

UNLOCKING THE CODE



TAXLIENCODE

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Unlocking the Code

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Tax Lien Code

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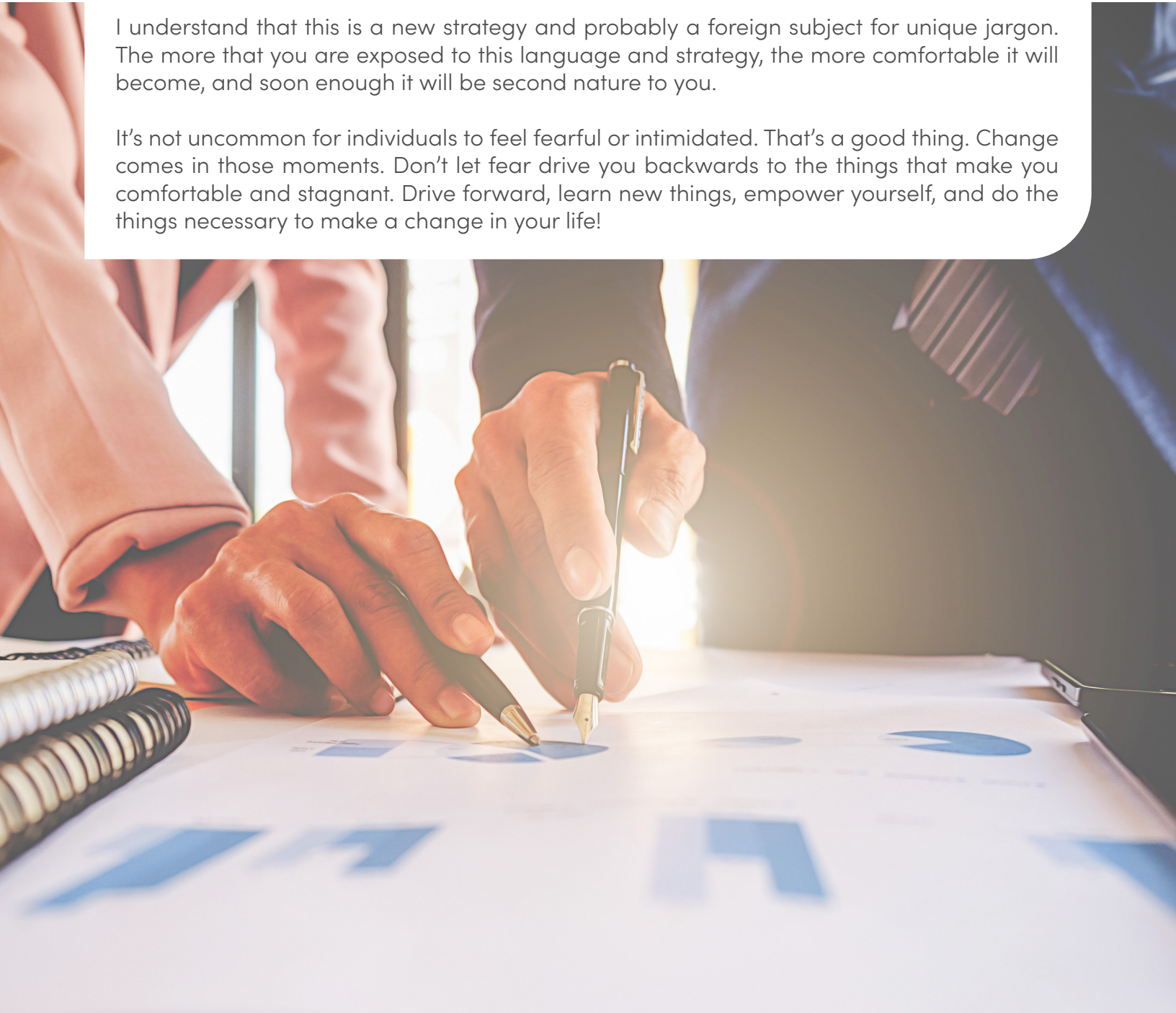
INTRODUCTION

This brief book is meant to serve as an introduction to tax lien and real estate investing. It is in no way meant to provide all the knowledge necessary to begin investing. It's only enough to make you dangerous, as they say.

