Community issues > Housing

Are the profits from Baltimore's tax lien system worth the harm to Black homeowners – and the city?

For a missed payment of just $750, homeowners can find their homes trapped in a legal limbo, and in some cases lose their homes entirely.

By Nick Thieme and Sophie Kasakove

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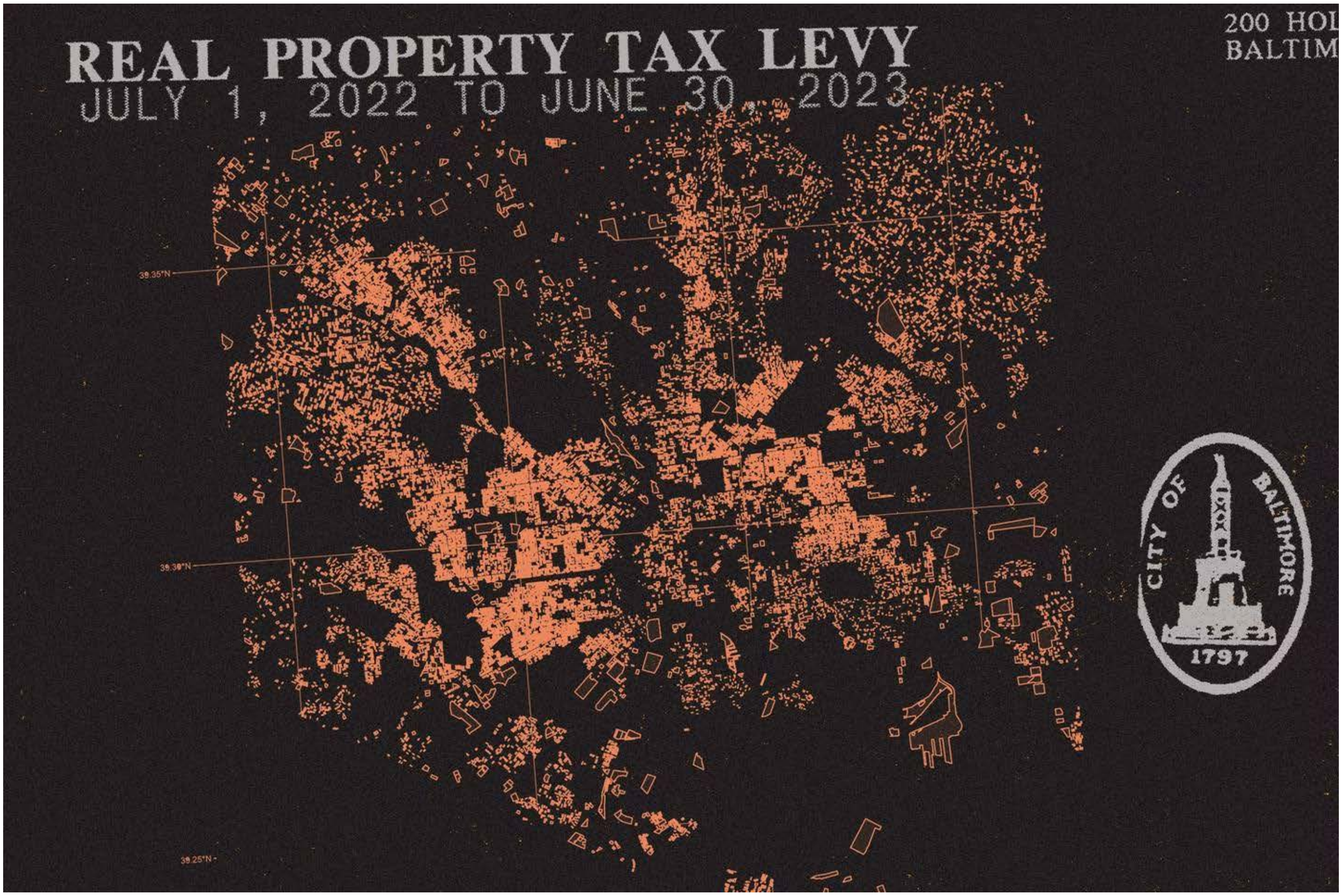


A top-level view of our deep dive into property tax sales in Baltimore City. (Laila Milevski/The Baltimore Banner. Original graphic by Nick Thieme/The Baltimore Banner)

Arnita Owens-Phillips had always promised herself one thing: She would hold onto her simple brick rowhome in East Baltimore.

Her son Corey used to tell her when he was young that one day he'd buy her a big house in the city. "Cause I'm your boy," she recalled him saying. "I'm going to take care of you." Corey died at 17 when he was struck by a car, and yet his mother always felt he had fulfilled his promise: She used money received from a settlement in his death to buy the home just south of Baltimore Cemetery.

