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March 8 2016

Testimony of Attorney Walter M. Spader, Jr.
to be submitted to the Banking Committee
March 8, 2016
in Opposition to Senate Bill-408
AN ACT CONCERNING THE PROTECTION
OF DELINQUENT HOMEOWNERS

As an attorney who handles municipal tax collection in over a dozen towns and cities, I do not believe this proposed legislation will be beneficial to our towns and cities, nor will it benefit taxpayers.

The legislation arbitrarily lowers the interest rate on delinquent taxes once a municipality commences a foreclosure on a residential property to 12% and stops the accrual of interest on any assigned tax lien.

The interest rate on back taxes serves to compensate municipalities for the loss that occurs when revenue is not paid in a timely manner. By lowering the interest rate, this bill would provide relief to delinquent taxpayers at the expense of residents and businesses who pay their taxes on time. Municipalities (and municipal water/sewer providers) rely on timely payments to provide services for all citizens. Lowering the interest rate on delinquencies reduces municipal revenue and ultimately causes higher tax bills on taxpayers who struggle - but ultimately do - make timely tax payments to avoid interest.

By eliminating interest on any assigned lien, the legislation eviscerates the marketability of the towns' tax liens. For the towns that rely on tax lien sales to make their annual municipal budget, the de-valuing of its tax liens as a negotiable instrument severely and negatively impacts local budgets. The legislation actually encourages towns and cities to be more aggressive in enforcing and collecting its tax liens quickly and will cause more homeowners to face foreclosures rather than reduce enforcement actions. Tax lien assignees, in general, do not purchase tax liens for the purpose of commencing foreclosure actions and generally offer longer payment plan terms with taxpayers than can be offered by the municipality.

An unintended consequence of this legislation retroactively impacts the tens of millions of dollars received by struggling communities such as Hartford, Bridgeport and West Haven from assignees over the past few years. A contractual warranty from the municipalities to its assignees is that the tax liens hold an 18% interest rate. This legislation breaches that warranty, and could allow each assignee to demand that the City re-purchase outstanding assigned liens. My guess is that there are probably $15 million in outstanding liens in Hartford alone, $15-20 million in Bridgeport, $10 million in West Haven and millions more in towns and cities across Connecticut. With dwindling state aid, the Cities are not in the financial position to re-purchase these liens as they would be required to.

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The greatest impact the legislature can have on reducing foreclosures from local taxes and to protect homeowners is to continue to support programs such as the senior and veterans tax credits and continuing to fully fund municipalities to allow for a lower property tax burden on property owners.

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Submitted personally as a Connecticut attorney representing municipalities and tax lien assignees and sent as a member of the Legislative Committee of the National Tax Lien Association.