Please read this book before beginning your future training and understand that we will dive into these subjects in much more detail. We will expound on these principles, answer your questions, and provide tools and resources to make investing much simpler.

I understand that this is a new strategy and probably a foreign subject for unique jargon. The more that you are exposed to this language and strategy, the more comfortable it will become, and soon enough it will be second nature to you.

It's not uncommon for individuals to feel fearful or intimidated. That's a good thing. Change comes in those moments. Don't let fear drive you backwards to the things that make you comfortable and stagnant. Drive forward, learn new things, empower yourself, and do the things necessary to make a change in your life!



THE BEGINNING

I had just hung up the phone with my real estate agent and dreaded the next call that I'd have to make. I tried for a couple months to sell a house that I bought as a flip, and it just wasn't selling. I had to call my investor and tell him that the best option was to rent the house for a year and then try reselling it later.

I was burned out on flipping houses already, and I didn't want to add another rental house to my portfolio, but that was my best option. I love cash flow properties, but I wasn't looking forward to the headaches that I knew were coming.

I didn't know it at the time, but this would turn out to be my last rental house. It turns out, there are easier ways to get returns on my money that don't involve tenants, obnoxious neighbors, eviction court, and large dogs tearing up my properties.

I'd heard about tax lien investing periodically my entire investing career, but I didn't know anything about them. In over a decade of investing, I'd never met anyone who had bought one, or anyone that even knew anything about them. Until I made a new friend, and my world changed forever.

We had a mutual friend who introduced us because he thought we did similar things; we were both in real estate investing. My new friend invited me down to his office and asked me what type of investing I was doing, and when I explained what I was doing, a Cheshire smile creased his face. He knew that he was about to change my life. He was about to pull back the curtain and show me why banks and institutional investors aren't buying rental properties and flipping houses; they been buying tax liens and have been for centuries.



THE INTRO

I had a college professor when I was a junior that changed everything for me. He probably didn't know, and we never had a 1-on-1 conversation. There were about 1,000 students in my class, so he wouldn't even recognize me if we crossed paths today. All my life, I thought the path to success meant climbing a corporate ladder and becoming a C-level employee, CEO, CFO, or COO. That was my path. Until, he said that he retired in his mid-30's because he'd starting investing in real estate right after college. That sounded a lot better to me then bulldozing my way through corporate America for the next 40 years.

Over the next 13 years or so, I flipped and rented properties all over the United States. I traveled all across the US and Canada teaching investing strategies to individuals who wanted to become real estate investors. I had a blast! I was invited by my mentors to teach investing strategies with them in Australia, Singapore, Malaysia, Taiwan, and Hong Kong. I thought I knew it all.

But there are times in life, and in business, where you are shown a new path, and you have to decide if you want to change or stay the course. I choose to change paths.

"I buy tax liens; I buy a lot of tax liens." That answer set me on a new heading. I'd heard of tax liens but didn't know anything about them, so I was a little taken aback. While we sat in his office and talked, I became more and more frustrated.

"Why hasn't anyone had ever mentioned tax liens before?" I thought to myself.

I had traveled all over the world with the best real estate "gurus," and none of them had said a word about tax liens. I've come to realize that it's **one of the closest guarded secrets in real estate**. The ones who do it, don't talk about it. Banks, insurance companies, and institutional investors buy the majority of the available tax liens. If you look around, there are a lot of educational companies offering courses about flipping, wholesaling, and renting. You name it, someone is out teaching a class about it, except tax liens.