“No matter how hard I had to struggle, I wasn’t going to move again,” said Owens-Phillips. “I felt like this was the house that my son bought me and wanted me to have.”

Then came the pandemic. She was forced to shut down her home daycare business, and her disability checks weren’t enough to cover the bills, especially her $2,000-a-year city property tax bill. She hoped that over time she’d be able to get caught up.

[*Did something like this happen to you? Share your story.*]

But in January of 2022, she learned that time was running out: She received a letter from Stonefield Investment Fund IV, LLC notifying her that it had bought a lien on her home at Baltimore City’s tax sale — a yearly auction in which the city allows investors to bid on property tax debt. By August, the company had filed to foreclose.

PROPERTY: [redacted]
TAX LIEN HOLDER: **Stonefield Investment Fund IV, LLC**
Baltimore City Tax Sale

Enclosed please find a **Notice of Delinquent Property Tax.**

The tax sale can be redeemed as follows:

Step 1: Pay the fees and costs due to the tax lien holder: Email (smorse@morselawmd.com) or fax our office a request for a Fee/Cost Payoff Statement. The total amount should be forwarded to our office via certified funds made payable to **J. Scott Morse, Attorney**. Please reference the property address on your payment.

Step 2: Pay the delinquent property taxes and interest due: Once payment is received for the costs and fees due you will be provided with a letter of release to present to the Tax Sale Office so that you can pay the remaining taxes and interest due **at the Tax Sale Office**, and make a final redemption of the tax sale. **You should contact the tax sale office directly to obtain a statement of the delinquent taxes due.**

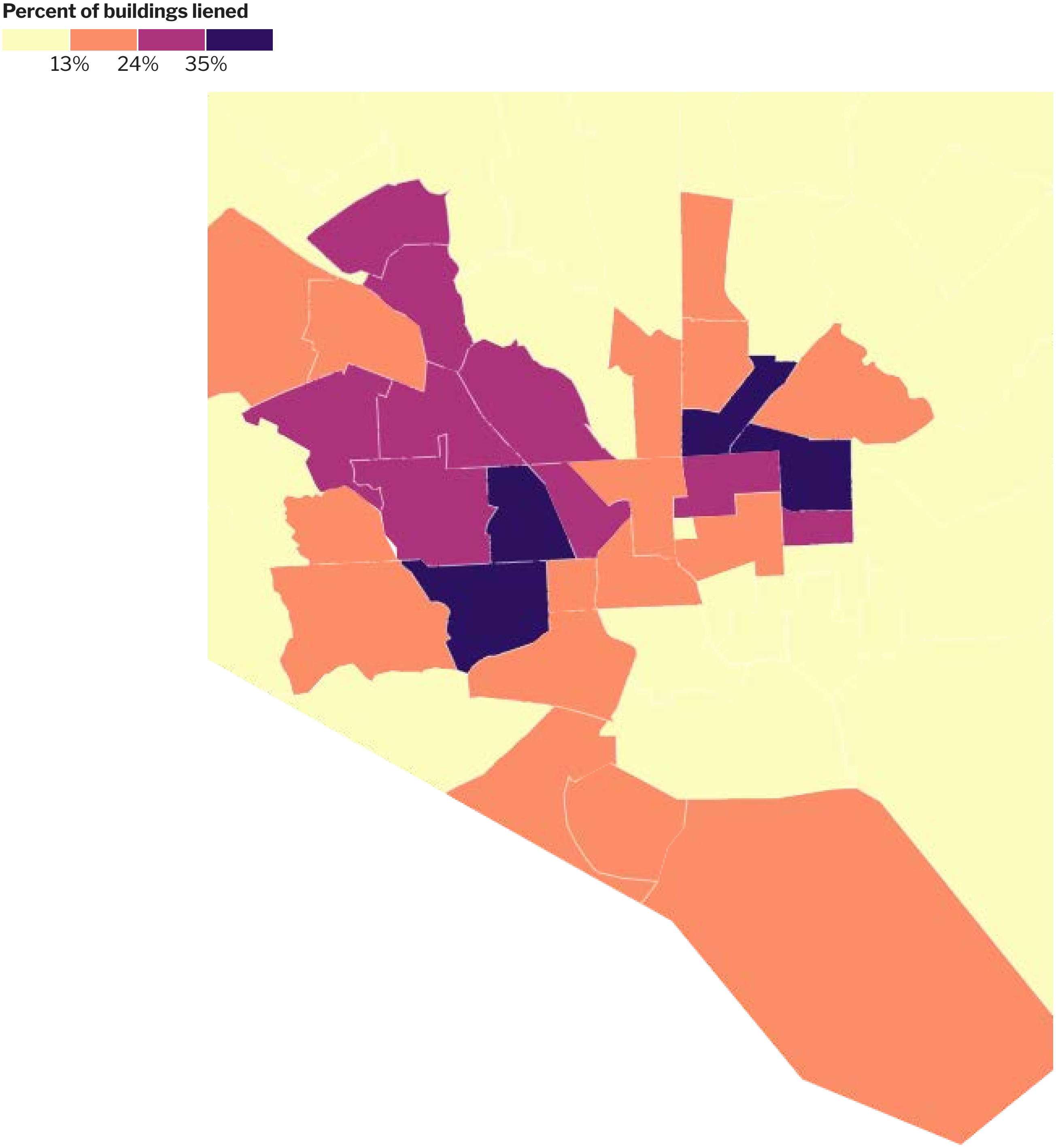
The letter from Stonefield Investment Fund IV, LLC notifying her that it had bought a lien on her home at Baltimore City's tax sale.

