UNPAID TAXES ON FORECLOSURE INVESTMENTS TAKE TOLL

THE WITTER HOUSE
705 N. WALNUT ST.
- Owner: Go Invest Wisely LLC (Ogden, Utah)
- Taxes owed currently: $9,221

IN TAX FORECLOSURE

730 Chicago Ave. — Former owner: Stonecrest Investments LLC (San Jose, Calif.)
- Taxes owed at foreclosure: $22,624

1214 W. Allegan St. — Former owner: Northwest Housing Fund LLC (Reno, Calif.)
- Taxes owed at foreclosure: $43,596

1710 Olds Ave. — Former owner: Diamond Properties Investments LLC (Bloomfield, Ark.)
- Taxes owed at foreclosure: $33,391

711 Lamasse Ave. — Former owner: CD Equities LLC (Bloomfield Beach, Fla.)
- Taxes owed at foreclosure: $15,355

1223 W. Ottawa St. — Former owner: CD Equities LLC (Bloomfield Beach, Fla.)
- Taxes owed at foreclosure: $26,667

Foreclosure woes in Lansing: Casey and Josh Witter are seen at their home at 705 N. Walnut St., along with two of their three children, gravyen, 2, and Dylan, 3.

DELINQUENT LANDLORDS

They just took us for everything,
Lansing woman says

The first time Josh and Casey Witter saw the house at 705 N. Walnut Street, it had rooms filled with trash, a kicked-in front door, a kitchen without a single appliance.

The house had gone through foreclosure at the end of 2007 and ended up in the hands of a Utah company called Go Invest Wisely, which buys and sells foreclosed homes. It was hardly a dream house, bat it was one they could afford. The ad on Craigslist said they could rent to own.

"We got into the deal because, obviously, we were trying to fix our credit," said Casey Witter. "This was a good investment for us. We were able to invest in the community plus try to get a home for our family."

They cleared out the trash, painted the walls and moved into the house with their three small children and two large dogs in March of 2009. They found a kitchen sink to replace the one that was falling through the counter top, fixed broken windows, bought a new front door.

And they made their payments, $400 a month for the house, another $140 for taxes and insurance, all to a Utah property management company called Pro Financial Services, owned by the same men who own Go Invest Wisely.

In August, a man came to their door.

Tri-county foreclosures
The worst month for foreclosure filings in the Lansing-East Lansing metro area was August of 2009.

1,000, foreclosure filings
800
600
400
200

Jan 09  Feb 09  Mar 09  Apr 09  May 09  Jun 09  Jul 09  Aug 09  Sep 09  Oct 09  Nov 09  Dec 09

Source: Realty Trac

Lansing State Journal

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“He gave us a piece of paper saying the house is going to be auctioned off in February due to back taxes,” Josh Witter said. The taxes hadn’t been paid in years.

“They just took us for everything,” Casey Witter said.

The Witters are not just victims of unsavory business practices. They’re victims of the foreclosure crisis that has taken in hundreds of thousands of homes in Michigan and of the gold rush on distressed houses that has grown up around it.

As the crisis gathered steam, banks found themselves saddled with a glut of repossessed homes, properties that hadn’t sold at auction, usually the most damaged and dilapidated.

To clear their books, they have turned increasingly to investors who can afford to buy in bulk and pay cash, often pennies on the dollar.

For some of those investors, the plan was never to fix the houses they bought, but to flip them to buyers who could be convinced to see dollar signs in the wreckage or find tenants who had few other options.

The past few years have seen “a disproportionate number of economically disadvantaged people and a disproportionate number of substandard properties that are finding their way to each other,” said Elan Stavros Nichols, a clinical professor at the Michigan State University College of Law Rental Housing Clinic, which provides free services to low-income clients. “There aren’t enough protections in place to help these people.”

As for those houses the bulk buyers can’t sell, bought at a pittance, they often end up as somebody else’s problem.

9 Lansing properties

Of the nine Lansing properties owned by Go Invest Wisely and Pro Financial Services, one has been torn down by the city. Four have been tagged as unsafe or substandard.

Only two are inhabited, one by the Witters, the other by a woman named Alice Wilson, who also signed a land contract with Pro Financial Services, but realized quickly that the company wasn’t paying the property taxes. She stopped sending them money, but she hasn’t moved out.

The company owes a total of $67,853 in property taxes and fees from the city for upkeep, tag monitoring and demolition on those nine properties, which it bought in 2008 and 2009, according to city and county records.

And Go Invest Wisely owns hundreds of properties in Michigan, 324 in Wayne County alone, according to county records.

