a debt related to taxes.

Tax Lien Certificate: This is a certificate of sale for unpaid municipal liens, issued by the tax collector of a county or municipality, verifying payment. The certificate lists the certificate number, name of the tax collector, the taxing district, the date of the sale. Also on the face of the certificate is the buyer's name and address, a description of the property (in New Jersey, its block, lot and address), the name of the property owner, and the amount of the sale. The certificate is not valid unless it is signed by the tax collector and notarized. Keep your tax lien certificates in a safe place. You must sign the back of the certificate, have it notarized, and return it to the tax collector before receiving payment upon redemption by the property owner.

Quiet title: Legal action taken to quiet the title to a property that does not have clear title. When the proceedings of the quiet title action are done, title to the property is cleared and a warranty deed can be issued.

Utility lien: Lien on a property for unpaid utilities - can be unpaid sewer, water, or electricity.

W-9 form: Tax form that you give to the tax collector if you are successful bidding at a tax lien sale (not always required). The form lists your name or your company name and your tax ID. This information is also on the Bidder Information Sheet, but many municipalities require that you submit both forms.

Warranty deed: Deed that conveys clear title to a property.

Year End Penalty: This is an extra penalty added onto tax liens in New Jersey. It only applies to subsequent tax payments in excess of \$10,000.00. If the amount due (or amount of subsequent taxes paid by the lien holder) is \$10,000.00 or more at the end of the tax year, an extra 6% penalty is added (payable to the lien holder upon redemption of the lien). This is not statewide; it is up to the each municipality whether they have the year end penalty.