She could still keep her home, but it wouldn't be cheap: In the little over a year since the company had bought the tax sale certificate, the amount owed had

Owens-Phillips felt alone in her plight, but she is far from the only city resident to become entangled in a tax sale nightmare. Some 41,000 properties have gone through the tax sale in Baltimore since 2016, according to an analysis by The Baltimore Banner of state tax data and city property tax liens. The process has come under increasing fire in recent years as punitive and predatory, forcing homeowners, often low-income and elderly, to come up with thousands of dollars to pay off lienholders or face the loss of their homes. When tax sale properties are owned by investors or sit vacant, critics charge that the process keeps properties in limbo. Interest rapidly accrues to the benefit of lienholders, who often do not take ownership of the properties.

Buildings in the ‘Black Butterfly’ subject to property tax liens at higher rates

Over 40% of buildings in Sandtown-Winchester and Southwest Baltimore liened since 2016



Map: Nick Thieme • Source: Baltimore Banner analysis

THE BALTIMORE BANNER

A building can be subject to a tax sale if property taxes issued on July 1 aren’t paid by the following spring. A tax lien certificate is sold in an auction typically held in mid-May, with annual interest of 12% for owner-occupants and 18% for non-owner-occupants accruing immediately, plus attorneys' fees. A property can land on the tax sale list for as little as $750 in owed property taxes for a house identified by the city as owner-occupied and $250 for one identified as non-owner-occupied. The majority of properties that end up in tax sale are classified as non-owner-occupied.

The system, which is governed by a state law dating back decades, operates in some form statewide, but property tax rates in Baltimore – the highest in Maryland – make homeowners particularly vulnerable to falling behind.

"One missed payment and you can lose a house that you've owned for 35 years and have full equity in. And if you lose it, you don't get anything," said Allison Harris, an attorney with the Pro Bono Resource Center of Maryland. "It's just gone — that's it." Owens-Phillips was one of the lucky ones, receiving a pandemic relief grant to pay off the debt on the home that she considers a gift from her son.

The Banner's analysis found that the costs of this system are not borne equally: In the city's majority-Black census tracts, such as the East Baltimore community that includes Owens-Phillips' house, homes have liens placed on them and are sold at much higher rates than in minority-Black census tracts.

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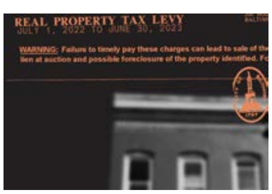


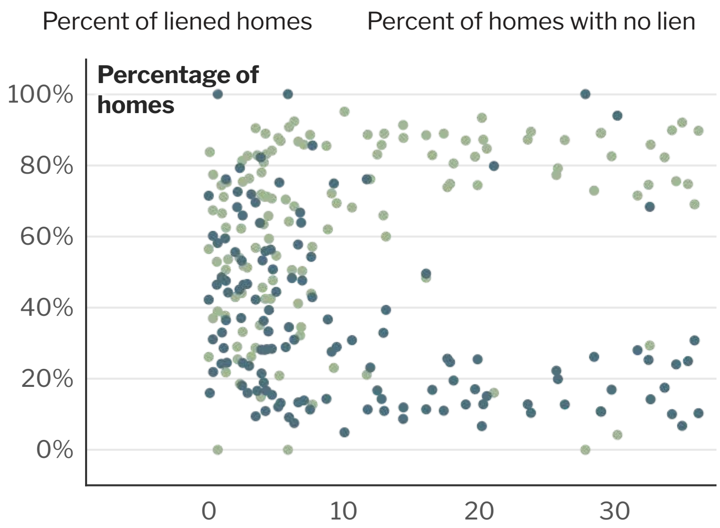
Six key takeaways from The Baltimore Banner's tax sale investigation

In some majority-Black areas, nearly every block has been affected: 46% of all buildings in Southwest Baltimore and 42% of all buildings in Sandtown-Winchester have gone into tax sale since 2016. Since then, each and every one of the 1,763 homes across Baltimore that The Banner identified as having changed hands through the tax sale was located in a majority-Black neighborhood.

