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Background

At the request of City Councilman-at-Large, Allan Domb, the National Tax Lien Association “NTLA” submits this Study on Tax Lien Securitization and Philadelphia. It has been well documented in a major study conducted by the Pew Charitable Trusts in 2013 ([The Pew Study](#)) that the City of Philadelphia has struggled with the collection and enforcement of property taxes including water and sewer liens. Mr. Domb has requested information on what the City of Philadelphia could expect by implementing “a New York City” model. To that end, the NTLA provides this operational, legal, financial overview for a systematic solution called, “Tax Lien Securitization” which New York City has been utilizing for the past 20 years.

About the National Tax Lien Association

The [NTLA](#) was founded in 1997 as a non-profit 501C(6) association for the tax lien industry. It is dedicated to representing the interest of government officials and private investors and servicers in regards to tax lien sales, as well as promoting the benefit of those sales as reliable income for municipal, county budgets. The NTLA also provides networking, training and certification opportunities for those in the tax lien industry.

Executive Summary

A true estimation of revenue to be realized from a tax lien securitization would come from rating agencies that conduct financial analysis and know current investor appetites for securities backed by tax liens. Based on the data provided by the City on real property delinquencies the City would most likely receive initial advances of between \$90 million to \$120 million. Ongoing annual securitizations would produce \$25 million to \$40 million depending on the timing of the securitization and the delinquency dates.

Why NYC Securitization Model?

In 1996, the year the City decided to undertake a more systematic and consistent method of collecting taxes by employing an annual securitization. The City was dealing with the following issues:

- City had \$2 billion in uncollected liens
- Property tax delinquency had risen 5%
- In-rem foreclosures/maintenance costing the City \$2.2 million per property and a total of \$500 million per year
- In-rem foreclosures on average took 19 years to get each property off the delinquent tax rolls
- The City became the City's largest landholder, consuming substantial resources

The Results:

- Increased first year "on-time" tax collections by \$1.55 billion
- Collected \$1.078 billion thru tax lien sale
- Collected \$317.8 million in taxes during the in-rem foreclosure process

Can the City of Philadelphia conduct an Annual Tax Lien Securitization?

By Edward Marcus and Donald Dinan

We are submitting this report at the request of Brad Westover, Executive Director of the NTLA.

The following does not constitute a legal opinion. It is based only upon limited information received from the Revenue Chief Counsel of the City of Philadelphia Law Department, which is attached hereto as Exhibit A.

Can the City of Philadelphia conduct an Annual Tax Lien Securitization? (cont.)

A review of [53 P.S. §7147: Assignment of claims, etc.](#) would appear to make it possible for the City of Philadelphia to engage in either a bulk tax lien sale or a tax lien securitization. This conclusion has been reached only by reading 53 P.S. §7147 and the representation of Chief Revenue Counsel for the City of Philadelphia that 53 P.S. §7147 is the principal authority for the City's ability to sell its municipal tax liens and that Exhibit A is in full force and effect as of this moment in time.

We have not conducted any independent investigation of the City's ability to sell liens and our further comments relating to the sale of liens in Philadelphia are based upon the contents of 53 P.S. §7147 and our experience of many years in the tax lien industry.

Based on the Revenue Counsel's assertion that tax liens owned by the City of Philadelphia can be sold to a third party, we must then look at the general characteristics of a lien sale.

Based on our experience in the tax lien industry, the common requirements in carrying out a tax lien sale would be the following:

I. RFQ and RFP

A. RFQ for Financial Manager who would design and assist the City in the implementation of a tax lien securitization structure including determining which liens would be eligible.

B. Request for qualifications would be issued by the city. The reason for a RFQ is that given the size of the City's portfolio there are only a limited number of companies that would have the ability to purchase and service the portfolio or to be able to be a party in

Can the City of Philadelphia conduct an Annual Tax Lien Securitization? (cont.)

C. Those companies found to be qualified would then participate in and respond to a request for proposals to be prepared by the City and submitted to the qualified companies.

