The 7 Mistakes New Tax Lien Investors Make

*What You Must Know to **Not Lose Money** at your First Tax Lien Auction*

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Introduction

You probably are reading this because you've heard the hype about investing in tax liens.

At some point in your research, you've seen the claims:

- Virtually Risk Free
- Guaranteed Rates of Return of 16%, 36% and More.
- Buy Your Next Home for Pennies on the Dollar
- Buy $1 Million Homes for as Low as $1,995

Look familiar?

Is that voice in the back of your head starting to scream at you?

I'm here to tell you…it's really to good to be true. I'm sorry to be the one to give voice to your inner screams, but someone has to before you either spend thousands on a nonsense course or put tens of thousands of your investment money into a losing investment.

BUT, you say, there MUST be something to this…

There is.

I love investing in tax liens and my passion is to teach you how to invest in them safely and for a good return on your hard earned dollars.

While the hype is WAY over-exaggerated, I'm here to tell you what you should expect from investing in tax liens:

- A Safe Investment but not Risk-Free
- Returns in the High Single Digits and Teens Annually
- The Possibility of Getting a Property and Not Losing Money on it
- Hard Work and Good Research which Results in Better Returns and Safer Investments

I have one rule of investing for myself and it is especially applicable to tax lien investing:

DON'T LOSE MONEY

Let me repeat that because it's the topic of this book and you must tell yourself this every time you prepare for a tax lien auction.

DON'T LOSE MONEY

In the universe of tax lien certificates, 30% of all tax liens sold are fall into the 'high risk' category. You have a good chance of losing your entire investment if you bid on these liens. Another 10% or so are marginal – you might lose a portion of your investment.

Yet, it's these 40% of marginal and high risk liens that gets the new investor excited about buying tax liens.

Why?

Because they earn the highest interest rate and are the cheapest to buy.

Hey, I get excited when I think I can earn 18% on anything. But, just like everything in life, those returns are adjusted for risk. *The higher the rate, the higher the risk.* And since the rates are capped at a maximum rate (such as 18% in Florida), then those liens that sell for that high rate are usually the ones you'll get burned by.

Plus, new investors always make the mistake of dipping their toe in the tax lien pool by buying low priced liens—you remember the mantra of buying a beautiful 3-bedroom home for just pennies on the dollar, right? But, these again, are the liens that you will lose money on.

I'm going to teach you the 7 most common mistakes new tax lien investors make.

Write each of these mistakes down and then ask yourself if you're making these mistakes before your first auction and every auction afterwards.

Now the shocker…

I've made every single one of these mistakes.

I lost money because of every one of these mistakes.

I've seen individuals, corporate funds and seasoned pros make the same mistakes.

I created this e-book, my tax lien newsletter, and my blog (http://taxlieninvestingpro.com) for two reasons:

1. So you don't make those same mistakes.

2. You don't get suckered into paying for a course or book that actually teaches you to make these mistakes—all because they are playing into your desire for high returns and their own greed of making money on selling a product rather than passing on wisdom.

If you take these lessons to heart, do your homework, and invest with reasonable expectations, you will make a good return on your tax lien investments and you can sleep at night.

So, I wish you the best of returns on your hard-earned money and look forward to hearing your questions, feedback and results.

Be sure to email me at taxlienpro@taxlieninvestingpro.com or just reply to any of my newsletter emails.

I read ALL of my subscriber emails!

I answer ALL of my subscriber emails!

Now, feel free to print this out, write in the margins, and begin to feel prepared before you go to a tax lien auction.

Jon at http://taxlieninvestingpro.com

Mistake #1 – Buying Low-Priced Liens

As this tops the list, you'll know that this is the number one mistake I see new investors make.

First, what is my definition of a low-priced lien?

Generally, low-priced liens are placed upon low-valued properties.

Junk properties.
Properties whose value is equivalent to a new car.
Properties that you personally wouldn't live in.
Small land parcels out in the middle of nowhere.
Condos built 30 years ago with more cockroaches than people.

You get the idea. These are liens priced less than $750 in annual taxes. These are properties assessed (market value) at less than $60,000 is most areas.

You will lose money on these liens!

If you're familiar with stock investing, these liens are the equivalent to penny stocks—while you might get lucky, most of the time, you end up losing money on them over the long run.

Also, some states charge you a non-refundable fee when you purchase the lien (Arizona is a good example). Your low-priced lien might redeem, but the interest you earn doesn't cover that fee and you end up with your money back minus a couple dollars.

There are a few exceptions to my rule such as in New Jersey, but that'll be for a later discussion in my newsletter or website.

One more downside to low-priced liens…you put all this time and energy into buying tax liens *(and remember, you should spend lots of time understanding what you're buying in the beginning),* and when your lien or liens redeem, you get a few dollars in interest.

That's not a great return on the time and energy you put into buying these liens.

Here's what you should do…

Set a budget for what you're willing to spend in the auction.

The budget should be no more than 10% of the funds you have set aside for your personal or family investments.