While these census tracts are some of the poorest in the city, The Banner's statistical analyses of property lien rates and property transfers across the city show that even after accounting for other factors including median income, poverty rates, population and home sales price, the rate of homes liened and the rate of homes then transferred in a census tract decrease as the percentage of white residents in the tract increases.

Mostly white census tracts rarely subjected to tax liens

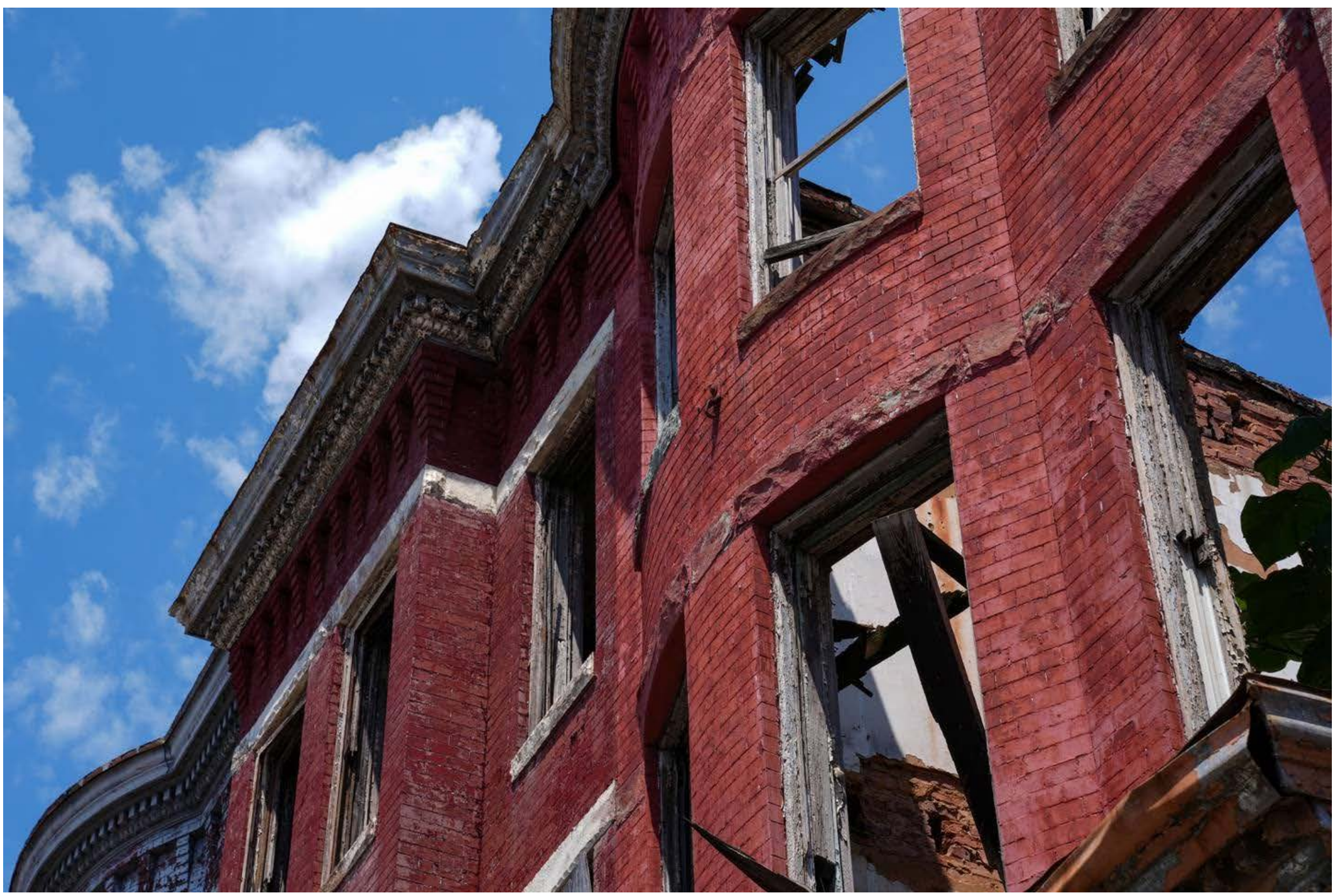
A Banner analysis finds property tax debts usually sold in majority Black census tracts