D. The RFP drafted by the City of Philadelphia would contain within it the following, which are not necessarily inclusive of all items to be referred to in the RFP, but are items that are without any doubt necessary as part of an RFP, namely:

1. The purchaser of City liens shall provide the property owner with no less than 30 days written notice prior to instituting a foreclosure action. (See Implementing Litigation section below.)
2. The RFP shall outline the numbers and types of properties upon which liens have been filed, such as residential, commercial, industrial and those properties that are known to be environmentally impacted.
3. The liens shall be broken down as to whether they are blight, water, sewer, or property tax liens. The age of the liens shall also be shown.
4. The RFP shall further require that bidders be prepared to offer installment payment plans in accordance with the normal usages of the tax lien industry.

Can the City of Philadelphia conduct an Annual Tax Lien Securitization? (cont.)

5. The City agencies responsible for handling the tax lien sale for securitization shall be clearly described.

6. All legal fees and costs of the lien shall be recoverable in their entirety and if a foreclosure proceeds to Court a Judge shall have the right to direct the payment thereof.

II. IMPLEMENTING LEGISLATION

The specific legislation establishing the securitization program shall include, in addition to the authority contained in 53 PS 7147, the following:

1. Authority to assign or transfer liens to a statutory Trust created and established for the sole purpose of purchasing tax liens from the City of Philadelphia;
2. Assignee has all the rights, powers, lien status, and priority of payment in law and equity as the City of Philadelphia would have if the liens had not been assigned or transferred;
3. The receipt of a deed in fee simple absolute;
4. Adequate notice provisions including pre-sale notice provisions and post-sale notice and posting requirements (note recommendation of at least 30 days minimum notice requirement before sale in RFQ and RFP section);
5. Statutory period of redemption (6 months) before foreclosure can begin;
6. Sequence of payments provision that provides all payments are applied to the oldest liens first;

Can the City of Philadelphia conduct an Annual Tax Lien Securitization? (cont.)

7. All reasonable attorneys fees and costs incurred by the Trust in enforcing a lien are to be paid by the redeeming party;
8. The right of sale of foreclosure acquired properties by the Trust to another third-party;
9. Substitution of liens of equal value for similar property for liens deemed to be defective (already paid, in bankruptcy etc.) within 6 months of securitization; and
10. Provide for statute of repose of 6 months or 1 year in which to challenge validity of the deed and all proceedings related thereto.

Again, this is not an exhaustive list, but contains the major necessary components of a tax lien securitization program.

III. ANTICIPATED BENEFITS

- A. Immediate influx of cash to the City and significant cash flow stream in subsequent years.
- B. The sale and the enforcement actions taken relating to the collection of liens will, based on experience in other communities, promote a tax environment, which will benefit the City not only with the proceeds of the sale of the liens but will induce other tax payers to pay their taxes in a timely fashion, thereby increasing the percentage of tax payers paying their taxes on time and this will provide the City with an additional benefit by virtue of a higher bond rating and all of the benefits that go with same.

Can the City of Philadelphia conduct an Annual Tax Lien Securitization? (cont.)

C. By significantly reducing vacant and abandoned property through the sale by the Trust of foreclosed properties to entities who will return these properties to productive use. A securitization helps eliminate blight, crime and other detrimental social effects caused by vacant and abandoned property. This strengthens neighborhoods and increases the value of adjacent and nearby properties, thus further increasing the tax base of the City. Experience has shown that a securitization is also instrumental in significantly increasing affordable housing, parks, and other green space through the return of foreclosed vacant and abandoned property to desired uses by the Trust.

Our experience of almost 25 years in the tax lien industry is that benefits of tax lien sales are substantial. We would suggest that Counsel for the City, the Mayor and of course the City Council review this matter and the City Council should and must vote on the approval of any tax lien sale or securitization.

