

# THE STRAIGHT STORY ON INVESTING IN TAX LIENS

BY SUSAN THOMAS SPRINGER

Ever since he was a teenager, Charles Sells knew he wanted to be in real estate. So he didn't mind starting at the bottom for a real estate company in Atlanta by stuffing envelopes for the firm's direct mail advertising. The company's model was tax lien investing and, while complicated, Sells not only "got it" but soon figured out process improvements.

"After two years I saw a better way of doing it, and I borrowed two thousand bucks from my dad," says Sells, Director of Acquisitions, Platinum Investment Properties Group, with offices in South Carolina and California.

Sells brought in other investors and continued to work other jobs while he grew his business. For the first year, he had a mentor who got him up and running. Then Sells bought the business from his mentor for \$1 (the business wasn't turning a profit at that time) and changed the name to Platinum Investment Properties Group. Sells' partner is Platinum President Don Fullman.

Today, Platinum has about 600 clients and manages a \$30 million portfolio. Two years ago, with another partner Sells started Vision, which caters to hedge funds and is involved in REO liquidation.

"It's really a bridge of the gap between those private investors, which we call in the business 'retail investors,' and hedge fund guys, or the institutional investors," says Sells.

## START WITH A REALITY CHECK

When private investors come to Platinum, there is often some "de-educating" to do. Some believe the hype at "weekend warrior workshops" and think tax liens are a pennies-on-the-dollar opportunity.

Sells says it's not true that you can buy a \$20,000 home for \$200. However, buying a \$20,000 home for \$10,000 is realistic.

"When they come to us with this mentality we have to kind of back up their expectations a little bit and give them a reality check, which is why I think Platinum has been so successful. We have always said it's a conservative, high-yield investment," says Sells.

Done right, tax liens are a good high-yield investment, but it's not a get-rich-quick type of scheme. Instead, it's a tough business that requires copious research before going to auctions, knowledge of the different state laws and good relationships with county tax collectors and treasurers.

Another misconception is that tax lien investments come with a government guarantee—they do not.

"In order to get 50 cents on the dollar you've still got to know what you're doing—know how to play the sales, know how to do your pre-auction due diligence, know how to do the follow-up work and get the attorneys for the right rates and everything else," says Sells. "There's a lot that goes into it."

## THE PLATINUM PROCESS

The process at Platinum could be called turnkey although clients are in control and have ownership of their investments. First, Platinum interviews new clients to understand their goals and exit strategies.

"Then we go place their funds, we account for everything, we process the redemptions, we handle the relationships with the county, so it then becomes a very passive investment for the client," says Sells.

At key stages in the process, Platinum re-engages with clients to educate them on their choices. There can be a lot of time between the initial investment and when

other steps have to be taken. The process differs by state. Florida's tax lien process can last two years, South Carolina is one, and Georgia can be as little as six months.

"For example, in Illinois a tax lien can last three years," explains Sells. "At the two-year mark we go back to our client and say, 'We purchased 30 liens for you two years ago; 10 of them still are not redeemed. We're in a certain window of opportunity where we need to make some decisions.'"

Platinum's "historical" performance in Illinois has been to place client investment funds so that the annualized certificate rate average of the purchase is between 24 percent and 36 percent (i.e. gross annualized rate average), and they have consistently performed at the upper range of that objective.

Choices range from Platinum needing to take steps to force the redemption by a more aggressive notification to the homeowner, engage in foreclosure activity, or listing, renting or selling the property.

"So, it really does become a full turnkey passive investment, but there are some times the client does have to get engaged and be involved to make certain decisions," adds Sells.

## THE LEARNING CURVE

Sells says as with any investment model you learn from your own mistakes. His early lessons involved adding safeguards to the process and doing due diligence prior to auction. He learned by doing

every step of the tax lien process himself—from driving past properties, going to auction, filing the paperwork and staying current on new legislation. Over time, he improved each step of the way.

When property owners go into default on their real estate taxes, various government entities aren't earning their income. Because these monies support school, hospital and police budgets, governments may choose to sell the lien to recover that shortfall. Investors can buy the lien and profit whether the property owner decides to pay the debt or whether the lien goes into foreclosure and sale. In most states, a tax lien has priority over even a first mortgage on the home, so it makes it a very attractive investment.

"That is the purpose of these tax lien sales, and that is why most states are going to pay such high rates of return to make it attractive for large investors—so they can clear all these back taxes off their books and make their budget for the year," says Sells.

For example, Platinum may get a list of 3,000 parcels from a county, vet that list and find perhaps 800 of them that look like choice investments for their clients. Then they go to the auction and bid.

