

The Washington Post

Our Changing Economy

Jan 18th - 1960

This Money Market Proves Off-Beat

By Phillip Stoddard Brown

AT 10 a. m. last Wednesday, a strange kind of annual auction was held. At this auction 2847 parcels of tax-delinquent real estate were put up for sale by the District Government.

Probably none of the 30 or so persons who participated in this two-day auction had any intention, or expectation, of acquiring any of these properties. Their purpose was solely one of short-term investment.

This is the way the auction was conducted. A property, say one in Square 3049, was put up for sale. The owner was \$100 in arrears on taxes or water and sanitary sewer charges. The person who bid successfully for this property has to pay these arrears, so the bidding began at this point. If the property was bid in for \$15, this meant that within five days the buyer had to pay the District Treasurer \$115. (The \$15 is called "surplus.") In return, the buyer gets a tax certificate. This certificate is a title to the property, but not an absolute title.

Anytime within two years after sale, the former owner may redeem his property by paying his delinquent taxes plus a penalty of 1 per cent a month. If a year later, he pays the tax arrears of \$100 plus a \$12 penalty, the Treasurer requests the auction buyer to surrender his tax certificate in return for \$127 (covering taxes, surplus and penalty).

Loan to the District

What this amounts to is a loan of \$115 to the District Government. The lender, or auction buyer, receives \$12 of interest paid by the delinquent tax payer—in other words, a return of slightly over 10 per cent on his money.

Occasionally a property is not redeemed within two years by the former owner. Last year, owners of two properties of considerable value let the deadline go by without redeeming them. In one case, the principal loss was suffered by a local bank that held a mortgage on the property.

In some cases, the investor gets stuck with a property that is never redeemed because it isn't worth the delinquent taxes. But this doesn't happen often because those who bid are knowledgeable. It's the District that is left with properties that aren't worth the taxes cumulated against them. At last month's auction, 1261 parcels were not sold. Many of these are odd-shaped bits of property with no improvements that will never be redeemed. So long as the law forbids the sale of property for less than its tax arrears, most of these 1261 parcels will never be sold.

A lot of tax-delinquent properties can't be auctioned because they are held in trust for minors or persons committed to St. Elizabeths, or owned by foreign governments, and so on. Consequently this leaves the District with another batch of bad debts.



Brown

The Washington Post

Business

A 12

MONDAY, JANUARY 18, 1960

Oddity of No Significance

All this is a tiny facet of public finance, involving the advance of less than \$250,000 to the District Government by small lenders. Only 7 or 8 persons, including one from out of town who makes a business of going about the country investing funds in this way, acquired \$10,000 or more of tax certificates. A dozen or so invested only two or three thousand dollars.

By itself, the auction is an oddity of no significance. But it affords some revealing observations that are, I think, significant.

- The extent of tax delinquency, even at a time of nearly full employment, is surprising. On Dec. 5, when the sale of tax-delinquent property was first advertised, taxes were long overdue on 7754 parcels. This is remarkable, considering that owners had already incurred a 1-per-cent-a-month penalty.

- If thousands of property owners are so hard up that they can't find money to pay taxes even though they incur a penalty for nonpayment, what hope is there for expecting them to tidy up and improve their properties? Is it unrealistic to think that a program of voluntary renewal can be successful in a large slum or marginal area of the Northwest? . . . If in some cases, tax delinquency is evidence of sheer negligence, is such irresponsibility any more assuring?

- The cost of assessing and keeping records on tens of thousands of small properties and of repeatedly sending out tax notices is very great. Also, there is the cost incurred by mortgage-holders in checking to see that taxes are paid.

Where a mortgage or savings and loan association pays in a lump sum the taxes on several hundred properties, the cost is a little less. (One large lender in the city pays over \$3 million a year in taxes, on behalf of its borrowers.)

- The attitude of a good many property owners toward their Government is disturbing and discouraging. Recently a tax official devoted many hours trying to reach a woman to whom notice after notice of her tax arrears had been sent over a period of years. When he finally succeeded in reaching her by phone a couple hours before the deadline, after which her equity would have been forever lost, she had no word of thanks—only the contemptuous exclamation, "You mean I have to come to your office to pay this tax."

- Equally revealing is the attitude of tax officials who go to great lengths, even making calls in the evening from their own homes, in an effort to trace and protect some owner or mortgage holder from loss—someone who is a stranger and will remain a stranger.

Whether this procedure of auctioning that allows individuals rather than the Government itself to earn 1 per cent a month is a good one or not, I don't know. I was impressed by the fair and businesslike manner of the auction and the open-to-inspection records kept by the Treasurer.