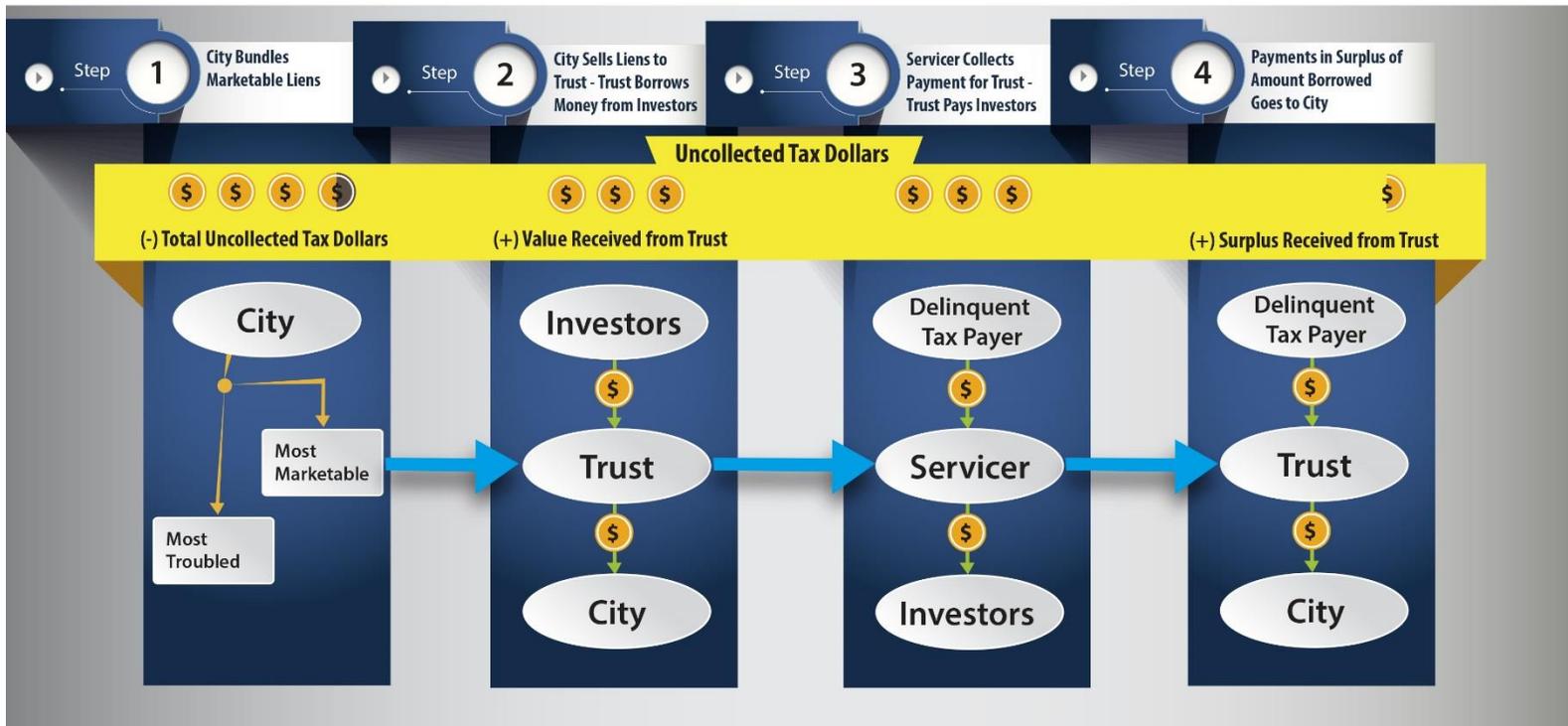
We would once again remind you that this memo does not constitute a legal opinion and it is not to be relied upon as such.

[\[District of Columbia securitization statute\]](#)

[\[New York City securitization statute\]](#)

How Securitization Works

The liens eligible for inclusion in the securitization are delinquent property taxes, water and sewer charges and other municipal charges. The City bundles its most marketable liens into assets for sale to a third party Trust, which borrows money from institutional investors to fund an upfront payment to the City. The Trust then assumes the responsibility for collecting the outstanding taxes through servicers rated by a national rating agency. After investors have been repaid, the City collects the additional revenue from additional collections from taxpayers.