Plan to buy properties with tax lien amounts over $1,000 each and properties assessed over $100,000 (you can increase this in certain high-priced counties like Nassau, NY)

If your budget turns out to be under this amount…don't buy tax liens. Save up your money and put it in a bank.

I know you're tempted to just "try it out" at the auction. You think that by buying one or two small liens and you lose money on those, then it's just the price of an education.

Don't do it! Treat every dollar with respect now and you'll always have the mentality that it takes to not lose money and earn a return worthy of your time and energy.

Mistake #2 – Buying Vacant and Dilapidated Properties

A good percentage of the liens that are offered in tax sale are on properties that have been abandoned, in need of serious repair and are generally an eye sore to the neighborhood.

These liens are tempting to new investors because they sell at high rates and have few bidders.

You may think that you're buying the lien at 2-3% of its assessed value and if you get deed to the property, you can just fix it up and sell if for a huge profit.

Unfortunately, it doesn't normally work out that way.

First, these properties are usually worth well under their assessed values. Most county assessments apply a computerized model to determine what the value of the property is based on neighborhood sales data. They very rarely inspect every property and won't give much of a discount for the shape it's in. You may actually be buying a lien on a property that is worth 70-80% less than its assessed value.

Second, imagine a house that, in good shape, is worth $60K. It's vacant. You can see a gutter hanging down and a roof that needs to be replaced soon. Now, in the year that you need to hold the lien before you can take a tax deed to it, that property develops a hole in the roof. More than that, vandals have broken in and taken the HVAC system and plumbing. Now, you may have $40-60K in repairs to make on a property that is only worth $60K fixed-up on the market. **Add that to your legal costs and subsequent taxes, and you're underwater on your investment!**

Finally, the biggest reason to watch out for these properties is "code enforcement". These are the city employees who drive around looking for properties that need repairs. Since the real estate downturn and with county budgets tightening, they are becoming very aggressive with their inspections.

If the grass isn't mowed – They'll mow it for a fine of $250.
If a window is broken – They'll board it for $500.
No one responds to these and other repair requests – They'll demolish the house and put a $5,000 lien on the property.

All those costs stay with the property (if the property is still there)—as the tax lien holder, you have little or no recourse to repair the property yourself. And, your foreclosure won't wipe out these liens. You'll have to pay them if you get the property as a tax deed.

Mistake #3 – Not Seeing the Property In-Person

With the rise of Internet tax auctions in states like Florida and Arizona, it's getting easier and easier to buy tax liens from anywhere in the world. It's even easier to research these properties—you can 'virtually' drive the properties on Google maps and you can even see photos of the properties on a few of the assessor's websites. I once "attended" an Arizona auction while vacationing in Florida.

Yet, for that Arizona auction, I still made it a point to go there a week beforehand and look at every property I was going to bid on.

Why?

Because you never know what has happened to the property, no matter how good the online information is.

Did the property have a fire recently?
Is that great looking warehouse really an environmental mess in the lot behind it?
Is the neighborhood a war zone? A playground for pimps and drug dealers?

You'll never know unless you drive by the property before the auction.

Take the time to look at the properties – both online and in-person. Make sure you're not making Mistake #2 by buying a property that is on the verge of being demo'd or fined by code enforcement.

Take a look at the neighborhood—do you feel safe to walk around the streets here?

Look around the sides and back of the property if you can see it from the road (remember you can't trespass) – I've seen houses and building that look great from the front, but were crumbling down in the back or had a fire in one or two of the rooms.

If you have a smartphone—download a free application such as the ones from Zillow or Redfin that will allow you to see the recent sale prices in the neighborhood. Do they match what you expected?

On the positive side, you might find a property that is much better than you (or other investors) thought. Maybe you can be more aggressive on your bidding because the property was recently renovated or a new addition was just built?

Make the investment with your time to make sure you've seen these properties so you won't get caught by a nasty surprise later on.

Mistake #4 – Not Understanding Noticing and Deadlines

Before you attend your first auction, you absolutely need to understand what is required of you if you win a lien. You must do your homework!

If you don't, you will lose your interest in the lien – ie you'll lose your ENTIRE investment.

You'll also want to find out if it's just too much work for you—no one really likes hiring and monitoring an attorney or sending out official noticing letters to those with an interest in the property. Tax liens are not like stock investments—most states require some sort of active management of the liens.

Where to find this information?

I recommend first going to the source – the law behind how states handle tax liens. You can find a list of links on my website here: http://taxlieninvestingpro.com/links-to-tax-lien-statutes-and-tax-lien-law/.

OK, it's a bunch of "lawyer-ese" but it's the legal basis for how the auction works, what rates you'll receive and what needs to be done to keep the lien valid.

Your next best resource – auction websites and county treasurer websites.

If you want good explanations about how the tax lien process works, go straight to your County Treasurer. These websites normally provide great information warning of the risks and requirements for tax lien buyers.

For those counties that hold online auctions, the auction websites such as RealAuction.com also provide great explanations about the process of bidding on tax liens and the requirements that go with them.

Best of all, this information is *free and publically available*.