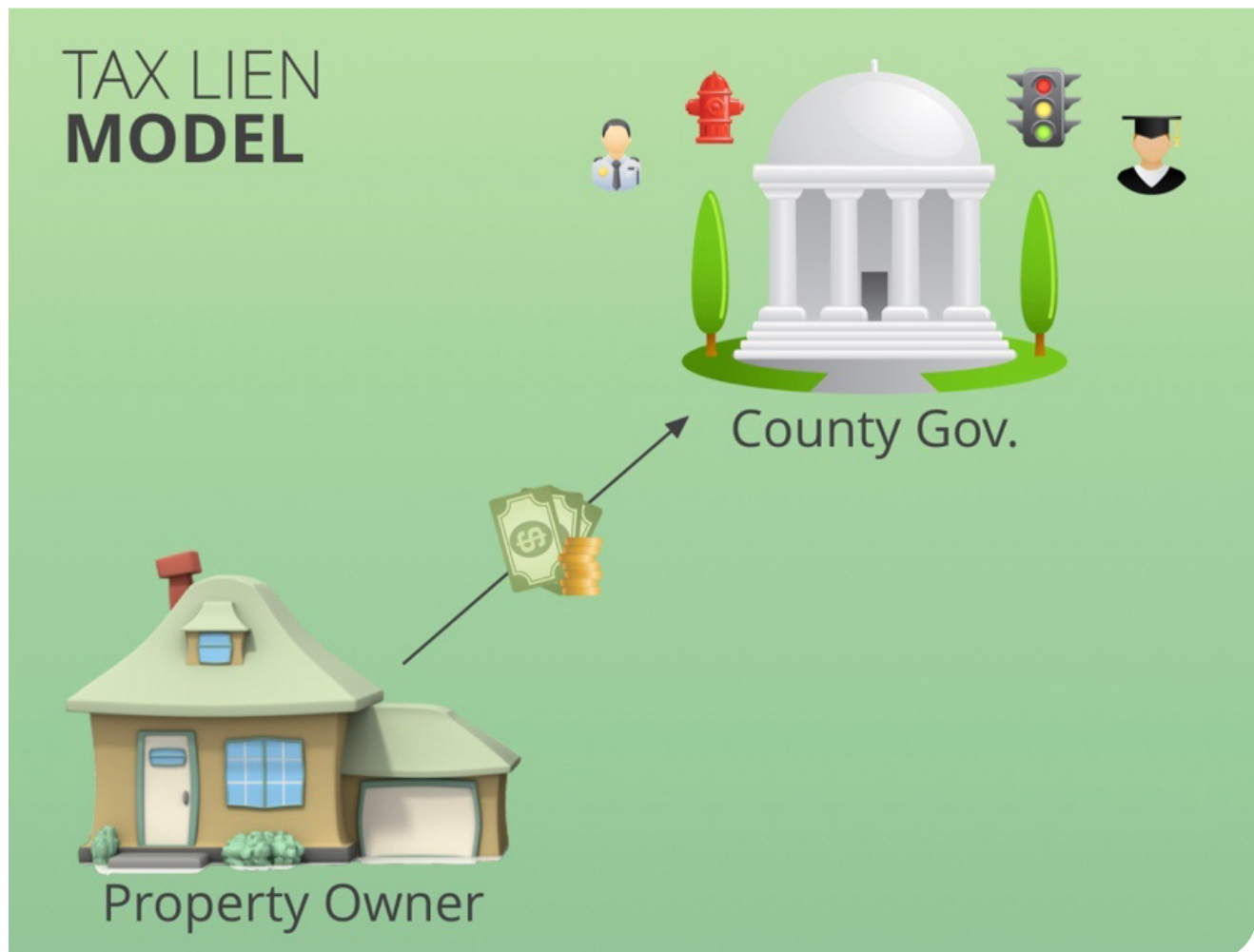
I was hungry. I hung around and burned out my new friend's phone with texts, emails, and calls. I absorbed everything that I could. I bought small tax liens at first to make sure I understood it, because it seemed so simple at first, I figured I was doing something wrong. But success brought confidence and I soon started placing more and more of my investment capital into tax liens.

Let me share with you what my friend turned mentor taught to me.

THE STRATEGY

Every property owner in the United States is required to pay property taxes. This applies to every property type including residential, vacant residential, vacant land, agriculture land, commercial properties, industrial properties, and every other piece or dirt or property in between.

These property taxes are paid to the municipal or county government and are the primary source of income for the local government. The government uses these funds to pay for public education, police officers and departments, fire fighters and departments, schools, parks, roads, road signs, and much more. Property taxes are crucial to pay for things that we interact with and use every day of our lives. The roads that we drive on to drop our kids off at the public school, the bus driver and the bus that takes our kids home, the police officer that pulls us over and gives us speeding tickets for going 5 MPH over the limit and protects us from crime, the fire fighter that responds to emergencies and ensures that we are safe, the parks where we take our kids to play because they're too loud in the house, and so much more.