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Securitization Graph.pdf

Lien Eligibility

Class One properties are 1-3 family homes with an outstanding balance greater than \$1,000 and must remain unpaid in part or in full for over two years. Water and Sewer liens have a different criteria and eligibility. Water and Sewer liens on single family homes are specifically excluded. For 2-3 family properties must have a delinquent water or sewer charge over \$2,000 and at least one year past due.

Safeguard Exemptions

Certain homeowners are exempt from the securitization. These include Senior Citizens with a homestead exemption, a disabled homeowner, Veterans and active duty military if they apply for such an exemption. The chart below outlines the eligibility requirements for the four possible exemptions. These homeowners still have to pay taxes, but are not included in this process.

Exclusion Criteria (Owners of 1-3 family homes)			
Senior Citizens	Disabled	Veterans	Active Duty Military
<ul style="list-style-type: none"> • 65+ Years old • Income Under \$37,000 	<ul style="list-style-type: none"> • On Disability • Income Under \$37,000 	<ul style="list-style-type: none"> • Served in the Armed Forces 	<ul style="list-style-type: none"> • Must apply via affidavit • Property value under \$85,000 • Income Under \$18,000

Safeguard Exemptions (cont.)

Property owners who do not meet the criteria listed above and who are at risk of inclusion in the securitization can still be excluded from the list. The City should offer payment plans with an agreed upon repayment period.

Additionally, a Water Debt Assistance program should be offered to owners whose properties are to be included because of water or sewer charges and are under the threat of mortgage foreclosure. Owners who enter this program must agree to pay the obligation on or before the sale or refinance of the property which would exclude them from the securitization.

Anticipated Timeline

One positive attribute of a securitization is that it allows the City to establish the framework to meet its objectives. If the main objective is to collect delinquent revenue, while still protecting any hardship cases, these can be expressly implemented. As part of the plan, all delinquent taxpayers shall be notified multiple times as appropriate to provide proper due process that the tax lien sale is going to occur with explicit instructions on how to pay their outstanding taxes. Many delinquent taxpayers (30% to 50%) will pay in advance to avoid being included in the securitization.



Securitization
Timeline.pdf

Lien Sale Timeline



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Rating Tax Liens (Methodology)

Standard and Poor's, Moody's and Kroll all have extensive experience and have documented their approach to rating securities backed by properties arising out of delinquent property taxes, assessments, water and sewer liens. For a deeper dive and understanding of rating methodology visit S&P's, Moody's and Kroll's Reports:

Moody's: [Approach to Rating US Tax Lien-backed ABS](#)

S&P's: [Methodology For Rating And Surveilling U.S. Tax Lien Securitizations](#)

Kroll's: [Property Tax Lien ABS Rating Methodology](#)

Philadelphia's Delinquent Tax Analysis (March 2016)

The following analysis is based upon the delinquent tax file the NTLA received from the City of Philadelphia on May 12, 2016. This high level analysis does not include any property level due diligence and should only be viewed as the basis for providing a range of revenue outcomes. The NTLA has not performed any analysis as to the veracity of the assessment valuations to validate lien to value ratio's and other key indicators when predicting a portfolios redemption curve, etc.