Amid the pandemic and a renewed push by Baltimore Mayor Brandon Scott's administration to tackle vacant housing, the tax sale system has undergone some reforms, but remains overall intact. In 2021, Scott directed the Department of Finance to remove all owner-occupied homes in tax sale for the first time from the list and launched a tax sale work group, charged with developing proposals for "comprehensive" reform. In 2022, Scott postponed the tax sale from April until June and removed all owner-occupied homes from the city's tax sale — roughly 2,900 homes. Scott's office did not respond to a question about whether such a move would be considered again this year.

Maryland lawmakers are considering permanent changes in Annapolis this session, bringing the contentious debate to a head. Defenders argue that tax sales are a necessary tax-collection mechanism in a city that struggles with revenue shortfalls. Detractors argue that those revenues come at too high a cost to already-struggling neighborhoods, and to the city as a whole.

"You're spending more money than you're taking in with this sale," said Nneka N'namdi, founder of the community group Fight Blight Bmore, referring to a recent report by Johns Hopkins University researchers that found vacancy costs the city of Baltimore $200 million a year in lost tax revenue and maintenance. "[It] is making money, but it's not for this damn city."



Big profits, little investment

Defenders of the tax sale system say they can't imagine the city without it.

Carla Nealy, chief of the city's Bureau of Revenue Collections, defended the system, noting that revenues from the tax sale generate $10 million to $20 million a year, representing 0.5% to 1% of the city's budget. In fiscal year 2022, the tax sale generated $12 million for the city, the majority from residential properties.

"We can't imagine the city's budgets dependent upon real estate taxes and there is no collection mechanism whatsoever," Nealy told The Banner. "And unfortunately for us, this is the collection mechanism we have at this time."

Scott Morse, an attorney who represents lienholders, said that situations like Owens-Phillips', where homeowners end up on the verge of losing their homes, are rare and should be avoided through stronger efforts to connect homeowners with resources and other reforms. Far more often, he argued, the tax sale is a necessary tool for the city to collect tax revenues from property investors and absentee owners.

"You don't want to throw out this system that's useful for housing and useful for revenue collection over these things," he said, adding, "It's great for tax revenue, it's great for the communities, it's great for everybody."

Perhaps most of all for the lienholders.

Between flipping houses acquired at tax sale and collecting interest on outstanding tax liens, investors have made tens of millions of dollars from the tax sale system since 2016.

"One missed payment and you can lose a house that you've owned for 35 years and have full equity in. And if you lose it, you don't get anything."

— Allison Harris, an attorney with the Pro Bono Resource Center of Maryland

The Banner's analysis found that about $10 million of those profits came in the form of interest payments from homeowners. Based on a review of the sale prices of tax-sale properties at auctions and in subsequent sales, The Banner estimates that certificate purchasers have earned a total of $27 million buying and flipping houses in Baltimore since 2016. Morse said this estimate does not account for the investments that purchasers make into their properties.

But an analysis of sale dates of tax sale properties raises questions about the true extent of investment in these properties. The majority of homes acquired through tax sale — 62% — are sold again within two months. Nearly 30% are sold within a week. Likewise, the majority of properties saw little increase in assessed value from before a tax sale to the subsequent sale by the lienholder.

And it's only in rare cases that the properties themselves are acquired at all: Lienholders obtained the deed to the property in just 2.7% of cases, The Banner found. Most of the time, lienholders acquired only the tax debt, along with the right to collect interest until the owner paid off the amount due and redeemed the property. This analysis does not reflect properties that may have been sold by a lienholder without ever claiming the deed themselves.

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An illustrated guide to the tax sale process in Baltimore City

When a property is not redeemed, it can wind up in a state of disinvestment, with neither the owner nor the lienholder taking responsibility for upkeep and the city unable to intervene. Often, after unpaid taxes accumulate for another few years, these properties end up right back in tax sale: about 15,000 of the 41,000 liened properties since 2016 appeared on the tax sale list twice in six years, while about 4,300 appeared three times.

In the Greater Rosemont neighborhood of West Baltimore, where 34% of buildings have had liens bought and sold on them since 2016, community leaders say they see the imprint of the tax sale system on every block. Nearly a fifth of homes in the neighborhood are classified by the city as vacant, according to the Baltimore Neighborhood Indicators Alliance.

“These properties are often held hostage” by lienholders, said Jonathan Sacks, executive director of the HUB West Baltimore Community Development corporation.

