



Equity Trust Presents:

Donald G. Fullman, Jr.

**President, Platinum Investment Properties-West
Tax Lien Servicing Agent**

EQUITY TRUST COMPANY

Interview with Don Fullman, President of Plantinum Investment Properties-West

Jeanette Arnholt, Equity Trust Company Channel Marketing Manager, discusses current trends and market conditions for tax lien investing with Equity Trust retirement specialist David Griffiths and tax lien servicing agent Don Fullman from PIP-West. A transcript of their in-depth conversation follows.

JEANETTE: Hi, I'm Jeanette Arnholt from Equity Trust Company. I'm one of the Channel Marketing Managers here and thanks for dialing in today.

We have a couple of special guests on the line. We have David Griffiths here from the marketing department at Equity Trust—previous life lived as a Retirement Plan Specialist helping clients open up self-directed IRA accounts. And we have Don Fullman, who is a Tax Lien Servicing Agent from PIP-West.

So welcome Don and David. Thanks for spending some time with us today and I really appreciate your time with us today, so we'll spend a little bit of time going through things like current market conditions and investing in tax liens, what kind of options are available, what kind of help is there for investors in today's market and walking people through some real-life examples.

So let's start. One of the first questions that I have here today is, "How has the recent market volatility changed your business, in regards to Tax Lien purchases Don?"

DON: It's probably—in a couple of different ways. One is that certainly there are a lot more defaults with property. The real estate market and economy have been very slow, so that certainly increases the number of opportunities in default properties or in tax liens where people are delinquent. Unfortunately it is based on people having problems, although tax liens are actually a way that we can fund their taxes and give them several more years to pay back. Even though we are seeing more of them, I feel that it even acts as a solution for property owners.

We've seen a lot more opportunities in the marketplace and we're definitely anxious to take advantage of them for our clients.

JEANETTE: Yes, and I saw some interested statistics about foreclosures numbers that were just published recently. It's really startling—and then as well as the number of tax liens available on the market today.

DON: And the projection is that they are going to be increasing even further as well. Nobody has a crystal ball and there are some that feel we are at the bottom, we are turning. But some that feel there is a lot more to go before we do turn.

JEANETTE: With the current conditions in the market today, are you seeing more and more people reach out to you when they are looking to do different kinds of investing?

DON: Absolutely. In fact, I think because of all the publicity about foreclosures and the real estate market being poor, we're getting a lot of contacts with regard to tax liens and foreclosures and REO properties. In fact, some clients had been talking about moving their money from the stock market and then a week later I talked to them and they said they should have moved it last week (chuckles). So that definitely has occurred in the last eight to ten months for sure, particularly through our fall season in Illinois last year. So it definitely has had an impact and investors are looking at alternatives, for sure.

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JEANETTE: Absolutely. Don, can you spend a little bit of time telling folks about what it is that you actually do and what kinds of services you offer to clients?

DON: Sure. We are a full-service tax lien servicing agent. We invest; we purchase and manage tax lien portfolios on behalf on the client. We do a due diligence to research the quality properties on which the tax lien would be, then purchase them on behalf of the client, in the name of the client—so either personal name or in the name of their IRA through Equity Trust or whatever their titling would be. We have a lot of Equity Trust Company clients and it's an excellent resource for that. Basically, our services are to essentially allow investors to armchair invest in tax liens.

Besides the due diligence and the purchase, we manage the portfolio thereafter. We follow up with the counties to collect the redemption funds and pass them on to the client as they occur. It's a very lucrative area right now and our focus, performance-wise, is to aim at the highest yields possible. That may seem like an obvious comment, however in tax lien investing, it's very possible to buy tax liens at one percent, five percent and obviously those are not very exciting returns. We focus more on those annual returns in excess of twenty percent. In Illinois, for example, their maximum rate is thirty-six percent annually. So that's where we are targeting for our clients. It definitely is in the high range of the yield and that is our performance commitment to our clients.

