

Testimony of Sam Miller
Assistant Commissioner, NYC Department of Finance
Before a Hearing of the City Council Finance Committee
On the Sale of Tax Liens
March 1, 2006

Good morning Chairman Weprin and members of the Finance Committee. I am Sam Miller, Assistant Commissioner for Communications and Customer Service at the New York City Department of Finance. In this position I oversee the annual tax lien sale. With me is Margaret Donadio, our superb Tax Lien Ombudsperson, and also Chris Browne, our terrific new Senior Director for Legislative Affairs.

Thank you for inviting me to testify on behalf of Finance Commissioner Martha E. Stark on the bill before you today, introduced at the request of Mayor Michael R. Bloomberg by Chairman Weprin. We strongly support this bill, which simply extends the City's authority to sell tax liens from today, when the current law expires, through August 31, 2006.

The annual tax lien sale has allowed the City to collect more than \$2 billion 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 outstanding debt to the City.

Let me explain very briefly how the lien sale works. Essentially, 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. Here's how it works: Finance transfers the debt to a trust, which then secures bonds. The trust then hires outside collection firms, known as lien servicers, to collect on the debt and redeem

the bonds. Finance receives 80 to 90 cents on dollar from the bond purchasers. When bonds are redeemed through the collection of the debt by the lien servicers, Finance receives the remaining 10 to 20 cents on the dollar of the original property and water charge debt.

The servicers charge owners increased interest rates plus fees. If owners do not pay or if they default on a payment agreement, the servicer may start foreclosure proceedings six months after a lien is sold.

The overwhelming majority of owners avoid foreclosure. But having a lien sold on your property is costly. For this reason, while we have used the lien sale as an effective and efficient collection tool, we have taken several steps to make it as easy as possible for owners to avoid having a lien sold. We would rather collect delinquent charges without having to sell a lien, and during the last four years, we have succeeded in reducing the number liens sold each year. I'll describe how in a moment.

Finance identifies properties that are in danger of having a lien sold through the following criteria: For small homes, residential condominiums and cooperative apartments, an owner is at risk if 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 owes more than \$1,000 for at least one year.

In March, we take this pool of potential liens and send owners a notice of our intent to sell a lien if they do not resolve their debt within 60 days. We also publish this list of properties in the Daily

News and take out 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, and 10 days before the sale, we send a final notice and publish the list in the newspapers again, all the while updating the list on our website.

Finally, 60 days after the initial notice, the City sells a lien on the property if the debt is not resolved. Approximately 30 days later --- 90 days after the initial notice -- the owner receives a letter from Finance with the contact information for the servicer that will then begin trying to collect the debt.

That's an overview of the process. Now let me tell what we've done to improve voluntary compliance and sell fewer liens each year. This is extremely important, because we know that most owners want to pay what they owe if given the opportunity to do so, and voluntary compliance is the most efficient collection method. Our priority is to make it as easy possible for delinquent owners to comply.

We've done this in several ways.

- 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.
- DEP has kept its 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 are also working with HPD on

outreach to owners who are delinquent but are not yet at risk of having a lien sold.

- We have made it easier for people to pay by placing a tax lien ombudsperson in every borough, adding coupons to the notices, allowing owners to pay by personal check, and offering more owners installment agreements.
- And last spring, with your help in this committee, we passed a law that made our application of interest charges fairer. Before the law, when we discovered a misapplied payment and re-opened a charge going back several years, we would charge the unwitting owner interest back to the original due date. We did this even when the error was made by Finance, not the owner. This was unfair, and often caused owners to be at risk of having a lien sold, since the charges were often years old. With your help, we changed that so when we open an old charge, we allow the owner time to pay without interest.

As a result of these changes, we've been able to collect a bigger percentage of debt during the noticing period each year, selling fewer and fewer liens. This is due in part to smaller lien pools, which reflect factors such as the improving economy and the \$400 rebate. But it also reflects our commitment to help people meet their obligations.

We are gearing up for the 2006 lien sale in the hopes that you pass this bill today. If that happens, we will be contacting you and

your colleagues soon to arrange a briefing on the sale and how you can help your constituents avoid having liens sold on their properties. At that meeting, we also will provide information about our agency's other vital work - from property taxes to parking tickets -- that will help you better serve your constituents.

The bill before you today extends the current law for six months. I know that Chairman Weprin and Councilmember Yassky have already offered a legislative change to the law to protect seniors. I look forward to discussing that and other proposals in the months ahead, after we complete another successful lien sale with the passage of this extender bill.

Once again, thank you all for having us here today and I would be happy to take any questions.

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