The tax sale creates vacancy when it displaces homeowners who are behind in paying their taxes. But it also prolongs vacancy, Sacks said, when lienholders sit on properties as interest charges pile up, making it more expensive for community-based developers like him to acquire them. Last summer, the Edmondson Community Center, a building that had previously been used by local community organizations, fell victim to the tax sale process. The city placed the building into tax sale in 2018 for $2,543 in taxes owed after one of the organization’s previous leaders died and another fell ill. The purchaser of the lien paid just over $5,000 for the property before putting it up for auction in June, where the winning bid was $140,000.

Edmondson Community Center building. (Jessica Gallagher/The Baltimore Banner)

The building wasn't being maintained and had fallen into less regular use by the time it fell into tax sale, said Councilmember Jonathan Bullock, who represents West and Southwest Baltimore. But still, given that the property was intended to serve the community, "there may be a better tool than giving it to the highest bidder."

Community groups are in talks with the new owner, a mental healthcare company that plans to use the space as a treatment center, about continuing to use the building while Sacks' organization finalizes plans to build a new center a few blocks away.

Kim Graziani, who advises communities on vacant housing issues, said tax sales exacerbate vacancy in cities across the country.

“When they buy those tax sale certificates, they have no responsibility for these properties,” Graziani said. “And the can gets kicked down the road once again.”

As properties accrue liens and interest, she said, it “makes it even more economically infeasible for that property to ever be purchased by a responsible buyer.”

> **“These properties are often held hostage” by lienholders.**
>
> — Jonathan Sacks, executive director of the HUB West Baltimore Community Development corporation

According to Andrew Kahrl, a professor of history at the University of Virginia who studies tax-buying practices across the country, “it’s eroding the tax base even as it’s providing this one-time shot in the arm every year.”

Maryland is one of 30 states, plus Washington, D.C., that allow for tax liens to be sold to private debt collectors, according to a forthcoming paper from law professors at New York University and the University of Kentucky. In some other states, tax-delinquent properties (rather than the debt) are sold at auction. Some jurisdictions have sought to transform the process entirely. For example, the small city of Poughkeepsie, New York, recently removed third-party investors from the process entirely. And the state of Rhode Island recently gave its housing department the right to purchase property tax liens and work with homeowners to allow them to keep their homes.

In Baltimore, city officials hope that a new legal process will save thousands of properties from tax sale limbo.

The new tool, called “judicial in rem foreclosure,” allows the city to obtain ownership of a vacant lot or building when the value of the property’s liens exceeds the value of the property. But the process got off to a bumpy start in December, with the city’s attempts to acquire its first eight properties delayed by technical errors in the city housing department’s legal filings. And the tool currently fails to address the vast catalog of properties with lower lien amounts. The mayor is pushing state lawmakers to address this limitation by expanding the in rem process to more properties. The measure is one of three tax sale-related bills on the list of legislative priorities he issued in early January.

Assistance difficult to access

While advocates say that new tools such as these are needed, they also say that the city needs to better use the tools it already has to assist homeowners in keeping their properties out of tax sale in the first place.

“They very diligently pay their taxes for years and then one time there was a medical emergency or someone died,” Harris said of her clients facing tax sale. “They don’t want to not pay their taxes, but if you just gave them a little time and help and made sure they were connected with the right resources, they could do this.”

Sometimes, clients end up in tax sale for making simple mistakes when attempting to pay their taxes, other legal aid lawyers said.

They said that their clients often don’t know that they’re eligible for state property tax credits or struggle to navigate the cumbersome application process.

Claudia Wilson Randall takes a portrait on a block in West Baltimore where many houses have recently gone through the tax sale system. (Paul Newson/The Baltimore Banner)

“The help that is available is full of bureaucracy, it’s full of poor service, it’s full of really weak attempts to help people,” said Claudia Wilson Randall, executive director of the Community Development Network of Maryland.

A bill that would have automatically renewed enrollment for the Homeowners’ Property Tax Credit failed to make it out of committee last year.

But Robert Cenname, the city’s budget director, also acknowledged that even this change would leave many people ineligible for assistance if their properties are incorrectly registered under, say, a different owner — or with no owner.

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How to protect your home from tax sale: a resource guide

The Banner identified roughly 10,000 homes liened since 2016 where the address of the property owner (according to state records) matched that of a property that had a lien put on it. But the majority of those homes — 6,313 — were classified by the state as non-owner-occupied, while just 3,895 of those homes were listed as owner-occupied.

These misclassifications commonly occur when a property is passed down from a deceased family member, but heirs fail to complete the complicated process of updating the deed or, like Owens-Phillips, aren't aware of the costs of not doing so. The Maryland State Department of Assessments & Taxation only updates its records to reflect owner-occupancy when property owners contact them to request a change.