The company’s owners, identified as Brad Hess and Tyrell Gray in a lawsuit filed earlier this year by investors who bought houses from the company but say they never received deeds, did not respond to interview requests. Repeated calls to a phone number listed for the company yielded only busy signals.

Barry Johnson, a Salt Lake City attorney representing the company in that lawsuit, was terse when asked about Go Invest Wisely’s Lansing properties. “I don’t think our client wants us commenting on it,” he said.
Lansing officials began to notice more out-of-state investors buying property in late 2005, said Craig Whitford, the city’s lead housing inspector. By the end of 2006, “it was in full throttle.”

“In most cases, they take no responsibility for maintaining the properties,” he said.

Certainly not in the case of a Nevada company called Bryce Peters Financial Corp.

It has just two properties in Lansing, one on Bailey Street and one on Hosmer. In just over two years, city records show that it has racked up $10,948 in charges from the city for trash removal, grass and weed cutting, board-up fees, tag checks and administrative fees for an upcoming demolition on the Bailey Street house. It will owe more once that house is actually demolished, which the City Council ordered in August.

None of those charges have been paid. The older ones have been added onto the company’s property tax bills. Those haven’t been paid either.

Par for the course

Which, according to Ingham County Treasurer Eric Schertzing, is par for the course.

Take, for instance, Stonecrest Investments and Stonecrest Income and Opportunity Fund, sister companies from San Jose, Calif. Together, they own at least seven properties in Lansing on which they have never paid taxes, according to county records.

Their delinquent tax bill in Lansing is more than $33,000. Jon Freeman, the president of parent company Stonecrest Financial, didn’t respond to a request for an interview.

So-called “vulture investors” — that’s the term in the industry and not necessarily seen as pejorative — are buying properties in the suburbs, too. But the problem of tax delinquency looks different in Lansing, where companies can afford to simply abandon the properties they can’t sell.

Some investment companies simply “don’t have taxes as a carrying cost in their business plan,” Schertzing said. “They get two or three years before we foreclose on them, and if they can’t make any money on it in two or three years, they just don’t pay the taxes, and we get it back.”

The problem with that from the taxpayers’ perspective can be seen

in the case of the house at 730 Chicago Ave., one of eight Lansing properties owned by out-of-state companies that have gone through tax foreclosure so far this year.

Stonecrest had bought the Chicago Avenue house in 2009 for $1,076. When it reverted to the county in April, it had $22,624 in unpaid taxes. The chances that house will sell at auction for anywhere near that much are slim. And, in the meantime, the county is responsible for maintaining it.

In a market where foreclosed properties are selling for less than it would cost to repaint them — a property at 1819 Herbert Street sold at auction for $5 in August — the tax foreclosure process is a slim defense of public funds.

It allows companies to reap profits on the properties they can rent or sell and leave taxpayers with the tab for the ones they can’t.

“It privatizes the gains, even in this downward spiral,” Schertzing said. “The private sector makes the money where it can, and it leaves you and I and all the taxpayers with the losses.”

Effect on neighborhoods

The house at 218 Astor St. has mold and mildew covering the walls, a loose and hanging ceiling. It has faulty wiring, a leaking roof, soaked carpets. That’s according to a city inspection report from spring of last year, which declared the house unsafe. It’s owned by Go Invest Wisely.

“I wish they’d hurry up and take it down,” said Diane Sheerin. She and her husband, Joe, live next door. They can look through a hole in the roof from their bedroom window. They can smell the mold in the summer.

Vacant houses don’t help neighborhoods, particularly not when they’re falling apart. They lower property values, increase the risk of arson, create a draw for squatters.

And, when they’re being held by investors waiting around to flip them, they do something else. They sit.

“We’d buy it and tear it down ourselves, get rid of it and level it and take the land over,” said Joe Sheerin.

They tried to buy it two years ago, he said. Go Invest Wisely got there first.

The companies involved in bulk foreclosure sales aren’t always easy to track down, not for local investors who might have more stake in a property’s condition, not even for local officials.

The city has the option of asking a court to order owners to bring their properties up to code, but, as Whitford put it, “It is difficult with out-of-state owners. You have to track down a driver’s license number or a corporation, and then they may not appear as it is.”

Compelling them isn’t necessarily simple. Bryce Peters Financial, for instance, racked up more than $4.7 million in contempt fines for failing to appear in Cleveland Housing Court before being barred from real estate transactions in the city last month.

“How is anybody who has a complaint about a house, the neighbor or the city, going to find somebody that’s moving around 50 or 100 pieces of paper that represent houses?” Schertzing said.

“We can’t find them sometimes, and we’re the government.”