Age of Liens

Age (Years)	# Liens	Redemption Amt
1	22,642	\$27,157,097
2	12,535	\$30,829,733
3	7,119	\$25,158,785
4	5,848	\$24,198,971
5	4,635	\$22,272,620
6	3,878	\$21,272,149
7	2,962	\$17,328,841
8	2,392	\$17,060,240
9	1,982	\$15,004,348
10	1,545	\$13,342,366
11	1,382	\$12,006,115
12	1,180	\$12,541,922
13	1,089	\$12,488,452
14	975	\$10,536,151
15	1,665	\$12,217,813
16	1,007	\$11,857,182
17	1,011	\$12,813,665
18	1,258	\$16,634,657
19	5,712	\$55,075,846
20	555	\$8,103,120
21	508	\$7,071,848
22	580	\$8,867,693
23	603	\$7,509,042
24	481	\$6,714,564
25	506	\$7,938,138
26	633	\$7,998,732
27	514	\$7,084,681
28	496	\$6,784,898
29	442	\$6,247,511
30	475	\$6,176,913
31	436	\$6,194,261
32	358	\$5,589,141
33	326	\$5,136,773
34	237	\$3,810,487
35	236	\$3,278,067
36	179	\$3,035,507

Age of Liens (cont.)

Age (Years)	# Liens	Redemption Amt
37	226	\$3,470,913
38	904	\$11,023,647
39	5	\$198,956
(blank)		
Grand Total	89,517	\$492,031,847

Obviously the older the tax lien the less likely its owner (or any other interested party) will pay the accumulated delinquencies. At some point these older liens must be written off or a mechanism devised for these properties to be restored to the active tax rolls. Often times, these older liens have over inflated assessed values that having been accruing delinquent tax penalties for years to the point where the lien amount is far greater than its true market value.

Land Use Classification

LUC	# Liens	Amount
Commercial	6,050	\$61,372,613
Unknown	1,401	\$6,276,923
Residential	82,066	\$424,382,310
Grand Total	89,517	\$492,031,847

Statistically, residential property is the highest paying land use classification. The City need to classify the 1,401 liens that are currently unknown. All unknown classifications would automatically be pulled from inclusion in a tax lien sale.

Land Use Description

LUC	# Liens	Amount
House 1	58,454	\$288,331,902
Vacant Land	17,353	\$105,256,911
Apartment Small	4,225	\$22,829,437
House 2	1,327	\$10,534,598
Mixed Usage	1,595	\$9,831,279
Industrial	675	\$9,310,423
Non-Profit	385	\$6,599,538
Condo	1,174	\$6,593,394
Unknown	1,401	\$6,276,923
Apartment-Large	360	\$5,604,015
Commercial - Misc	419	\$4,884,669
Retail	555	\$4,739,885
Theater/stadium	113	\$2,254,097
Restaurant/Bar	154	\$2,068,883
Parking Lot	452	\$2,038,733
Office Building	75	\$1,893,150
Garage	394	\$1,482,265
Parking_Garage	124	\$689,342
Residential - Misc	255	\$391,255
Hotel	16	\$358,060
Bank	7	\$48,004
Piers	1	\$9,655
Utility	3	\$5,430
Grand Total	89,517	\$492,031,847

Single family homes are the highest redeeming land use classification. This grouping should be included in any tax sale solution with safeguards built in for hardship cases. Statistically the lowest redeeming land use category is vacant land.

Homestead vs Non-Homestead Properties

Homesteaded	# Liens	Amount
Yes	18,293	\$92,660,781
No	69,985	\$393,944,551
Unknown	1,239	\$5,426,514
Grand Total	89,517	\$492,031,847

Single Family homesteaded properties need built in safeguards for low income elderly, and military personnel. The securitization program should include safety provisions to protect those individuals who need it.

Current Status

Status	# Liens	Amount
Agreement	5,656	\$53,428,477
Agreement2	4,781	\$14,896,551
Internal Collect	14,417	\$85,784,302
Internal Collect	8	\$15,358
Out: Goehring	25,541	\$128,651,274
Out: Goehring	26	\$293,026
Payplan	166	\$39,401
Out:Linebarger	2	\$27,066
Out:Linebarger	22,747	\$134,706,526
Out:Linebarger	772	\$2,523,228
1997 Securitiz	479	\$973,117
2015 Pilot Sale	1	\$35,754
NULL	623	\$242,039
Internal Collect	13,512	\$62,906,153
Receivership	786	\$7,509,574
Grand Total	89,517	\$492,031,847

Current Status (cont.)