Our lives are dramatically impacted by resources paid for by the government by way of our property taxes

Every year there is a new and independent tax bill for each property, like shown below:

➤ 2018 Tax Bill: \$2,018

➤ 2019 Tax Bill: \$2,018

➤ 2020 Tax Bill: \$2,987

➤ 2021 Tax Bill: \$2,987

Each year is considered its own tax liability and payments to the county are counted individually. You may notice the increase from 2019 to 2020, which I'll discuss later in this book.

Every property in the county is given an assessed value. This is the value given to the property by the government for tax purposes only, not to be confused with the market value, which is the value of the property determined by buyers of property in the market.

The county compiles a budget every year for each department that they support with property taxes. They then take that budget and compare it to the total value for all properties in their jurisdiction, and this is how property tax rates are determined. Property tax rates tend to range between 1 percent and 2 percent, but some areas may be much higher, and some property types may be higher than others. If you live in an area where the government supports many additional programs and people, then your property tax rates may be much higher.



What happens when property owners fail to pay their property taxes?

It's fairly common for property taxes to go unpaid, and there are countless reasons why someone would fail to pay them:

- Failing to pay their mortgage. Most homes have mortgages on them, and mortgage companies collect property taxes along with the mortgage payment, which they keep in escrow until the end of the year when they pay the property tax bill. If a homeowner fails to pay the mortgage then they also fail to pay their property tax bill, or least a portion of it.
- Job loss
- Loss of life
- Job relocation
- Abandonment of the property
- Business venture failure. This is particularly true of developers and construction types. In 2008–2010 we saw a massive influx of tax liens on improved lots where a developer started a neighborhood and finished all the lots in order to sell homes, then everyone stopped buying during the real estate downturn. The first thing they stopped paying were the property taxes.

There are countless reasons why someone would fail to pay their property taxes, but those are the primary reasons that we've encountered.

It's surprising how often property taxes go unpaid as a percentage of total volume. In many places this failure can account for 30 percent of the total budget, which is significant. Imagine 30 percent of teachers going unpaid, or 30 percent of police officers. You might just see in your community what they saw in Detroit or other distressed communities where a large volume of property taxes went unpaid.



How does the county government and its programs survive with so much property tax delinquency?

Statistics have shown that the majority of delinquent taxes end up getting paid over time, but the county needs that money today. They can't wait 3 or 4 years for the property owner to figure it out and pay, so the government has figured out another way to get paid today.

If the property owner fails to pay their property taxes in 2018 (tax year), then the county government will place a lien on the property in 2019 (certificate or auction year).

A lien by definition is "a form of security interest granted over an item of property to secure the payment of a debt or performance of some other obligation." (Wikipedia, n.d.)

More specifically, "The lien does not mean that the asset will be sold. Instead, it ensures that the tax authority gets first claim over other creditors vying for the individual's or business' property." (Kagan, n.d.)

The county notifies the property owner that a tax lien has been issued against the property and alerts them to the consequences of the tax lien. Because the government can do whatever they want, the county tax lien immediately jumps to first position as soon as it's issued, which is not typical according to typical rules for issuance of liens against a property.

Here is the statute from Arizona, which describes the superior nature of a tax lien:

➤ ARIZONA STATE STATUTE 42-17153

- A [tax lien certificate] is prior and superior to all other liens and encumbrances on the property, except:
 - ▶ Liens or encumbrances held by this state.
 - ▶ Liens for taxes accruing in any other years.

Most liens are prioritized chronologically like this:

1. Mortgage Company: **2018**
2. Second Mortgage Company: **2019**
3. Mechanic's Lien: **2020**

But let's imagine that the county issues a tax lien in 2021, the order of priority would look like this:

1. County Tax Lien: **2021**
2. Mortgage Company: **2018**
3. Second Mortgage Company: **2019**
4. Mechanic's Lien: **2020**

Typical rules for foreclosing to recoup losses by way of a lien (these rules vary by state and even by county in some cases, so check with your attorney or our staff) are that you foreclose forward, meaning that in order to foreclose you need to satisfy lien holders ahead of you because they have priority. If the Mechanic's Lien holder would like to foreclose then they need to satisfy the other three liens ahead of them.

If someone in a priority position would like to foreclose, then they would need to notify lien holders behind them, but they typically do not need to satisfy the lien.

The state government creates the rules for issuance and management of tax liens. They determine how tax liens are issued and when, if a county can charge a penalty for being late or delinquent, how and when the county can contact the property owner, how they collect property taxes, and how the county can issue tax lien certificates and sell them.



