Willow Brook Estates Community Association, Inc. 123
Crete, IL. 60417

Subject: Notice to Home Owners: 8-23-23

To The Homeowners of Willow Brook 1,2,3:

Does a Lien Against My Property Affect My Credit Report?

A creditor may place a lien against your personal property, such as your house or car. The creditor files for a property lien in court, so the public record appears on your credit report. A public record like a lien has a negative effect on your credit score and may also affect whether or not a lender extends credit to you.

Lien Attachment

When a creditor files a lien against your property, the lien may be attached to a specific property, such as a house, or all of your real property. The lien stops you from selling the property without getting the lien removed through either a payment plan with the creditor, paying off the lien in full or filing for a lien release on the property. The person purchasing the property may also pay off the property lien.

Credit Effects

The exact number of points you lose from a lien posting on your credit report depends on the rest of your report. If you have many negative items on your credit report, the lien may not move your credit score down a great deal, since it is already reduced by other items on your report. If you have a clean credit report without any negative marks, your credit score takes a bigger hit from the sole negative account.

Future Loans

Even if your credit score is not greatly changed by the lien on your report, lenders may not issue credit to you due to the fact that you have a lien on your credit report. If you have an installment agreement with the creditor, such as in the case of a tax lien, the lender may change his mind as long as you are current on payments. You may also be disqualified for employment due to the bad credit score or the lien's presence on your credit report depending on the job you are applying for.

Removing

You may be able to negotiate with the creditor that added the lien to your property, especially if selling the property would enable you to pay off the lien or send the lien holder money toward what you owe. The creditor may also consider a payment plan in exchange for releasing the lien from your property. Otherwise, you'll need to pay the lien off in full before it is removed from your credit report.

Setting Aside a Lien vs. Removing a Lien

What is a General Lien?

A lien is a legal encumbrance on your personal property, such as your vehicle or real estate. For example, if you finance a car, the lender is the lien holder and has the right to repossess the vehicle if you fail to make payments as agreed. As long as a lien remains in place, it may be difficult or impossible for you to sell or transfer the encumbered property. Although having the lien set aside accomplishes much the same as having a lien removed or released, the two methods of ending the encumbrance are different.

Is It Bad to Have a Lien on Your House?

Some liens are bad, some are not. Here's how to tell the difference.

If you have a mortgage, then you have a lien on your house. A lien is a claim that gives the bank that financed your loan a legal right to your property if you ever default on your payments. However, having this kind of lien isn't necessarily a bad thing. That's because it's part and parcel of the home-buying process, and many homeowners have one.

Still, not all home liens are the same. In fact, some can damage your credit score and impact your financial future. So which liens are bad for you? Here are some important facts about liens, including what the various types of liens are, how they impact your credit score, and how to get them removed.

KEY TAKEAWAYS

- Liens are legal claims against property by creditors that allow them to collect what they're owed.
- Liens can be general or specific, and voluntary or involuntary.
- If a homeowner doesn't settle an obligation, then the lien holder may legally seize and dispose of the property.
- Tax liens are no longer reportable, but other involuntary liens may impact your credit score.
- Homeowners can remove liens by making payment arrangements or settling debts.

What Is a Lien?

A lien is a legal right or claim against a property by a creditor. Liens are commonly placed against property such as homes and cars so that creditors, such as banks and credit unions can collect what is owed to them. Liens can also be removed, giving the owner full and clear title to the property.

Liens limit what the owner can do with an asset, as creditors are given a stake in the property to compensate for what is owed to them. If a homeowner tries to sell a property before a lien is lifted, then it can present complications—especially if the lien is involuntary.

Liens give creditors certain legal rights, especially when a debtor hasn't paid or refuses to fulfill their financial obligation. In these cases, the creditor may choose to dispose of the property by selling it.

What Are the Types of House Liens?

There are several different types of liens, such as specific or general liens. Specific liens are attached to one particular asset. The car dealer where you buy your car, for instance, may have a lien on your vehicle and nothing else. A home lien is a legal claim on physical property (a house) by a creditor.