"Now you have a certificate on that property that supersedes the mortgage to that property, which means the mortgage company has the right to pay you back and the homeowner has the right to pay back," says Sells.

While these properties are often in foreclosure because homeowners have stopped paying their taxes, sometimes it's the fault of the mortgage company. If tax payments are escrowed into the mortgage payment, the mortgage company can make a mistake and forget to pay the taxes. The auction season, the length of the process and the percentages rates vary by state.

"So, if you bought it at 18 percent, after six months it actually becomes 36 percent penalty," says Sells. "It does that for up to three years. Technically, at the end of the line you could be getting 108 percent return on the principal if the lien is redeemed at the three-year mark. So obviously that makes it very attractive as well."





THE PERSONNEL FILE

**NAME:** Charles Sells

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**FIRST REAL ESTATE DEAL:** "I made my first transaction when I was 23. I started my first business at 26."

**GUIDING PRINCIPLES:** "Not so much a guiding principal, but a profound statement a client once told me that I felt was one of the strongest things I have ever heard: 'Regardless of economical, legislative, or even personal challenges in our lives, what separates the professionals from the amateurs is our ability to adapt and remain profitable.'"

**WHAT MAKES YOU GET UP EVERY MORNING:** "My boys and my future wife. There is nothing I would not do for my family, and I am very fortunate to have a career that brings new and unique challenges every day."

**WHEN YOU'RE NOT WORKING:** "I am an entrepreneur – we never stop working. That's actually a fairly accurate statement. We take cruises to get away. It is the only place in the world where you cannot justify the cost of a phone call, or popping onto your email to get a little work done. If I am not working (or on a cruise), I spend every moment I can with my boys, my parents and my fiancé."

**BEST ADVICE EVER RECEIVED:** "Live life for today, because you never know what tomorrow will bring."

**TECHNOLOGY YOU CAN'T LIVE WITHOUT:** "I might as well be walking around naked without my iPhone."

**WHAT MOST PEOPLE DON'T KNOW ABOUT YOU:** "When I turned 18, I had to decide if I wanted to join the South Korean army for two years, or become an American citizen. I chose the latter, obviously."

**ON COMPETITION:** "I don't really feel like we have much competition. In our business, there are the late-night 'pie in the sky' infomercial folks and the weekend workshop warriors, and on the other end of the spectrum are the hedge funds that have been doing this for generations. We fall sort of in the middle. We don't pitch hype, or teaching programs, nor do we manage funds of tens of millions (although we do help with their REO liquidity). We offer conservative, high-yield opportunities to individual investors."

**IF I HAD TO DO IT ALL OVER AGAIN:** "I would have taken the advice of my father. I started in business young and stubborn. Had I listened to him then, as I do now, I probably would have achieved success and happiness many years sooner. I am probably a bit biased, but I have yet to meet anybody as smart as he is."

**AWARDS:** "I am not big on pushing our accolades. Awards (like credibility) can be bought, not earned. Although I feel we have earned all ours, it is something for our office to be proud of and not something we need to help promote our business. We have a few, including this magazine's 'Top 50.'"

"What makes them attractive is you have the right to potentially own property for a fraction of its market value," says Sells, who adds that while you can get it for less than you can sell it, various fees are a reality to add into the equation too.

**INVESTING FOR THE GREATER GOOD**

The National Tax Lien Association (NTLA) reports that America's cities and counties fail to collect \$14 billion in property taxes each year. That's a lot of potholes.

Through taxes, cities and counties fund public schools, libraries, parks, fire and police departments, and other basic services. So investing in tax liens helps local governments collect revenue.

Also, delinquent property owners are allowed time to pay outstanding taxes and keep their homes. Sells says it's a misconception that the tax lien industry puts "poor grandma put on the street for not paying her taxes of \$100." Instead, one scenario is to make repairs and keep the homeowner in his or her property.

"They do have a payment to us, but their home doesn't have a leaky roof anymore," says Sells.

Sells points out that most of the properties are already vacant and likely gutted, so they are a drain on the community.

"I'm a big supporter of karma, and bad karma can eat you alive," says Sells. "Our objective is to be very fair."

For investors interested in tax liens, Sells recommends working with a professional who has "done it a thousand times" because the complicated process needs to be learned through experience. For investors using any model, Sells recommends being conservative.

"There's a lot of hype in all of our industry, and there's always somebody new that wants to take advantage of investors, whether they're new investors or they're seasoned investors," says Sells. "My best advice is just do your homework before you invest and don't assume if they're pitching a 'pie in the sky' that it's legit." ■

ABOUT THE AUTHOR

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