

What Taxpayers Should Know about Distress Sales



What are they?

Why are they important?

How Do Township Assessors and the
Board of Review treat them?



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Distress Sales FAQs

What is a distress sale?

A distress sale is a sale which took place in an environment where the seller was motivated by circumstances that provided more than the normal amount of incentive to sell the property quickly, or for a price below what would normally be considered a typical sale price. These circumstances are most common when the property has been the subject of a foreclosure or short sale.

Why are distress sales important?

Distress sales are important for several reasons. Thousands of properties in Winnebago County have been the subject of distress sales in the last few years. Distress sales often cause the value of surrounding property to go down. When “normal” sellers have to compete with other sellers who are motivated to sell quickly or for a low price they will usually not be able to sell their property for a price they could expect in a normal market. Distress sales are often vacant for several months while the foreclosure proceedings are worked out. This will lead to a lack of maintenance and increased vandalism, both of which lower the value of surrounding properties. The owners of the distressed properties will usually attempt to have their assessment lowered. When the assessments are lowered the tax base is eroded and the burden of supporting schools, parks, law enforcement, fire protection, infrastructure maintenance and most other public services is shifted to other taxpayers. Property owners who “stuck it out” and made their mortgage payments and stayed in their home and paid their taxes carry more than their fair share of the tax burden when other assessments are left at the artificially low level of a distress sale.

Do distress sales reflect market value?

Township Assessors and Board of Review members recognize that circumstances which usually surround a distress sale cause a reduction (usually temporary) in the value of the distressed property; for example, condition problems, no income stream, the need for a quick sale so the lenders can clear their books of distressed property etc.

Can the assessed value be reduced to reflect the distress sale?

If the owner of a property, which has been the subject of a distress sale, files a complaint with the Board of Review, the Board of Review will need to know some details about the sale in order to decide on a fair assessment.

If the property was listed on a multiple listing service and a commission was paid by the seller, the Board of Review will usually consider the sale price from that sale to be a good indicator of the market value of the property as of the date of the sale. In most cases of this type, the Board of Review will change the assessment to one third of the sale price and change the partial indicator for the property to YES. This partial status is used to indicate the property needs to be checked to determine if changes have been made which need to be reflected in the assessment.

Will the assessment be raised back up?

When the foreclosure process is complete and the property is rented or occupied by the owner the assessment needs to be increased to reflect the new forces that are creating value in the property. The property becomes a different type of asset after the foreclosure process is complete. Whereas the financial institution considered the property somewhat akin to a liability that needed to be disposed of as soon as possible, the new owners usually turn the property from a liability to an asset capable of producing an income stream or providing a home for the owner. Township Assessors have been encouraged to review all distress sale properties and all partially assessed properties in their jurisdiction on an annual basis. When any of the negative factors that caused the distress sale are no longer affecting the property the Assessor needs to increase the assessment on the following January 1st to one third of the property's fair cash value.

What will the assessment be raised to?

The fair cash value of property needs to be based on recent qualified sales of similar properties in similar locations, adjusted for differences between the subject property and the comparable sales. In order to be qualified as a comparable sale by the Winnebago County Board of Review, the transaction must be among the types of transactions the Board of Review has approved for such use. The Board has established transaction type guidelines to determine if a sale satisfies the transaction type requirements to qualify as a comparable sale. Sales classified as compulsory will only be allowed up to the prevalence of compulsory sales in the subject property's market area.

The table on the following page shows how all the various types of sales are classified by the Board of Review for use as comparable sales.

This is for informational purposes and should not replace other credible evidence for purposes of appealing the assessment on your property.

Please visit the Board of Review website www.bor.wincoil.us for complete Board of Review Rules and Procedures.

Transaction Description	Generally Ok as Comp
Contract Originated in the Current Year	Yes
Improvements Added or Removed	Yes
New Construction, Improvements Added	Yes
New Parcel from split, combination or new sub	Yes
Partial Assessment (in prior year)	Yes
Preferential Assessment (in prior year)	Yes
Relocation Company (To or From)	Yes
Special Warranty Deed	Yes
Trustees Deed	Yes
Warranty Deed	Yes
Sale in one year, recorded in another year	Yes
Bank REO (Compulsory)	Yes
Short Sale (Compulsory)	Yes
Farm Property assessed under Section 20e	No
Assignment of Beneficial Interest of a Trust	No
Administrators Deed	No
Auction	No
Charitable (To or From)	No
Compulsory (unless Bank REO or Short Sale)	No
Contract Originated in a Prior Year	No
Deed in Trust	No
Executors Deed	No
Exempt (To or From)	No
Sale between family members	No
Financial (To or From)	No
Government (To or From)	No
Foreclosure (In Lieu of)	No
Guardians Deed	No
Transfer from secondary market mortgage finance providers, including, but not limited to FNMA, FHLMC, etc.	No
Two Valid Sales, Greater than 25% Difference	No
Multiple Parcels on one deed	No
Not Advertised	No
Option to Purchase	No
Partial Interest	No
Prior of Duplicate Sales	No
Quit Claim Deed	No
Financially Related Parties	No
Sale Leaseback	No
Sheriffs Sale	No
Split or Combination	No
Trade or Exchange	No