

Witness Says He Rigged Bids in Property Tax Lien Auctions in Maryland

Article By:

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A key witness in a federal probe of corruption in Maryland property tax-lien sales has stated under oath that he rigged bids for years while representing a Florida bank and other firms that bought liens at annual sales auctions, newly unsealed court records show.

Baltimore real estate attorney John Reiff said he and two law partners helped fix bids for the purchase of “large numbers” of property tax debts, called tax liens, sold by tax assessors at auctions in Baltimore and several other Maryland counties between 2003 and 2007, according to [court filings](#) made public for the first time last month.

More than two dozen states sell to investors — often banks and Wall Street hedge funds — the right to collect unpaid property taxes and other municipal bills. An [investigation](#) published in December by the Center for Public Integrity showed how lien buyers can tack on double-digit interest rates, legal fees and other costs that can add thousands of dollars to a homeowner’s bill. In some states, lien holders can seize homes from those who fail to pay.

The bid rigging cost the city of Baltimore and surrounding counties money by artificially holding down bids, local officials say, although they could not determine how much.

“I don’t think there’s any question but that the city was harmed by what was done by these six folks, and I suppose, potentially others,” City Solicitor George Nilson told the Baltimore Sun. “Could I put a price tag on it? No.”

Though the tax-lien industry has long been controversial, the Baltimore lawyer’s sworn declaration appears to be the first to mention a bank, or a tax-lien portfolio manager, in connection with allegations of criminal conduct in the bidding process.

Reiff stated that a firm formed with his law partners acted to “suppress competition for tax liens by refraining from full competitive bidding.” Reiff and his two partners cooperated with the government and were not charged.

U.S. District Judge J. Frederick Motz in Baltimore unsealed Reiff’s declaration and some other records at the request of the Huffington Post Investigative Fund, now part of the Center for Public

Integrity.

Bids Placed for BankAtlantic, Mooring Asset

Reiff stated that the firm bid on behalf of several companies, including two [subsidiaries](#) of BankAtlantic Bancorp. called Heartwood 88 LLC and Sunrise Atlantic LLC. The [Fort Lauderdale-based bank](#), which has \$4.5 billion in assets and 100 branches in Florida, has invested in tax liens in several states in recent years. Bank officials did not return calls seeking comment.

Reiff said his firm also bid for the [Mooring Asset Group](#), a Virginia company that has managed tax lien investments for Bank of America Corp. Mooring also has managed a large portfolio of Florida tax liens that Bank of America sold last year in a securities deal.

Mooring is among tax lien companies [subpoenaed](#) by a federal grand jury in New Jersey that is also investigating the industry. Mooring has denied any wrongdoing and said it is cooperating fully with the New Jersey investigation.

Reiff's sworn statement does not specify if banks or corporate investors knew about the bidding collusion.

Mooring official Jim Meeks told the Center that Reiff had represented his company, but denied any knowledge of bid rigging. "This is a shocker to me," he said.

Meeks said: "We never conspired or colluded with anybody in these auctions," adding that the company had not heard from prosecutors. "We were never contacted regarding the case by the Department of Justice. They must have concluded that we were not involved," he said. Bank of America declined to comment.

Reiff and his partners, Anthony DeLaurentis and Richard Turer, were one of three investment groups that participated in the five-year scheme to dominate the tax lien auctions, according to prosecutors.

Three other participants have pleaded guilty to bid rigging in the case. In May, Baltimore County attorney Harvey M. Nusbaum, 73, was [sentenced](#) to a year-and-a-day in prison and an \$800,000 fine. His partner, Jack W. Stolof, 75, was [sentenced](#) to 12 months of house arrest and an \$800,000 fine. A third man, Steven L. Berman, 53, [received](#) two years probation and a \$750,000 fine.

"Bid rigging is typically a clandestine effort made to line the pockets of unscrupulous businessmen at the expense of unsuspecting consumers — in this case, at the expense of homeowners and county and city governments," Justice Department prosecutors wrote in a sentencing memorandum about Nusbaum. "In principle, bid rigging is no different from any other common theft of money or property. It is criminal fraud, pure and simple."

The unsealed records describe in detail how the well-financed investment groups illegally dominated the process in Maryland through collusion — and how they made millions of dollars off homeowners as a result.

Scheme Aimed to Limit Auction Price of Liens

The three groups, according to Reiff, decided in advance which liens each would bid on.

The groups would either not bid on liens not assigned to them, or would submit intentionally low bids as a cover, he said. The scheme was designed to reduce the amount each would pay local governments for liens. The investors collected interest rates from homeowners of between 12 percent and 20 percent and legal fees and other charges.

“Attorneys’ fees can run to thousands of dollars per lien and are not dependent on the amount of taxes or other fees owed by the homeowner,” Reiff said.

Government prosecutors alleged that lawyer Nusbaum could have made a minimum of \$6 million in fees he charged homeowners to keep from losing their property.

In the unsealed documents, prosecutors cited the plight of Kevin Shoop, who was sued by Nusbaum over an unpaid tax bill. Nusbaum’s office demanded \$4,000 in legal fees to settle the matter. When he contacted the law firm to try and work out a settlement he was told, “You will pay,” according to Shoop.

Prosecutors also cited the case of Laurie Gross who owed \$199.57 in back taxes on a property in Montgomery County, Md., a suburb of Washington, D.C. Nusbaum demanded \$3,972 in fees to avoid foreclosure.

“Such homeowners, many of whom had no idea they owed taxes or water bills, did not object to paying their debt when they learned of it. They could hardly afford to pay attorneys’ fees sometimes 1,000 percent more than their debts into the pocket of defendant only because he won the right to collect those attorneys’ fees in rigged tax lien auctions,” prosecutors wrote.

The Justice Department’s antitrust division in Washington began investigating the Maryland sales after a *Baltimore Sun* [analysis](#) of sales records showed that while large numbers of investors participated in the annual tax sales, three groups dominated in Baltimore and other counties in the state.

Reiff has been a key witness in the federal probe that has resulted in three convictions. He and his two partners cooperated with the government and were not charged.

Building on that reporting, the Huffington Post Investigative Fund found that nearly a dozen major banks and hedge funds, anticipating quick profits from homeowners who fell behind on property taxes, had quietly plowed hundreds of millions of dollars into the tax-lien industry, often by creating corporate aliases that obscured their identities from the public.

In many cases, homeowners who owed only a few hundred dollars in taxes or municipal bills saw their debt soar into thousands because of the fees and interest. A Baltimore woman lost the home her family had owned for nearly three decades over what began as an unpaid water bill of \$362, for instance.

The court motion to unseal the records was filed by [Michael J. Baratz](#) and [Robert Moore](#), of the Washington, D.C., law firm of [Steptoe & Johnson](#), who volunteered to take the case on a pro bono basis.

Scott Calvert is a reporter with [The Baltimore Sun](#); Fred Schulte is a reporter for the Center.

This project was supported in part by the former Huffington Post Investigative Fund, which recently became part of the Center for Public Integrity.

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National Law Review, Volume I, Number 65

Source URL: <https://natlawreview.com/article/witness-says-he-rigged-bids-property-tax-lien-auctions-maryland>