JEANETTE: Well Don, that double-digit growth and those double-digit returns sound pretty promising compared to some other options that may be available in the market today.

David, maybe you can address just for a couple minutes here, how easy it is to be able to work with someone like Don, as an Equity Trust client, once you have an account open?

DAVID: That's one of the things I really like to see in the years I've had here at Equity Trust—to be able to see people who are really taking control of their finances, their retirement funds and putting them into some of those alternative investments. Especially with the way the market has been lately, our clients and our business has really been poised, like Don said, to really take advantage of the market conditions.

People who have those funds available can take their retirement into their own control and start directing it toward an investment that really is actually turning a profit, sometimes quite nicely, in a market that is down in a lot of places. Equity Trust has built itself really on an investor base. We really strive to make it as easy as possible for investors to really do what they want with the fund and we've been working with people like Don to make sure that the options are available out there. We try to talk with people who are doing the investments to find out what we can do to make things easier. As the market changes and as the processes change, we are there at the forefront to make sure that things can really happen and we can do what our clients need to get done. In the case of tax liens, it is a huge growth area that we have seen with the accounts here lately. People are starting to take those funds—the nice thing about the tax liens is you can certainly do it in the local area that you know with your self-directed IRA or if you are employing someone like Don who really has the expertise all over the nation, they can find those areas that might fit best for your investment goals, not just in your local area.

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JEANETTE: Yes, that makes a lot of sense. Don, does it take tons of money to be able to get started or to work with a tax lien servicing agent? Do I have to have a million dollars in my portfolio to be able to move ahead and to have a discussion with you regarding what do I do now, now that I have my self-directed IRA?

DON: Well, a million dollars certainly would be a good start—no, I'm kidding. Basically our minimums are way lower than that. Our minimum is \$15,000 for investing. But if someone were to go out and buy tax liens, they could buy them for even \$500. But our account minimum is \$15,000. Anybody can do it. They can go into options and purchase tax liens. The cost of them ranges anywhere from the mid-hundreds to up into the multi-thousands and tens of thousands. So the cost is all over the map, basically. For an investment of about \$15,000 to \$20,000, an investor would have anywhere from twenty to thirty separate tax liens. Even though the investments are illiquid, you would see kind of almost an emulated cash flow, because each individual tax lien can redeem at a different time. They can redeem within months of the purchase of them, all the way up to the maximum period of three years for the Illinois time frame. But as far as the minimum, it takes a relatively small amount of capital to invest in through PIP-West and we keep it low like that to attract other investors and, in particular, those that have IRAs that may not have a million dollars in an IRA. They probably build it up from annual contributions, so the cost range is less. Also, we keep the minimum low so that we can develop a trust in our services as well. Everyone likes to get familiar with what they are doing with a servicer that they haven't had experience with before. They can do that by starting off small and then adding to it later as they are satisfied with the performance.

JEANETTE: How long does it take, once someone reaches out and has a conversation with you? Is it a 90-day period, or do you talk with someone regularly? Maybe you could just talk a little bit about what it is that happens when someone reaches out to a tax lien servicing agent.

DON: The process can vary. It's fairly expedient, though, with regard to Equity Trust Company clients with IRAs. There are forms that we have developed that are to do signatures for agency agreements, which is our paperwork, as well as forms to request the checks, request bill payments and so forth. What I do is prepare those forms for clients, except for their own contact information and signature, so that it kind of expedites the process a little bit. But basically, it could be a matter of a few weeks and the timetable is mainly driven by when the tax lien auctions are.

For example, our main cornerstone state is Illinois. That's because the yields are so high. The maximum is 36 percent and our performance commitment is to fill the order at an average of 24 to 36 percent. So that's what the certificate average would be on the portfolio. The dates of the Illinois auctions are in the fall. They are once a year, starting in October timeframe. If someone were to come to us now, as many have that are ready, there is several months to take care of the process. Basically, I work with them to set up the paperwork and then contact them as we get close to the auction time frame. I don't need the funds this early, but as far as how long it takes, too, with regard to the client's perspective, it many times has to do with how many questions they have, how much information they need to feel comfortable with the investment. If they are not familiar with real estate, or if they are, it kind of affects the timeframe. So, it's really all over the map how long it takes.