The costs of such clerical discrepancies can be enormous to homeowners who fall behind on their taxes: non-owner-occupants are required by state law to pay an interest rate of 18% on their liens to investors, while owner-occupants pay 12%. Owner-occupants are given more time to redeem their property before lienholders can move to foreclose and have greater access to tax credits. And, non-owner-occupied properties can land in tax sale for just $250.

Lawmakers this session may also consider legislation to address these issues, such as measures proposed by Scott that would authorize the city to enter into payment plans for all municipal debts and allow properties with outstanding liens to be transferred to heirs, permitting them to access programs benefiting owner-occupied properties.

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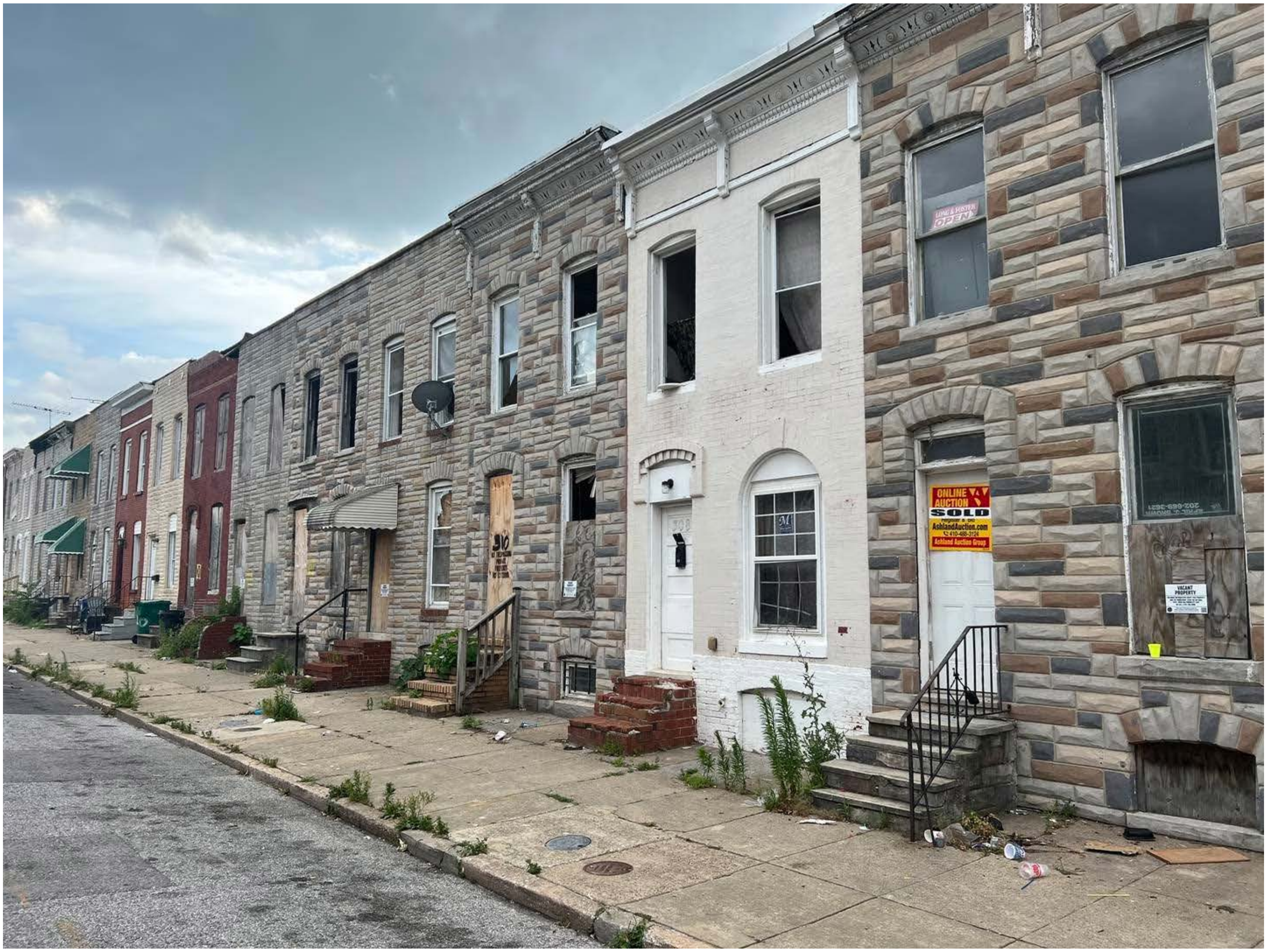
— Claudia Wilson Randall, executive director of the Community Development Network of Maryland

Optimism about reform

To advocates who have been sounding the alarm on tax sales for years, the current legislative session appears to represent a rare opening for change. The state’s new governor, Democrat Wes Moore, has stressed the importance of revitalizing his adopted hometown of Baltimore.

