



Testimony of Pamela Parker-Cortijo

**Assistant Commissioner, NYC Department of Finance
Before a Hearing of the Consumer Affairs and Community
Development Committees on the Sale of Tax Liens**

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Good morning Chairpersons Vann and Koslowitz and members of the Consumer Affairs and Community Development Committees. I am Pamela Parker-Cortijo, Assistant Commissioner for Collections at the New York City Department of Finance. In this position I oversee the annual tax lien sale. Thank you for inviting me to testify on behalf of Finance Commissioner David Frankel.

First, I would like to give you some background about the lien sale and its history.

Prior to the lien sale, Finance's primary collections enforcement tool was the "in rem" program, which allowed the City to seize ownership of properties in debt. On average, these properties owed \$36,000 in back taxes when the City obtained ownership of their titles. However, each property cost the City an average of \$2.2 million to acquire, manage, prepare for sale and remove from tax rolls. The City determined that it could no longer carry the costs associated with seizing and maintaining properties.

The lien sale program was implemented in 1996. Prior to its inception, the program was successfully established in many cities throughout the nation including Boston, Chicago, Philadelphia, and Washington D.C. Its purpose is to reduce the costs associated with collecting outstanding property and water debt, while increasing the collection rate.

The annual tax lien sale has allowed the City to collect more than two and a half billion dollars in delinquent property tax and water charges that otherwise would be very difficult for the City to realize. At the same time, the lien sale has increased voluntary payments and reduced the number of foreclosures faced by owners who owe the City. For these reasons, we believe the lien sale program has been a success, and has been an important tool for the City's collections effort.

The law allows Finance to sell the right to collect outstanding property and water debt. This is a key point: When we sell a lien, we are *not* selling the property. We are selling the right to collect the debt.

Let me explain how the lien sale works with respect to property taxes. As you know, City Council sets a tax rate for different classes of properties. The Department of Finance assesses the value, applies the tax rate to the value, issues the bills and collects the property tax.

Properties that do not pay their tax on time are in danger of having a lien sold if they meet the following criteria:

- For 1-, 2-, and 3-family homes, residential condominiums and cooperative apartments, an owner is at risk if he or she owes more than \$1,000 in property taxes that has been delinquent for at least three years;
- For commercial condos and apartment buildings, utility properties and commercial buildings, an owner is at risk if he or she owes more than \$1,000 for at least one year.

A typical homeowner will receive at least 12 quarterly notices stating their property tax liabilities before they are entered into the lien sale process. That's four notices per year for three years.

Once the lien sale process starts the City will contact affected property owners at least three additional times with targeted messages. We send delinquent owners a notice of our intent to sell a lien if they do not resolve their debt within 90 days. We also publish this list of properties in a local major daily newspaper, place ads in other daily papers and community papers across the City, and post the list on our website. Thirty days later, we send a second notice to owners. Thirty days after that we send a third notice. Ten days before the sale, we publish an updated list in the newspapers and advertise again. Our website is updated throughout this process.

Finally, the City sells a lien for all the properties that have failed to address their debt. This past year, of the 26,000 properties initially noticed, roughly 4,800 had a lien sold.

This sale is technically a transfer of the debt to a Trust. Depending on the year, the Trust in turn pays the City 70 to 80 cents on the dollar for the debt up front. The Trust funds the payment to the City by selling bonds backed by the debt and associated properties.

The Trust relies on lien servicers to collect on the debt and redeem the bonds as payments are made. These servicers are collection entities governed by a service agreement with the Trust. Once the bonds are redeemed through the collection of the debt by the lien servicers, Finance receives the remaining property and water debt.

Lien servicers are selected by the City on behalf of the Trust every several years through an RFP process. The servicers are required to submit an annual audit on agreed upon procedures that meet the City's standards of conduct.

The servicers aggressively pursue outstanding debt by sending letters, knocking on doors, and starting foreclosure proceedings in court. Servicers charge owners increased interest rates plus fees. The lien sale is designed so that the cost of collecting is borne by those who did not pay their taxes and water bills, rather than by those who abide by the law. Currently, 98% of property tax is paid on time and 88% of DEP water accounts pay their balance within two billing cycles.

We prefer to collect delinquent charges without having to sell a lien. In many of these cases property owners have received as many as 15 notices, but decide to ignore their debts until enforcement action is imminent.

The overwhelming majority of owners avoid foreclosure, and while it is difficult to classify efforts to pay before the deadline as "voluntary

compliance” we have taken several steps to make it easy for owners to avoid having a lien sold.

- We offer payment plan agreements to property owners who have fallen behind on their tax payments. Property owners can secure a payment plan at any time, from the day they receive their first bill to the day of the lien sale.
- We have worked with members of the City Council to conduct outreach sessions in each borough, giving owners a chance to meet with Finance, DEP and HPD after work hours to resolve their debt.
- Finance and DEP keep offices open late during the notice period to help customers, and HPD has joined us in an effort to protect owners against predatory lenders and to offer loan and other advice.
- We have also targeted those homeowners we believe may be eligible for the Senior Citizen Homeowner Exemption or Disabled Homeowner Exemption and sent specialized outreach letters with exemption application forms.

That’s an overview of the process. Thank you for the opportunity to come before you today and explain the lien sale program.