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February 19, 2014

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 770: Emergency Heating Assistance Loan Guarantee Program

Assembly Bill 770 relates to a loan guarantee program for emergency heating assistance. The bill is intended to address current and future emergencies related to the availability and costs of heating fuel supplies, including certain costs incurred by Wisconsin residents throughout the 2013-14 winter due to propane shortages and the resulting higher costs. The bill was introduced on February 17, 2014, and referred to the Joint Committee on Finance. Also included is a brief description of relevant portions of current law relating to loan guarantee programs of the Wisconsin Housing and Economic Development Authority (WHEDA).

CURRENT LAW

WHEDA administers several loan guarantee programs for farmers and small businesses as part of its economic development activities. The programs authorize WHEDA to guarantee payment of a predetermined percentage of loan principal, which may be paid following the default of an eligible loan and the disposition of any collateral securing the loan. Guarantees are intended to provide credit enhancement for loans that would promote economic development activity but would have relatively higher lending costs using conventional financing. Loans under the programs are issued by participating lenders, and loan guarantees are supported by the Wisconsin Development Reserve Fund (WDRF). The WDRF and several predecessor loan guarantee funds have received net state appropriations of $20.9 million since the creation of the first such fund in 1985. As of February 1, 2014, WHEDA reports the WDRF balance was $5.1 million. In addition, WHEDA has set aside $2.5 million GPR appropriated to the WDRF under 2013 Act 20; this amount was appropriated primarily for economic development loan guarantees in certain areas of Milwaukee.

In general, the WDRF may guarantee $4.50 in loans for every $1 held in the fund, up to a statutory maximum of $49.5 million in guarantees on a fund balance of at least $11 million. The February 1, 2014, balance of almost $5.1 million would, therefore, support approximately $22.8

million in loan guarantees; outstanding guarantees on that date were $14.9 million, leaving available guarantee authority of $7.9 million. Further, the statutes and WHEDA administrative provisions allow for guarantee percentages of between 50% and 90%, depending on the program, subject to maximum dollar caps varying with each program.

In recent weeks, the Governor and WHEDA have announced a temporary WDRF-backed program to guarantee loans to existing propane dealers and other small businesses for the purchase of propane or propane equipment. Loans to propane dealers may be guaranteed up to 50% of loan principal or $50,000, whichever is less, while loans to other small businesses for purchasing propane may be guaranteed at up to 50% or $25,000, whichever is less. WHEDA is limiting total guarantees to $3 million, for total lending of $6 million, assuming 50% guarantees. Guarantees are limited to no more than one year. This program is scheduled to expire December 31, 2014.

SUMMARY OF BILL

The bill would authorize WHEDA to guarantee loans to individuals for extraordinary costs they may incur for heating during a state of emergency. The program would be short-term in nature, and would be activated only in the event the Governor were to declare a state of emergency relating to heating and the availability of heating fuels. Following an emergency declaration, WHEDA would be required within 14 days to submit a plan for administering the loan program to the Joint Committee on Finance. The program could be implemented only by approval of the Committee under s. 13.10 of the statutes; this implementation requirement, however, would not apply to loans made pursuant to the Governor's propane emergency declaration of January 25, 2014, but rather to any future heating-related emergency declarations that may be made. For the current declared emergency, the program would be in effect for 120 days from the bill's effective date. For future emergencies, the 120-day guarantee period would begin with an approval by Joint Finance, and a second 120-day period would be allowed should WHEDA request and receive the approval of the Committee.

Loans would be originated by lending institutions that have agreed to participate in the program, with proceeds being payable either to borrowers directly or to a supplier of heating fuels or equipment with whom a prospective borrower has arranged a purchase. WHEDA would be required to guarantee not less than 50% and not more than 80% of the principal of the loans up to $2,500, equivalent to between $1,250 and $2,000 at the specified guarantee percentages. The Joint Committee on Finance would be authorized to modify the $2,500 loan principal limit in reviewing a WHEDA program administrative plan pursuant to an emergency declaration. Individual loan terms would be limited to two years, with extensions to a third year possible at the discretion of the lender. WHEDA would be authorized to establish the duration of guarantees. Loan interest rates would be subject to a maximum level established by WHEDA after considering market conditions.

In addition to providing for a guarantee, the program would require WHEDA to pay a subsidy of 3.5% of principal on guaranteed loans for up to two years. This subsidy is intended to lower borrowers' interest payments. This provision is similar to an interest-subsidy provision under the drought relief loan guarantee program, which is a WDRF-supported loan guarantee for farmers that WHEDA offered in 2012 and 2013 in response to widespread drought conditions in 2012.

Under the drought relief guarantee, WHEDA paid the participating lender an up-front, one-time amount of 3.5% of loan principal, with the lender lowering a subsidized loan's interest rate by 1.167 percentage points to account for the interest rate reduction over a typical three-year loan term. (While the language of both the bill, and the current drought assistance program, may not be completely clear, WHEDA has provided the subsidy on a one-time basis at 3.5% of the initial principal amount.)

Eligible borrowers would be persons with annual household income of no more than 200% of median family income for the county of the borrower's residence. (County median family incomes, which are published annually by the U.S. Department of Housing and Urban Development, for federal fiscal year 2014 range from $37,500 in Menominee County to $82,900 for St. Croix and Polk Counties, both of which are considered part of the Twin Cities metropolitan statistical area. The overall statewide median is estimated at $66,300. A table showing median family income by county is attached.) Borrowers also could not appear on the statewide child support lien docket. In addition, a lender would have to determine: (a) the loan is necessary for the borrower to pay heating costs related to the declared emergency; (b) the borrower would have sufficient income and assets to purchase heating fuels under normal market conditions; (c) the borrower is unable to secure conventional financing for heating fuels purchases on reasonably equivalent terms; and (d) the borrower is reasonably likely to make repayment of the loan, given the borrower's credit profile and security, if any, held by the lender for the loan.