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DON: Basically, it could take just a matter of a couple weeks. That's mainly because we are sending in forms, technically trusts, to get signed and processed and then returned. But an individual without an IRA could be a matter of a day or two. It's very short—very minimal requirements for the paperwork. Equity Trust does a great job on following up on the signatures for the agency agreement and processing other forms. I'm really impressed with the thorough forms that you have for tax lien investing as well as real estate investing—done a good job on that.

JEANETTE: Well thanks. That sounds like a great option, too, especially given the performance today. I keep saying that, but maybe Don, you can talk about there are thousands of counties out there and you probably have a pretty good sense of what counties return what kind of income for the tax liens? And you probably have certain ones outside of Illinois as well that you work with.

DON: The environment has changed over the years. We historically have worked in Texas with their tax liens, as well as Arizona and Florida—in Georgia currently. Illinois has always been a cornerstone. The reason why things change many times and what we focus on, is mainly driven by the high yield that we are trying to get for our customers. In Texas, liens were very advantageous and actually still are. However, Georgia has risen in their advantage and opportunity. Arizona and Florida were a good middle-of-the-road return in the high teens, but they have gone to web auctions, so now that's bringing in a lot more competition in bidding for them. The rates are driven way down, so now we are abandoning those states unless we hear something different that they become an opportunity again. Illinois has pretty much been consistent in providing the high yields.

As far as county, the choice is mainly choice of state and then each county can have a slight variation in process or procedures, however, the yield that they have available, it all starts at a 36 percent maximum. But what changes from county to county is the ability to place the funds at our performance objective of 24 to 36 percent. Some counties we go into and there is lots of competition or bidding the rates way down and we would walk out without any liens at all. Others we go into that maybe we placed a little bit of funds in the previous year, we place a lot more and others that we had placed a more to go in, we place. It's all subject to the competition of other bidders that are competing for the same liens. The competition, unfortunately, is bidding it down lower below our performance criteria, so it takes it off the table for us. That's mainly the driver. However, popping up a higher level, it's mainly the state that we focus on where we will attend different county auctions.

JEANETTE: You really have to make sure that you don't get too emotionally attached in these transactions—to know when to walk away from a deal that might not be profitable, correct?

DON: Absolutely. That's one of the problems we have seen with new bidders out there. They start to really get intent on winning the bid and it is just a different—really not a very profitable criteria because they have bid it way down and then they win, but they win three percent.

You are right. You have to have the performance criteria defined with a minimum bid that you are going to be bidding and stick to it when you are at the auction. That is what we do. That is what we are able to do from the experience that we have had.

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JEANETTE: How do you determine—or how would you tell people who may be looking at tax liens and tax lien investing as a new option—how do they determine what is a good deal? Maybe there are some people who aren't quite ready or able to work with a tax lien servicing agent like yourself. How would you—what would be the three tips you could empower to them?

DON: Good question. I get that question periodically and it is very valid because anybody can go to an auction at the county and purchase tax liens. All you have to do is register with the county and pay the registration fee and get the list of liens. The first recommendation is to do due diligence on the liens, so as thorough a study as you can with all information that is available at the county to select good quality liens. Now what is a good quality lien?

It would be one that has—it is on a property that is a marketable property, a valuable property. The cost of the lien will be much less than the value of the property. It essentially creates leverage for the investor against the property owner to encourage them to pay. The property owner is not going to want to lose the property, so it encourages payment.

Back to Illinois and even states like Arizona and Florida, our objective was to get high redemption liens—ones that would pay off. Our objective was not to take the property. Now it's certainly a last recourse if it is not paid, but we have typically chosen liens that have a history of tax payment so that we get the high yield interest that is paid off.

That is one of the two objectives of many investors that we work with, is to get just the high interest. That's all they want. Others want properties, so we direct them to areas that require that.