After the county issues a tax lien on the property, the county creates what's called a tax lien certificate and offers it for sale

The tax lien certificate price is generally the amount of the delinquent property taxes for that single year, any interest that has accrued since the tax lien was issued, and fees or expenses by the county to issue the tax lien and tax lien certificate.

The tax lien certificates are typically offered at a public auction, but this isn't always the case. There are states and counties where these sales are private and only institutional investors are allowed to participate. However, the majority of auctions are public.

What that means is the county makes an announcement notifying the public about the sale of the tax lien certificate or group of tax lien certificates. The state has specific rules on how that public announcement is to be made. This public sale is usually something that happens once a year and in most cases is held in the spring.

You'll notice I use the words "typically" and "usually" frequently. Tax lien investing rules vary from state to state and county to county. The basic principles and rules are fairly universal, but there is often nuance from place to place.

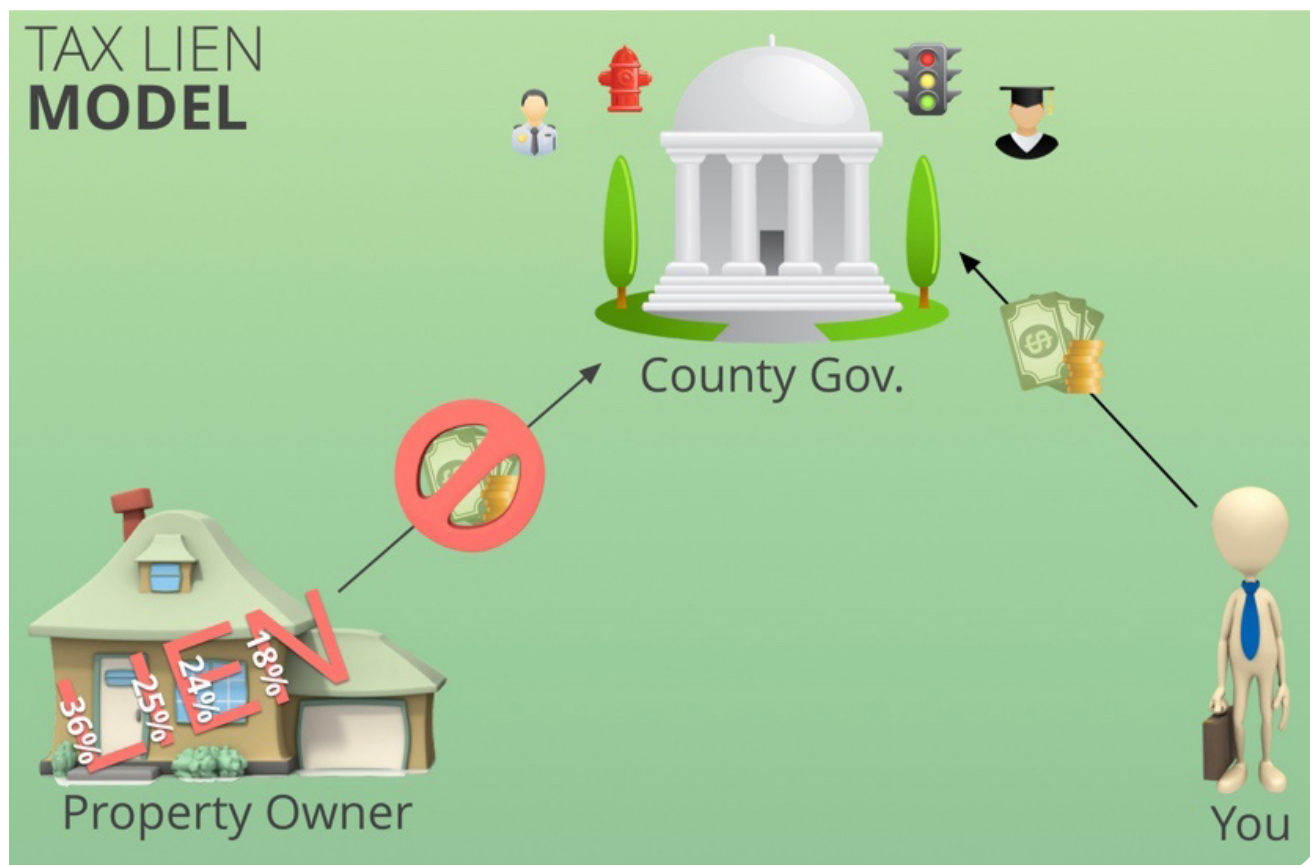
These public sales are held in multiple formats including a live auction at a county building where hands or signs are raised to place bids, online where bids are placed from anywhere in the world, and sometimes these public sales are outsourced to law firms or auction houses.