Guarantees would be supported by the WDRF. To support additional guarantee activity anticipated under the program, the bill would transfer $2 million to the WDRF from the housing rehabilitation loan program fund, which is established by statute and administered by WHEDA to support various second-mortgage products for WHEDA borrowers to make necessary home repairs or energy-efficient improvements. The housing rehabilitation fund had cash and cash-equivalent assets of approximately $9.5 million as of February 1, 2014. WHEDA would be required to allocate at least $2 million from the WDRF for heating assistance loans for the duration of the initial emergency heating assistance loan guarantee program. Any amounts not supporting heating assistance guarantees would remain in the WDRF. Further, any amounts committed to heating assistance guarantees would eventually become available to support other WDRF guarantees as heating assistance guarantees expired.

FISCAL EFFECT

The bill would not directly impact state appropriations. Both the WDRF and the housing rehabilitation loan program fund have received state appropriations in the past to provide for the lending activities of each fund. However, as both funds are maintained on behalf of the state by WHEDA, an independent authority, the funds generally are considered to be separate from other state funds.

Actual expenditure of funds by WHEDA for interest subsidies or guarantee payments, if any, would depend on the amount and nature of program participants. Further, the number of loans WHEDA could guarantee with the funding available under the bill would vary with loan amounts and guarantee percentages. It is estimated the funding under the bill could allow WHEDA to guarantee perhaps 3,700 to 5,500 loans, assuming as follows: (a) WHEDA applied a uniform guarantee percentage of either 50% or 80%; (b) all loans were made at a principal level of $2,500; and (c) each loan receives an interest subsidy payment of 3.5% of principal, or $87.50 per loan, which would reduce the overall guarantee authority possible with $2 million in funding. A higher guarantee percentage (80%) would allow for fewer loans and a smaller aggregate subsidy payment, while a lower guarantee percentage (50%) would allow for a greater number of guarantees with a higher aggregate subsidy payment. A lower guarantee percentage also would place more risk for the loan with the participating lender.

It is unclear how many households experiencing difficulty with heating costs would fall within income limits the bill would establish for the emergency loan guarantee program. The Department of Administration estimates households using propane, which would be assumed to be the most likely to have experienced significantly higher heating costs in recent months, constitute about 11% of households. Further, the U.S. Census Bureau estimates Wisconsin contained approximately 2.3 million households and approximately 2.6 housing units as of 2012. This would suggest up to 250,000 households may have incurred extraordinary heating costs, due either to higher propane prices or to purchasing alternative heating fuels or systems. Additionally, a comparison of Census Bureau data of Wisconsin household incomes as of 2012 suggests 85% to 90% of households in most counties are at or below 200% of the median family income for the county.

Prepared by: Paul Ferguson
Attachment

ATTACHMENT

2014 County Median Family Incomes

County	Median Family Income (2014)	200% of MFI
Adams County	$49,500	$99,000
Ashland County	47,300	94,600
Barron County	56,000	112,000
Bayfield County	57,800	115,600
Brown County	68,200	136,400
Buffalo County	57,200	114,400
Burnett County	49,400	98,800
Calumet County	71,200	142,400
Chippewa County	64,800	129,600
Clark County	54,100	108,200
Columbia County	70,800	141,600
Crawford County	54,900	109,800
Dane County	80,800	161,600
Dodge County	66,300	132,600
Door County	63,500	127,000
Douglas County	64,300	128,600
Dunn County	63,900	127,800
Eau Claire County	64,800	129,600
Florence County	50,800	101,600
Fond du Lac County	66,800	133,600
Forest County	48,200	96,400
Grant County	58,300	116,600
Green County	67,200	134,400
Green Lake County	65,800	131,600
Iowa County	71,900	143,800
Iron County	49,100	98,200
Jackson County	54,300	108,600
Jefferson County	68,700	137,400
Juneau County	56,600	113,200
Kenosha County	63,500	127,000
Kewaunee County	68,200	136,400
La Crosse County	66,300	132,600
Lafayette County	62,000	124,000
Langlade County	52,600	105,200
Lincoln County	62,400	124,800

County	Median Family Income (2014)	200% of MFI
Manitowoc County	$61,400	$122,800
Marathon County	65,400	130,800
Marinette County	55,900	111,800
Marquette County	56,600	113,200
Menominee County	37,500	75,000
Milwaukee County	70,300	140,600
Monroe County	62,800	125,600
Oconto County	60,400	120,800
Oneida County	58,100	116,200
Outagamie County	71,200	142,400
Ozaukee County	70,300	140,600
Pepin County	61,500	123,000
Pierce County	82,900	165,800
Polk County	61,900	123,800
Portage County	63,700	127,400
Price County	57,500	115,000
Racine County	68,600	137,200
Richland County	57,400	114,800
Rock County	61,000	122,000
Rusk County	50,200	100,400
Sauk County	67,400	134,800
Sawyer County	50,100	100,200
Shawano County	56,100	112,200
Sheboygan County	65,100	130,200
St. Croix County	82,900	165,800
Taylor County	58,000	116,000
Trempealeau County	61,600	123,200
Vernon County	58,100	116,200
Vilas County	53,800	107,600
Walworth County	70,700	141,400
Washburn County	52,200	104,400
Washington County	70,300	140,600
Waukesha County	70,300	140,600
Waupaca County	62,700	125,400
Waushara County	53,700	107,400
Winnebago County	68,800	137,600
Wood County	60,300	120,600

Source: U.S. Department of Housing and Urban Development.