But, back to the three recommendations—one is the quality property that is marketable, so that if we do take the property, it is valuable and we can liquidate it. The second, to have the amount of equity backing up the lien be very high, meaning the cost of the lien is very low compared to the value of the property. Also, finally, to have a history of tax payments so that you can be encouraged that the lien will be paid off. All those are focused on the due diligence.

There are a lot of details in country rules and how to go about it, so besides due diligence on the selection of liens, it is also important to do your due diligence in studying the county rules to make sure that you follow them explicitly. They can change from year to year, too. Not always, but they do. If you miss something that is a technicality, you may lose a purchase that you just bid and won at the auction just due to that technicality. It's very detail-oriented and it is important to make sure that you understand thoroughly the rules that the auction is based on.

JEANETTE: Yes, it sounds like certain people shouldn't be going anywhere near tax liens.

DON: I wouldn't necessarily say that. I think—but yes, it is risky if you are not sufficiently prepared and if you don't do the sufficient research and study it. It is a rather labor intense area of investment. It is funny because there are gurus out there that sell books and tapes on how to do it and once they publish it, the information is already obsolete. They can't possibly also include the specifics for every county of every state because they know that always changes. But even at the high level that they do provide information, it's fairly dynamic.

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JEANETTE: Yes, there has been some information lately that indicates—or actually, intimates—that for twenty bucks, you can get a house. We’ve looked through some of that information and there are things that remain to be desired to make that a little more accurate.

DON: It’s not impossible (chuckles), but it’s pretty improbable. A house, yes, you could see a picture of a house that is well-kept and you could see a picture of a house that has a huge hole in the side of it that has been sitting there for twenty years. Yes, it’s a house, but—that’s a good point even beyond what you would get for the house, for the property.

You need to make sure that that property definition is one that is marketable and it is not a strip of land along the freeway that is not buildable, that doesn’t have any real merit. It has to be something that is useful, even if it is raw land or an improved property. It’s all in the details, for sure.

Now, basically what I would recommend for someone that wants to research, that there certainly would be lots of books on tax lien investing, but that would be a good information source to recommend some textbooks, but I guess we haven’t run across any that we would be willing to do that with, either. Many times they have a certain perspective or a slant.

We see some inaccuracies in the content of them. It is in very early stages of information on it. What is difficult is that since the information is changing dynamically and constantly, that it is hard to really point to something that is accurate. It has a lot of accuracy in it, but then some things that could be inaccurate would be minor, but they would have a big impact on results.

That would be worthwhile to check and see if we can find something that we can help direct individuals to. Probably the best recommendation would be to find a number of sources and read them all because then the composite would be probably a better feel of how the industry works and how tax lien investing works. Depending on one book may be faulty because it may be incomplete or partially inaccurate or obsolete.

JEANETTE: Don, maybe you can talk a little bit about tax lien investing. You said people are just starting to pay attention to liens. I think that a lot of people are doing their own due diligence at this time.

People are moving their money from a traditional IRA account to a self-directed IRA account. They are doing things a little bit differently than what they’ve done in the past twelve to twenty-four months. How would you see or could you make a few comments about how you see tax lien investing evolving in the future?

DON: Yes, I probably—to my chagrin, I see one change that has been happening that can definitely limit profits and that is going to web auctions. I think the largest county in Illinois, Cook County, has gone to web auctions. Arizona and Florida have gone to web auctions. Now I don’t think it is necessarily every county in those states, but there is a move to that. When it opens it up to many investors, many that don’t have the experience and have that drive just to buy some liens regardless of the performance of them, then it essentially drives the profit down for everyone that is investing. So I guess the one change that I’ve seen over the past couple of years has been moving more toward web auctions.