If your county is a bit behind technologically, you can try giving the Treasurer's office a call. It can be hit-or-miss finding someone that will take the time to talk to you, but see if they can, at least, point you in the right direction for information.

What Specific Information Are You Looking For When You Do Your Homework?

Here are a few questions you should be getting answers to:

- When does the lien expire?
- When can I file for deed or foreclosure? What is the last date to file?
- What notifications must go out and who sends these notifications?
- What information must be provided on the notices and who must receive them?
- Am I restricted from contacting the owner for a certain period of time?
- How can I get reimbursed for my noticing expenses?
- Do I need to record my tax lien certificate and subsequent taxes with the county?
- Do I need to send in my certificate to be paid for a redemption?

Don't attend an auction until you're completely confident you know what is required by you, the tax lien holder, and when you must take action!

Mistake #5 – Relying on Assessor Valuations

I see a lot of new investors going straight to the county assessor sites to see what the value of the properties they are going to bid are on. Even large investment firms tend to rely heavily on these assessments to figure out how much a property is worth.

While it can be a good place to start to “widdle down” your list of liens, **never rely on these valuations for their accuracy.**

> *Did you know that it’s been five, ten, sometimes twenty years in some counties since they’ve done a county-wide reassessment of their properties?*

Plus, most of these properties haven’t been seen in-person by the assessor.

> *What if the property burned down? What if the values declined by 60-70% such as they did in certain parts of Florida back in 2007.*
>
> *On the flip side, what if a new house was built on that vacant land parcel? Wouldn’t that be a competitive advantage that someone relying just on the assessment would miss?*

I'd much rather rely on current sales data for the neighborhoods and streets I'm interested in.

There are plenty of resources both online and in-person.

I like to use a combination of Zillow, Redfin, and Trulia. Filter out the properties that are currently listed and just focus on the properties that have sold in the past year. If you're hunting for areas to invest in, I like to use Trulia's "heat maps" that give a good idea of where values are highest and where the neighborhoods are to avoid.

When you're driving around looking at properties, call up real estate agents that have listings near the property you are looking at bidding on. Ask them what their property is listed for and get a sense of the demand at that price.

Also, make sure you're using accurate comps—don't compare a 3,000 square foot house to your 900 square foot shack and expect an derive an accurate market value.

If you're going to use data from the County Assessor…

Give them a call or check online when their last county-wide assessment was made. If it's less than two years ago, then you can use these numbers to focus your search. Just don't rely on them too much for your final value determination.

Mistake #6 – Not Being Prepared the Day of the Auction

You've done your homework – found a great list of properties you're going to bid on and now you're ready for the auction.

Not quite…

There are a few last items that can get you into trouble if you're not prepared when you walk into the auction room or login to the online tax sale. Most of these items have to do with how you're going to pay for your winnings.

The most common mistakes I see from tax lien investors are not having the correct payment type or not able to get the payment within the time constraints imposed by the county.

Some counties require you to have certified funds the day of the auction—you'll want to make sure your bank has a branch close to the auction site so that you can run out to get a cashier's check, if required.

Here are a few more cash preparation items to think about before the auction:

- What are the deposit requirements and when is the latest I can pay?
- Did I properly register and did I receive a confirmation?
- Are there any fees I need to add to my purchase price?

Furthermore, there are a few non-cash items to review:

- What order will the liens be offered – is it by ID number, owner name, etc?
- Do I know exactly where the auction will be held and how many days it is expected to go on for?
- Where, exactly, is the auction going to be held at?
- Do I have printouts of the entire auction list with the properties to bid on highlighted?
- Did I bring extra paper and pencils to write down my winnings?

Mistake #7 – Not Doing the Work Yourself

Let's face it…we're all BUSY people.

It would be great to just hand the homework, due diligence and management of your tax liens to someone else—just like your brokerage account.

I highly recommend NOT trusting anyone with your tax lien purchases.
(with the exception of your attorney if you're foreclosing)

I've tried hiring local real estate agents to drive the properties I was interested in and report back with their findings—only to find out they took a photo of the wrong property.

I've tried hiring other bidders to attend the auction for me—only to find that they were working for others in the auction or would leave halfway thru.

And, I've tried getting help filing required notices—just to find myself working just as hard to manage their work as I would have doing it on my own.

To be completely sure of the quality of your purchases, make sure you have the time and energy to do the work yourself.

If you're like me, you'll find that you enjoy the challenge and really enjoy the rewards of great returns when you put the time in yourself.

Closing Thoughts for the New Tax Lien Investor

Investing in tax liens can be profitable, enjoyable and lead to a long-term source of income for your investment dollar.

My mission is simple – keep investors, like you and other individual buyers, out of trouble.

If done right, buying tax liens should *never* result in a loss of your principal. Too often, I find new investors making simple mistakes—some from lack of experience and some just because of misinformation out there on the Internet and from other investors.

I encourage you to share this resource with your family or other potential investors and I welcome you visit my website often where you can find more information to better your returns and keep you on the path toward profitable investments.

You can also email me directly from the Newsletter email address where I answer ALL questions from my subscribers.

Best of luck and hope to see you soon on http://taxlieninvestingpro.com!