There are also multiple methods for bidding and determining the winning bidder, which is determined in the state statutes, but we won't go into that here. That content will be available at the workshops and training material on the members' website.

The primary group of purchasers of tax lien certificates nationwide are institutional investors. Institutional investors include banks, funds, insurance companies, and investment companies. They buy up everything that they possibly can, which makes it extremely difficult, and sometimes impossible, for individuals to participate at these auctions.

We will discuss this issue in great length at our workshops and online trainings and how we've solved that problem where no other company has been able to crack it.

When a tax lien certificate is purchased by an investor, the investor is not paying off the property taxes for the property owner. The property owner still owes their taxes to the county government. The property owner, in most cases, doesn't even know that a tax lien certificate has been sold to an investor. Their only correspondence is with the county government who sends bills and delinquency letters.



The tax lien certificate purchaser is only buying a certificate and is not buying the property. There are states that sell properties at this public auction, but for the purpose of describing tax lien investing, we will stick to the tax lien certificate model here. (We will discuss tax deed auctions once your knowledge of tax lien investing is established).

The county assigns their rights of the tax lien to the tax lien certificate holder. This is very powerful. As a tax lien certificate holder, you adopt the power of the county government. If you were issuing a lien as an individual, then you would be subject to the priority rules of issuance of liens, and you would be put at the back of the line. But because the county is assigning their rights to you, your lien position is automatically a first position lien and will need to be satisfied like any other tax lien or government lien. That one principle is what makes this strategy so appealing.

With tax lien investing, you either get your money back plus interest, or you have the opportunity to take ownership of the property through the tax lien certificate

Every tax lien issued by the county has a penalty attached to it. This penalty is determined by the state in the state statutes. Here are some examples:

➤ FLORIDA STATUTE 197.172

Real property taxes shall bear interest at the rate of 18 percent per year from the date of delinquency until a certificate is sold.

➤ ARIZONA STATUTE 42-18053

All taxes bear interest from the time of delinquency at the rate of sixteen per cent per year simple until paid.

➤ TEXAS STATUTE 34.21 (c)

[The property owner shall pay] ...the amount the purchaser paid for the property, the amount of the fee for filing the purchaser's deed for record, the amount paid by the purchaser as taxes, penalties, interest, and costs on the property, plus a redemption premium of 25 percent of the aggregate total if the property is redeemed in the first year of the redemption period or 50 percent of the aggregate total if the property is redeemed in the second year of the redemption period.

As you can see, each state is a little bit different, which is okay. It is important to emphasize that you understand the rules and laws governing tax lien investing in each state where you intend to invest. If you start investing in New Jersey assuming the laws of Florida apply, then you will be sadly mistaken and will likely lose money. States like New Jersey, Connecticut, Georgia, and Illinois are a bit tricky.

The interest is earned in a simple format and not compounding. What that means is in Florida, for example, the tax lien certificate holder will make 18 percent on the face value (original amount of the tax lien when sold at the auction) for the life of the lien. The investor will not earn 18 percent on top of interest already earned.

When the property owner finally pays the delinquent property taxes to the county, the county checks its records to see who purchased the tax lien certificate at the sale. They will mail a check or send a bank transfer for the entire amount to the tax lien certificate holder. They don't peel off any margin for themselves because they already got their money then they sold the certificate to you. The reward for purchasing the tax lien certificate, the interest earned on the certificate, goes on to the investor.

What if a property owner fails to pay the property taxes to the county after a tax lien certificate is purchased by an investor?

This is where many investors get very excited. If the property owner fails to pay the delinquent property taxes, then the tax lien certificate holder has the opportunity to take ownership of the property through foreclosure by way of the county tax lien.

This is where the priority of the government tax lien becomes so important!

There is a period, called the redemption period, where the property owner is protected from foreclosure. The county ultimately works for and serves the property owners in their jurisdiction, so they want to give the property owners protection and a shot to pay back the delinquent property taxes without fear of losing their property.