It appears the City has been working on various solutions listed above. Some of the liens will be omitted from the securitization based on their current status. The rating agencies will determine what can and cannot be included in a current sale.

Latest Assessment Year

Row Labels	# Liens	Amount
Unknown	1,239	\$5,426,514
2016	87,809	\$485,137,854
2015	310	\$964,910
2014	44	\$250,013
2013	47	\$19,099
2012	44	\$80,404
2011	24	\$153,053
Grand Total	89,517	\$492,031,847

All unknown assessments would automatically be omitted from the eligibility pool. It should be a City priority to bring all assessments current. The rating agencies will test the assessed values for accuracy.

Zip Codes

Zip Code	# Liens	Amount
19102	45	\$568,748
19103	309	\$2,895,986
19104	2,954	\$15,684,046
19106	273	\$1,842,328
19107	192	\$1,287,623
19111	623	\$3,744,937
19112	10	\$229,316
19113	1	\$178
19114	353	\$2,916,319
19115	268	\$1,808,016
19116	259	\$2,462,281
19118	58	\$471,301
19119	995	\$8,145,392
19120	2,024	\$9,798,697
19121	5,296	\$25,812,236
19122	2,129	\$8,288,304
19123	686	\$3,495,591
19124	2,683	\$13,708,669
19125	1,547	\$5,283,014
19126	648	\$5,026,369
19127	253	\$1,311,410
19128	573	\$4,154,409
19129	446	\$3,969,657
19130	657	\$3,525,076
19131	3,678	\$22,735,109
19132	8,401	\$47,680,967
19133	5,718	\$18,392,047
19134	5,646	\$26,999,966
19135	787	\$3,645,241
19136	515	\$2,820,546
19137	396	\$2,019,350
19138	2,605	\$19,509,411
19139	4,618	\$27,261,521
19140	7,802	\$41,980,442
19141	2,192	\$13,998,798
19142	2,037	\$11,229,889

Zip Codes (cont.)

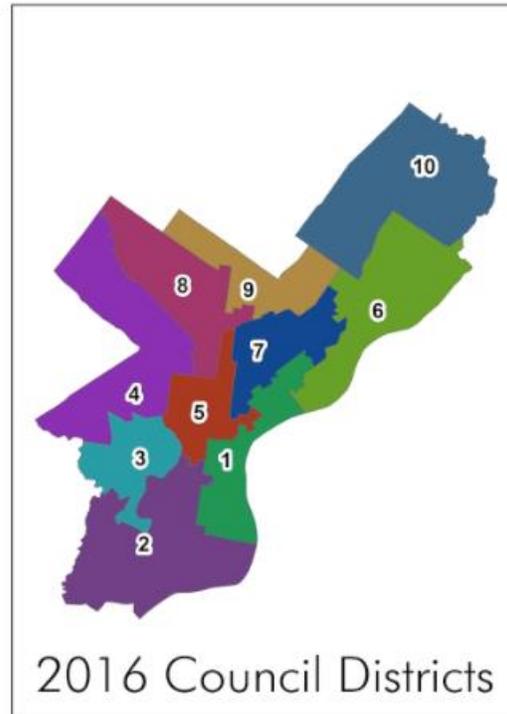
Zip Code	# Liens	Amount
19143	6,331	\$40,793,496
19144	3,100	\$23,349,040
19145	1,921	\$8,864,691
19146	3,140	\$11,700,027
19147	1,272	\$9,214,136
19148	1,840	\$7,469,218
19149	634	\$2,951,368
19150	1,019	\$7,111,619
19151	1,447	\$8,863,722
19152	339	\$2,162,718
19153	333	\$1,708,346
19154	437	\$2,906,269
91303	1	\$6,878
	16	\$107,639
NULL	10	\$119,487
Grand Total	89,517	\$492,031,847

A successful securitization will only occur if the whole City is included in the program. Excluding specific neighborhoods or property classes will nullify the benefits of such a program.