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- DON:** There have been some other local changes that have made in the different auctions, but that is kind of more of a process, so that's not really that significant. But if they more and more move to web auctions, the opportunities may start to decline. I don't think that is going to be an immediate change.
- For example, in Illinois they have been somewhat resistant to changing to new technology. They have a certain process in place. It takes a really hard push to change to something new because it is a lot of work to do something differently. They typically haven't provided a lot of information on the web as far as doing due diligence for properties, so working in the county offices for the research and due diligence that we do is pretty much mandatory. There is limited information on the web. Technology-wise, they are a little behind the curve, which is actually advantageous. We want them to stay in their current mode of operation as long as possible. Otherwise, the rates will be going down and they may not be as lucrative of an opportunity.
- I would still work them because we still have our performance criteria, but we just may not be able to place as much total capital there as we have in the past. That has been the predominant change that I have seen.
- JEANETTE:** So what would you say that you see next for those that are interested in tax liens and tax deed investing as more and more retail customers are moving to this non-traditional investment type?
- DON:** I guess from PIP-West's perspective, whatever changes would occur, we kind of have our performance criteria that we are targeting.
- Now there are a lot of—half the states in the country are tax lien states and half are tax deed states. The latter, tax deed states, sell the property outright when you are delinquent.
- The tax lien states sell a certificate for the back taxes that needs to be paid by a certain time. So a lot of tax lien states have even lower interest rates and our performance criteria leads us to the states that have the highest returns.
- If particular states start to not offer that, as in Arizona and Florida, we need to look for new opportunity states. Iowa has a twenty-four percent return. We have some processes and procedures that make it a little more difficult for us to invest there as an agent for our clients, but it is definitely an option. Georgia is twenty percent and that is still very respectable, with a short maturation time of a year and a high chance of foreclosing on the property.
- DON:** They have a unique rule that bidding in the auction is bidding up the cost of the property, so there is a higher likelihood that it will go to foreclosure and not be redeemed. Where in Illinois, the prices are constant with the high interest on it, but it's a lot more possible to redeem.
- As the changes occur, as we look forward, we are going to be driven by our performance criteria to look for the highest yields. If they start to diminish in one area, they many times grow and develop in other areas. For example, even now, we've historically been involved in foreclosure properties and REOs, but we have been emphasizing tax liens for a few years.

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DON: Now REOs are going to be a major opportunity. So we are looking at developing that market more. We are re-launching a program in REOs and we have an awesome contact with some direct bank liquidators so that's no middlemen and we can pass that profit on to the clients as well. That's an example of a new opportunity that has developed that is going to be short-term. It may only be around for a couple years. Some say shorter, some say longer. But that can supplement what we do, as the Georgia tax liens supplement when we lost Florida and Arizona because of their lower yields. There always seems to be areas of opportunity and we look to fill in where we lose areas so that we can best service the clients and provide areas for each of them to invest. Illinois has been pretty consistent, it's been around for awhile—we hope it will be around for a lot longer. We can't predict the future; we can just see some of the trends that are happening. We definitely have hopes that that will remain. Where some go, new ones appear. So we just keep our eyes open and look for those opportunities.

JEANETTE: That sounds great. How would someone go about getting in touch with you, Don, if they wanted to talk with you about possibly working to build their tax lien portfolio or just ask you some questions before they figure out what to do with their self-directed funds?

DON: My direct line is 949-433-8864 and our website, which has a lot of information on it as well as the phone number and toll-free number, even, that website is www.PlatinumInvestmentProperties.com and my e-mail is PIP-West@cox.net, so feel free to contact me with any questions and I'll be happy to help out as you need or if you are just investigating, looking into it, provide as much information as I can.

Pointing to the website, you can look around on there. It has a lot of information on tax lien investing and the new REO program that is due to be launched any day. It would be great to hear from anyone.

JEANETTE: Well that's awesome. Thank you Don and thank you David. Once again, Don Fullman with Platinum Investment Properties West and David Griffiths from The Equity Trust Company. We appreciate—I appreciate your time and really appreciate the knowledge that you give to our clients and prospects about self-directed options and really trying to answer that question, "What do I do now?" So thank you both for your time today and make it a great day.

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