This period ranges from 6 months to 5 years in some states with most states having redemption periods of 2 to 3 years.

Once the redemption period has expired, the tax lien certificate holder can start the foreclosure process through the county.

There are multiple ways to foreclose, and those methods will be discussed in later trainings.

What an amazing investment! To have the opportunity to purchase a certificate and make state government-established interest rates, and to have that certificate backed by the real estate upon which the certificate was issued... AMAZING.

It's no wonder that the savviest investors in the world place as much of their money in tax lien certificates as they possibly can.

GENERATIONAL CHALLENGES

Baby boomers were raised by parents who endured the Great Depression, called the “GI Generation,” or “The Greatest Generation.” Both groups of people experienced life and money in profoundly different ways than we do today.

The GI Generation adopted a scarcity mentality that can hardly be rivaled by any other group of people. For many, everything was lost or taken from them. This bred habits of hoarding cash and extreme conservation of money for another inevitable loss.

The GI Generation saved and saved and retired early with mattresses full of cash.

In consequence, the baby boomer generation were taught similar principles, but my experience says that attitudes about money tend to teeter totter from generation to generation. If you were raised by a savvy investor who prepared for the future, then you are likely to spend more readily. If you spend readily, then your children will likely invest and save more than you did.

If the generational teeter totter theory is right, where do you fall?

It’s possible to change where you fall on the teeter totter. Will you spend more than you make, or will you invest what you make and have your investments support your lifestyle?

I started to recognize how my money mindset was affecting my children. My oldest is almost a teenager. Several years ago he started to realize that money opportunities were different for him than some of his friends. He started to feel like he could have anything he wanted. He would get upset when I wouldn’t buy him all the newest baseball gear. So, we made a deal. I would come up with a budget for a new mitt, bat or cleats when he needed one. A budget that I knew was low, but would at least get him what he needed to play. He wanted the newest, greatest and most expensive, so he went out and figured out how to make money. He started a mowing business and got a job umpiring.

Recently, one of this teammates was holding his new \$450 bat, and making fun of one of the new kids on the team because his gear was “crappy” (ok maybe not the word that a teenager would use, but I’m trying to keep it PG!) My son looked down at his new mitt that he just paid for himself. He’d spent his entire summer saving for new gear. A summer spent getting yelled at by parents for missed calls, and hot afternoons pushing a lawn mower and building retaining walls. He was mad at his teammate for being handed the best gear without having to work for it while making fun of someone who couldn’t afford what he had.

Hopefully you won't need those types of forces to change your behavior or how you think about money. Some of you reading this book already have a healthy money mindset, and others may need some or a lot of work. All of those places are okay, but you've already made the first step by becoming a member of this program and reading this book.

Our ambition at Tax Lien Code is to help change people's mindset about money and provide one of the most powerful engines to create wealth and, consequently, changes people's lives.



MY FIRST LESSONS

After a few days of questions back and forth, and stories about tax liens that he had purchased I was ready to dive in.

He taught me how to find lists of investments and how to narrow the list to potential investments. I ran out of questions and I was ready to try it out. I was lucky to have a mentor, even though he was young and fairly new to tax liens, he knew much more than me and was ready to walk me through it.

He started giving me little things to do, and I followed every instruction religiously.

I looked at a county in Arizona. Thankfully it was online. I went into his office and together we started going through the list. He explained what each number and letter meant to me. He told me which ones to pay attention to and which ones to ignore. He taught me how to take identification numbers online to find an actual property address, and how then to view images of the actual property. He taught me about to take the address to get estimates on the property value and how to view crime and demographics in the area. He taught me how to calculate potential interest earned on each tax lien certificate. It was so exciting to learn these things!

Together we went through the list going through positives and negatives of each tax lien certificate. This process took a few days. I was so anxious to get my first one, it's all I could think about.

Finally, we found one that made sense (quick redemption). I tried buying it online, but all I got as an error. I called the county. They told me they hire it out a different company, and they couldn't help me. I called the other company, and they told me everything looked fine on their end, and it must be user error or something on my side. My friend tried buying the same one, he got the same error. I called up another friend, walked him through the process of buying it, and he got the same error!

It was like I had been slapped in the face.