City Council Districts

District #	# Liens	Amount
1	6,622	\$32,166,172
2	8,158	\$38,307,339
3	13,082	\$80,034,688
4	8,602	\$54,403,653
5	17,199	\$85,495,530
6	2,622	\$13,790,849
7	13,597	\$54,931,663
8	13,033	\$89,420,198
9	4,764	\$30,682,065
10	1,535	\$10,882,849
NULL	303	\$1,916,842
Grand Total	89,517	\$492,031,847

City Council Districts (cont.)



2016 Council Districts

Council Districts, 2000, 2016: City of Philadelphia
Source: Census Block Groups & 2010 Population: Census.gov

Active Installment Payment Plans

Pay Plans	# Liens	Amount
N	69,061	\$357,977,309
Y	20,456	\$134,054,538
Grand Total	89,517	\$492,031,847

All active installment payment plans can at the City's discretion be included in the eligible lien pool.

Bankruptcy Filings

Bankruptcy	# Liens	Amount
Yes	1,503	\$15,213,839
No	88,014	\$476,818,008
Grand Total	89,517	\$492,031,847

All active bankruptcy cases can at the City's discretion be included in the eligible lien pool.

Sheriff's Sale in Process

Sheriff Sale	# Liens	Amount
No	85,228	\$456,138,395
Stayed	916	\$7,462,463
Yes	3,373	\$28,430,989
Grand Total	89,517	\$492,031,847

All properties slated "in process" for a Sheriff's Sale will be omitted from the eligible lien pool.

1997 Securitization

1997 Secur.	# Liens	Amount
No	83,819	\$451,824,864
Yes	5,698	\$40,206,983
Grand Total	89,517	\$492,031,847

All properties containing liens from the 1997 securitization will be omitted from the eligible lien pool.

Included in Recent Pilot Tax Lien Sales

2015 Pilots	# Liens	Amount
No	88,894	\$489,985,857
6/1/2015	127	\$1,055,924
12/1/2015	496	\$990,066
Grand Total	89,517	\$492,031,847

All liens from the pilot tax sales will be omitted from the eligible lien pool.

Lien-to Value (LTV) Ratios

Lien-to-Value (LTV)

Ratio

LTV%	# Liens	Lien Amount
0 - 4.9%	45,349	\$92,803,628
5 - 9.9%	12,138	\$61,733,878
10 - 19.9%	8,381	\$70,362,789
20 - 29.9%	4,048	\$45,463,283
30 - 39.9%	2,804	\$35,378,553
Over 40%	15,085	\$179,385,762
Unknown	1,712	\$6,903,950
Grand Total	89,517	\$492,031,847

Generally the greatest indicator in determining the probability of payment is the lien to value ratio (LTV%). Liens over 40% LTV are usually excluded from any securitized lien pool or no value is ascribed to such liens. This table shows the LTV ratio for each lien individually. Rating agencies will aggregate all liens encumbered on the same property to demonstrate a more accurate or true LTV%.

Conclusion/Next Steps:

A securitization provides a systematic delinquent tax collection solution that appears to be viable and would produce several financial benefits based on the data that has been provided to the National Tax Lien Association. Conservatively the City could expect initial advances from \$90 million to \$120 million. The City would receive this initial advance between 90 to 120 days from the date the City agrees to proceed. Subsequent years of ongoing collections will fall between \$25 million to \$40 million depending on the timing of the securitization and the economic environment. In these subsequent years, the City will need to evaluate their delinquency levels to see if securitization route is the most feasible option. Ultimately, the rating agencies will perform their analysis and determine the appropriate thresholds based upon many factors.

The prudent next step to implementation would be to issue an RFP/RFQ for a financial advisor as recommended on Page 2 of this report. The City should retain an experienced Program Manager that has had extensive experience in tax lien securitizations on behalf of public sector clients.

To assist the City of Philadelphia with furthering its due diligence on the matter, the NTLA has provided the following list of professionals who could provide further insights.

Contacts/Resources:

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