“For the first time in 10-plus years of working on this, I’m optimistic that we’re going to get some real reform,” said Dan Ellis, executive director of Neighborhood Housing Services of Baltimore and a member of the mayor’s tax sale work group, “instead of working around the edges of a system that was designed to strip wealth from Black families.”



Most homes on the even side of the 300 block of South Smallwood Street in Carrollton Ridge were vacant as of November 2022 (Justin Fenton/The Baltimore Banner)

But attempts to scrap the system or remove private investors entirely, as some advocates have suggested, likely remain a political nonstarter. A 2019 bill by state Del. Anne Kaiser that would have removed the majority of homeowners from tax sale was changed to allow for only people who are disabled, low-income, or elderly to be removed from the list. A pilot program passed by state legislators in 2021, the Homeowner Protection Plan (HPP), authorized the state to purchase certain tax liens, effectively removing third-party investors from the process. But the program is currently funded with only $750,000, enough to purchase liens for around 200 homes at the average home's lien amount.

And Bob Yeager, who was selected in 2020 to serve as the state's first tax sale ombudsman, said the office's ability to make any broader changes to the process is limited.

"I'm not independent, and all the proposals that I come up with I have to float them up the chain," Yeager told The Banner. "I'm not empowered, really, to advocate for large-scale changes to the system."

Instead, his office's approach has been to make "strategic changes to the system to make it more navigable for homeowners," he said, adding: "Maybe it sounds like a boring strategy, but we really do focus on resolving all of these small issues."

That leaves lawmakers this session to consider a messy web of bills to chip away at different facets of the unwieldy tax sale system. Proposals include making the redemption process easier for homeowners, allowing for a property to be transferred to a named recipient as soon as a property owner dies, and permitting local governments to set their own timelines for tax sale proceedings. Several bills received a hearing on Tuesday, where some faced pushback from lienholder industry representatives.

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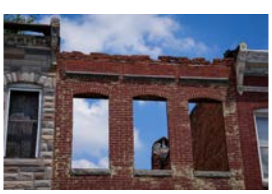

The Baltimore Banner is digging into the tax sale system.
We need your help.

For her part, Owens-Phillips was committed to saving her home.

After receiving the phone number for a legal aid organization from a neighbor, Owens-Phillips applied for a grant through a pandemic relief program to pay off the debt. Finally, after months of delays, due in part to the fact that the property's deed was registered in her deceased father's name, Owens-Phillips was approved for the funds in November.

"I fell on my knees and thanked the Lord, I really did," said Owens-Phillips. "It's nothing like somebody where you live at trying to take your home away from you, where you've struggled and tried to keep it."

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Additional photos by Ulysess Muñoz and Justin Fenton/The Baltimore Banner

Methodology

The Baltimore Banner analyzed property records from both the Maryland State Department of Assessments and Taxation and Baltimore City, tax lien records from Baltimore City's Department of Finance, and demographic data from the U.S. Census Bureau to find the investor profits and racial disparities of properties liened.

We combined property records from SDAT with geographic descriptions of properties from Baltimore City using plat information from each. Next, we standardized property addresses in DoF's liened property data, as well as addresses in the combined SDAT / Baltimore City data. We then joined these three datasets into a single dataset that contains information about property tax liens, property records, and property geography. All estimates in the story are based in one way or another on this master dataset.

Using the file, we identified which sale in SDAT's records came immediately after tax sale, calculating investor profits from the corresponding sales price. Further, we used sales dates to calculate how long an investor held a property *after having the deed delivered to them, and sales assessments to calculate changes in assessed values. We calculated investor interest income by counting the number of months between tax sale and redemption, using SDAT's owner occupancy code to apply either a 12% or 18% simple interest.*

We uncovered racial disparities in the tax system by combining the master dataset with Census Bureau data using the geographic information in both — what's known as a spatial join. The "Black Butterfly" was defined as the majority-Black census tracts in Baltimore. Using this aggregate dataset, we visualized the relationship between lien rates and the percentage of white residents in a tract, and estimated statistical models of the relationship between lien rates and a variety of property record and demographic information. We also combined the Baltimore Neighborhood Indicators Alliance's Community Statistical Areas with geographic property records to calculate the percent of liened and sold buildings in different Baltimore neighborhoods.

A full methodology with code examples is maintained at our GitHub in two files, here and here.