A week of work and I didn't have anything yet. I went back to the list, but couldn't find anything I liked as much as the first one. So, I looked in Florida, and found a \$185 tax lien certificate on a single family home that seemed interesting. There was a history of redemption on past certificates, so it seemed okay to me. This time it went through without an issue.

A few months passed, and the excitement had died down a bit. There wasn't anything to do but wait and get bored. But then I got an email from Florida. I opened it up to find an accounting from the county which showed my initial investment, plus three months of interest! I did it!

I bought a tax lien certificate and made three months of interest at 18 percent APR. That was a powerful moment for me. With the help of my friend, I was able to grow \$185 dollars into something more through an investment strategy that I had never used a few months earlier.

It wasn't a lot of money. But that fact that it worked lit a spark in me that still hasn't extinguished!



DEVELOPING A NEW WAY

Now it was time to duplicate that investment. While getting that check with three months of interest was exciting, it was hardly anything in dollars. I knew that I needed to do it again and again in order to really make money.

I bought another small tax lien, and then another. I started to get faster and more confident. I started to find investments faster than my teacher, and he started to ask me questions about what I was doing. Together we would talk about strategies and shop tax liens together. It was a great time of learning and discovery.

I became extremely motivated to make the process simpler, faster, and automatic. I moved on to other counties and realized much of the processes were similar in other counties. I created templates for emails and letters. I learned how to quickly narrow lists using formulas in Excel. I learned how to spot bad liens and good liens quickly, and how to perform deeper due diligence using multiple tools and resources online.

I started to compile that data into one place and to share that information with my friend. Pretty soon I was teaching other people about what I was doing, and it was exciting to see other people get excited about tax liens like I was.

There were few things as exciting for me as to see someone I taught get their first check.



THE OPPORTUNITY

There is no doubt that real estate investing, and tax lien investing in particular, is extremely exciting and can be an incredible way to build wealth. It has changed our lives and thousands of lives of those that have allowed us to introduce and teach this strategy.

There is just so much that makes this strategy intriguing including:

- *Government-mandated interest rates. The state government determines what the county will charge for late property taxes, and that interest earned is passed to the tax lien certificate holder.*
- *Interest rates do not change. Once you purchase a tax lien certificate at a certain interest rate, the rate will not change. If the stock market drops, your interest remains the same. If the fed drops the rate, your interest rate on tax liens remains the same. IF the stock market completely shuts down, your interest rate stays the same.*
- *High interest rates. The interest rates for each state are relatively high by comparison to most other investments. Certificates of deposits, the stock market, the S&P 500, and others have nothing on 16 percent in Arizona, 18 percent in Florida, or 25 percent in Texas.*
- *Certificates are backed by real estate. Every tax lien certificate is backed by the property on which the certificate is placed. If you do not get redeemed, or paid off, then you have the opportunity to foreclose and take ownership. You don't need to, but you have that opportunity.*
- *You're partnering with the government. When you purchase a tax lien certificate, you are essentially partnering with the county government. They continue to send notices of delinquency and interact with the property owner. When the property owner pays off the taxes, the money is sent to the county, then the county sends the money to you. You also adopt the power of the government-issued tax lien certificate.*



Tax lien investing is also the gateway to real estate investing. The interest rates are fantastic, but for many investors that is the worst-case scenario. For many investors, tax lien certificates serve only as an opportunity to acquire discounted properties.

When foreclosing on a tax lien certificate, you generally acquire the property for a few years of back taxes plus fees. If taxes are 1 to 2 percent of the assessed value of a home, then it's possible to acquire a home for a relatively small percentage of the total assessed value. We've acquired homes for as little as 10 percent of the assessed value, and if the assessed value is a portion of the market value, which is the case in most cases, then you acquire the property for an even smaller percentage of the market value.

For real estate investors who are used to acquiring deals through traditional methods, this strategy is especially appealing. When you are working with Tax Lien Code, it makes that inventory and process even simpler, which you will learn about the workshop.





CLOSING

Let's close by saying congratulations!

Tax lien investing is just a single vehicle to help you accomplish your goals and vision. As we continue to work together, I hope to help you make changes, not only to your financial situation, but also to your personal life and overall wellbeing.

I love helping people. I have an incredible team of professionals, trainers, coaches, investors, support staff, accountants, attorneys, contractors, and everything in between.

I am so excited to meet you and to help you along this journey!

Happy investing!