In the case of a general lien, the creditor may lay claim to any and all of your assets such as your home, car, furniture, and bank accounts. In the event of default, the credit has a broad claim against the debtor's assets.

Liens can also be voluntary or involuntary (aka consensual or nonconsensual). A bank takes out a lien when a borrower is advanced a mortgage, making this a voluntary lien. For involuntary liens, a creditor may seek legal recourse by filing a lien with a county or state agency if a borrower defaults on a loan or other financial obligation. Liens can be placed by a contractor, a government agency, or another kind of creditor.

Tax Lien

This type of lien is put on your property by a government agency for any unpaid income taxes, business taxes, or property taxes.

For example, the Internal Revenue Service (IRS) may place a lien on your home if you have unpaid federal taxes.[1] First, the agency informs you in writing about your obligations. If you don't reply, or if you fail to make suitable arrangements to pay off the debt, the IRS may then place a lien on your home or other assets. The only way to release this kind of lien is by paying the outstanding debt.

General Judgment Lien

This type of lien is granted to a creditor after a court rules in the creditor's favor. When a debtor fails to meet their financial obligations, the creditor may decide to sue the debtor in court for any outstanding balance that remains.

If the court rules in the creditor's favor, they must record the lien through the county or appropriate recording agency. This gives the filer the right to take possession of a piece of property—real or personal—if the debtor doesn't come to an agreement to pay off the debt. Property may include things like a business, personal property, real estate, vehicles, or any other type of asset that satisfies the court judgment.

Mechanic's Lien

When a property owner fails or refuses to pay for completed work or supplies, then construction companies, builders, and contractors may file a mechanic's lien, also known as a property or construction lien.

This legal document allows entities to get compensated when there are payment issues that may result from a breach of contract. Most contractors and other businesses send the debtor a request for payment and a notice of intent before they file this type of lien.

They may proceed if the debtor still refuses to settle. This requires filing paperwork with the county or appropriate local agency with details about the property, the type of work done, and how much is owed. The lien holder may choose to enforce the lien if the debtor still refuses to settle.

Do Liens Hurt Homeowners?

Yes and no. Let's address the "no" first. Liens placed on homes are automatic and may not have anything to do with your repayment history. Everyone who has a mortgage has a voluntary lien like this on their home, so it shouldn't harm you—as long as you keep up with your regular mortgage payments. Once you pay off your home, the lien is removed and you're free from the burden.

Now let's take a look at the "yes*."* A lien of any other kind is generally bad for the homeowner. A lien indicates that some form of debt remains unpaid, resulting in legal action. Although a lien doesn't mean that the property's title was transferred, it may be a step in that direction if the creditor decides to follow through.

This can lead to a worst-case scenario. One potential outcome is that the property is seized and sold, especially if the cause is unpaid property taxes. This isn't as common as you might think. Most lien holders refrain from foreclosing in favor of waiting for the homeowner to settle the debt or sell the property.

On the other hand, a lien is beneficial for creditors or workers such as contractors. This is because liens protect their rights, ensuring they receive due compensation for work performed for a homeowner.

How Are Credit Scores Affected?

There may be some confusion about how liens affect your credit score and which ones actually show up on your record. Some mechanic's liens and judgment liens are reportable, which means they often end up on your credit report. That's because they factor into your repayment history which makes up more than a third of your credit score.

Before you close on a home, your attorney or title company should perform a title search to make sure the title is free of liens, back taxes, and other claims. Don't skip the title search, since it's the best way to make sure no one else has a claim to the property.

To report them, the creditor must have a minimum amount of identifying information from a debtor, including their date of birth or Social Security number (SSN). A lien may still show up on your credit report even if it's paid off—usually for up to seven years.

However, not all liens put a dent in your credit score. For example, a consensual lien that you have on a home or car that you're still paying off won't show up on your report.

The same applies to tax liens. The three major credit reporting agencies—Equifax, Experian, and TransUnion—removed tax liens from their credit reports as of April 2018. The agencies stopped reporting them because of the number of errors, inconsistencies, and disputes they received.

