

Tax Lien Investing: Investing Online and by Mail

By Joanne Musa

One of the questions that I frequently get from visitors to my web site, www.taxlienlady.com, is “Can I invest in tax lien certificates online or through the mail?” Many people want to invest in tax lien certificates but don’t have the time freedom to physically attend the tax sales, so they want to do it online or by mail. A couple of tax lien states do hold online tax sales, and a few will allow you to mail in your bid. I don’t, however, recommend investing in tax lien certificates by mail or online unless you can look at the properties or have someone else look at them for you.

First let’s talk about online tax sales. As tax lien investing has become more popular with the average person (it’s not just the secret of the wealthy anymore), it’s also become more competitive. Over the last three or four years, in states where the interest rate is bid down, the bidding has been going lower and lower – as low as .25% in some states. And in states where the amount of the lien is bid up prices have been bid higher and higher. Online auctions increase the competition even more. Now instead of bidding against every interested party who can come to the sale, you’re competing with every interested party with a computer.

Three things happen at these online tax sales. First of all a lot more bidders show up because all they have to do is get to their computer to register for the sale. Secondly, more money – or lower interest rates are bid for tax lien certificates because there are an increased amount of bidders. And thirdly more properties are sold at these sales. You see, at most tax sales there are “left-over” liens that no one bids on that go to the county. A lot of these properties are junk properties. They are really not worth anything and that’s why the owner stopped paying the taxes. Any bidders that have done their due diligence will know this and will not bid on these properties. But when sales are held online these properties will typically be sold. Don’t you be one of those online bidders who buys a tax lien on a worthless piece of property!

Would you purchase real estate that you didn’t look at first? Even though you are not purchasing the property when you buy a tax lien (you are only paying the past due taxes and penalties and putting a lien on the property), you still need to make sure that the property is valuable. There is always the chance that the lien will not be redeemed and that you will wind up with the property. And if you do have to foreclose on the property, you want it to be worth much more than you have invested in it. Your investment isn’t only the amount that you paid at the sale, but all of the subsequent taxes that you paid, any legal fees and foreclosure costs, and any costs that you incur to fix up the property before you sell it.

Here is something else to consider if you decide to go ahead and tax lien certificates online anyway. You will pay more money for tax lien certificates online than you would at a regular tax sale. First of all you will have to have a hefty deposit just to register for

the sale. If you do not purchase any liens your deposit will be refunded. If you do make a purchase it money will be deducted from your deposit. Even if you make a purchase by mistake, the money will be deducted and it will not be returned. If you do not complete the transaction you could be banned from any future sales. In addition to that you will have to pay the online auction company a commission, which could be as high as 10% of the purchase price of the lien(s) that you buy.

What about purchasing tax lien certificates through the mail? Many states do allow for purchasing of tax lien certificates through the mail. Most states allow this for their “left-over” liens and a couple of states will even allow mailed in bids for their tax sales. Buying tax lien certificates through the mail does not have all the problems that I described for online tax sales, especially if you are able to do your due diligence on the properties before placing your bid. You are, however, at a disadvantage when you mail in your bid for a tax sale. I suggest that you find out what the procedure is at the sale. If your bid is read out loud at the sale and those present at the sale have the opportunity to out bid you, than you are at a disadvantage. It is the investors who are present at the sale that have the advantage over you.

There are opportunities in some states that sell leftover liens (sometimes these are referred to as “over-the-counter” liens or “assignment” liens) that are available for purchase through the mail. Be very careful though to do your due diligence on these properties before you placing a bid. Very often, as I mentioned earlier, there is a reason that these liens were not purchased by other investors. If no-body else wanted it maybe there is something wrong with it! Check the property out before you buy. With tax lien investing, there are no refunds!