To see if there's a lien against you, request a free credit report from Experian, Equifax, or TransUnion at AnnualCreditReport.com. The Fair Credit Reporting Act requires each of these credit reporting companies to provide you with a free copy of your credit report, at your request, once every 12 months.

What Happens If You Don't Pay a Property Lien?

A lien is intended to protect a creditor and ensure that the debtor settles their financial obligations. If reasonable steps are taken to fulfill the obligation or if an alternative payment plan is arranged and followed, then the debtor should not be constrained by a lien on the property.

However, things might change if this doesn't happen. A creditor may decide to place a lien on the property after all attempts to settle a debt are exhausted. This means that the creditor has tried to contact the debtor to collect on the debt and has made no progress to settle what's owed.

What Are Property Tax Liens?

When landowners or homeowners fail to pay their property taxes, the municipal government has the right to place a lien on the property. This means the owner can't refinance or sell the property without satisfying the debt to remove the lien.

The government issues a tax lien certificate when the lien is placed on the property. This document includes details of the property, the amount owed, and any additional charges such as interest and/or penalties. Municipal governments can sell these certificates at an auction to investors who pay an additional premium plus the outstanding amount. This allows the government to recoup the money.

If the property owner chooses to settle the debt and wants to remove the lien, then they must pay the investor the outstanding debt, plus any additional interest and premiums that the investor paid. Once the debt is paid, the lien is removed. If the debtor doesn't repay the debt, then the lien holder—in this case, the investor—can enforce the lien to recoup their investment.

How Can I Remove a Lien?

There are multiple ways to remove a lien from a home. The first is to settle the matter with the lien holder. The settlement process depends on the type of lien, the relationship between the debtor and the lien holder, and the value of the lien. In some cases, a lien holder may agree to remove the lien if both parties can agree to a payment plan.

The most straightforward way to remove a lien from your property is to satisfy the debt. Once you have paid it off, you can file a Release of Lien form, which acts as evidence that the debt has been satisfied.

Keep in mind that a lien is tied to the property, not to the property owner. For this reason, a property holder can be free of a property lien when they sell the asset to which the lien is tied.

There are downsides to this course of action. Although the homeowner receives proceeds from the sale, they are expected to first pay off what is owed to the lien holder. And a homeowner may find it difficult to sell any property that has a lien against it. Prospective buyers may avoid a property to which someone else has a claim.

How Do You Get a Lien Off Your House?

The easiest way to remove a lien is to pay the outstanding debt, either in full or by agreeing to a payment plan. A lien is a claim on assets in the event of default; without any outstanding debt obligations, there are no liens.

How Do Property Liens Work?

Property liens are legal claims against property granted by a court to a creditor when a debtor doesn't pay their debts. Liens are filed with the county office and sent to the property owner advising them of repossession of the asset(s).

What Kind of Liens Can Be on a House?

Liens can be general or specific, and voluntary or involuntary. Specific types of liens include tax liens, judgment liens, and mechanic's liens.

Can You Have a Lien on Your House From a Previous Owner?

Not usually. In general, people don't buy homes with existing liens—and most sellers clear up any liens before listing to avoid delays and other problems. Even if a buyer would be willing to take over a lien, they probably couldn't find a lender to finance the purchase.

Still, there are some cases in which liens are transferred to buyers, such as when a home is bought through a foreclosure or auction—and the attached liens become the buyer's responsibility.

How Do You Do a Property Lien Search?

Liens are a matter of public record. In most states, you can search for free by address through the county recorder, clerk, or assessor's website. Alternatively, you can appear directly at the county's office, or, for a fee, you can hire a title company to do the search for you.

The Bottom Line

All homeowners have liens on their homes until they pay off their mortgages. While these liens don't hurt you because they're voluntary, other liens can damage your finances and your credit rating.

If you don't fulfill your financial obligations, Uncle Sam and other creditors can take out a tax lien, judgment lien, or mechanic's lien to get you to pay off your debts. If you still don't pay up, then they can enforce the lien, foreclose or seize the asset, and pay off the debt for you.

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