Property Tax Deferral Loan Program

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Introduction

The Wisconsin property tax deferral loan program allows low- and moderate-income elderly homeowners to convert home equity into income to pay property taxes. The program is intended to be beneficial for elderly individuals who have little disposable income and a significant amount of home equity, by providing cash income to help pay property tax bills, thereby helping to enable elderly persons to remain in their homes.

Under the program, a homeowner 65 years of age or older with total household income of no more than $20,000 may annually apply to the Wisconsin Housing and Economic Development Authority (WHEDA) for a loan equal to the amount of property taxes and special assessments levied on the home. The maximum annual amount that may be borrowed is $2,500. Loans may be used to pay all or a portion of current property taxes and special assessments due and may include any interest or penalties on delinquent property taxes. In the event an applicant has a co-owner, the co-owner must be at least 60 years of age. If a participant is married, the spouse must qualify as a co-owner. However, there is no minimum age requirement for a spouse if the spouse or participant is permanently disabled.

The principal and interest due for tax deferral loans do not have to be repaid until the ownership of the property transfers or the loan recipient no longer lives in the home. Upon transfer of ownership of the property, or the participant ceases to live in the residence, the total loan, with interest, is repaid from the proceeds of the estate or sale of the property. In 2005, the interest rate on loans will increase to 5.75% (it was reduced from 6.5% in 2003, to 5.0% in 2004).

The property tax deferral loan program is funded from WHEDA's surplus fund. State law requires WHEDA to maintain this surplus fund, into which any Authority assets in excess of operating costs and required reserves are deposited. The Authority is also authorized under statute to use the proceeds of bonds or notes to make loans under the property tax deferral loan program. Preliminary 2004 figures for the program indicate 173 individuals received a total of $360,600 in loans averaging $2,084.

The following section provides background information on the program. Next, a summary of eligibility requirements and other current provisions of the property tax deferral loan program is presented. A description of the characteristics of 2004 program participants follows. Then, a history of the property tax deferral loan program is presented in Appendix I of this paper. Appendix II provides a detailed listing of the types of income included under the definition of household income.

Background

According to 2000 census data, 22% of all households in Wisconsin were headed by individuals 65 years of age and older. Approximately 64% of the elderly population in Wisconsin live in their own homes. The property tax deferral loan program was created as a response to the needs of elderly homeowners who have resided in their homes for a substantial period of time and whose current incomes are insufficient to cover rising property taxes.

The need for the property tax deferral program

was based on arguments about the special needs of the elderly. It was argued that many of the major items in the budget of an elderly person, such as energy or health care costs, had increased more rapidly than the general rate of inflation. Thus, even though social security benefits were subject to annual adjustments for inflation, such costs as energy and health care had grown more rapidly than the incomes of lower-income elderly. Further, it was argued that the financial pressures on low-income elderly made it difficult for them to afford the taxes and special assessments levied on their homes, as well as home maintenance and repairs. Information available at the time also indicated that most elderly homeowners either had no mortgage or substantial equity in their homes. The property tax deferral program was viewed as a way to allow low-income elderly to convert the equity in their homes into increased cash income to pay these taxes and thereby remain in their own homes.

Eligibility Requirements

Statutory Requirements

The eligibility conditions for the property tax deferral loan program that are specified in the statutes are listed below. An applicant must meet all of the conditions to qualify for a loan.

Age. The applicant must be 65 years of age or older on the date of application. Any co-owner must be at least 60 years of age on the date of application. If married, the applicant's spouse must qualify as a co-owner. However, a spouse can be any age if the spouse or the applicant is permanently disabled.

Loan Purpose. The loan must be for property taxes and special assessments due on a single family home, condominium or multi-unit dwelling (four or fewer units) in Wisconsin. The applicant may apply for a loan for all or part of the previous year's property taxes and special assessments, payable in that year up to $2,500. For example, loan applications are filed in 2005 for 2004 taxes payable in 2005. Loans for less than $100 are not made except in situations of special financial hardship. Participants are liable for interest and penalty charges on delinquent taxes, but the principal amount requested may include the amount of these charges. To avoid late penalties, the applicant may pay the property taxes and special assessments and then receive a reimbursement loan from WHEDA upon proof of payment and approval of the loan. If the taxes and assessments have not yet been paid in full, WHEDA makes the loan check co-payable to both the participant and the appropriate municipal treasurer. Taxes and assessments on up to one acre of land surrounding the home may be included.

Residence Requirements. The applicant must have lived in the dwelling unit for at least six months during the preceding year. Temporary residence in a health care facility, such as a nursing home or hospital, is considered part of the period in which the applicant has lived in the dwelling unit.

Outstanding Obligations. Total outstanding liens, judgments, mortgages and delinquent property taxes may not exceed 33% of the value of the housing unit, as determined by the most recent property tax assessment. Any previous loans under this program and loans under the housing rehabilitation loan program, also administered by WHEDA, are excluded from this limitation.

Household Income. Applicants' prior year household income may not have exceeded $20,000. The definition of household income used in this program is the same as that used in the homestead tax credit program. Household income is broadly defined to reflect most cash resources available to claimants and includes all income that is taxable for Wisconsin income tax purposes plus nontaxable income sources such as social security, supplemental security income and pensions. Appendix II pro-

vides a complete listing of the income sources included in the definition of household income under this program.

Insurance Coverage. The applicant must have fire and extended casualty insurance policy coverage on the home and permit WHEDA to be named as a lienholder on the policy. If the home is located on a flood plain, flood plain insurance is required and WHEDA must be named as a lienholder on the policy.

Application Deadline. Applications for property tax deferral loans must be filed with WHEDA by June 30 of the year in which the taxes are due. For example, applications must be filed by June 30, 2005, to receive a loan to pay 2004 property taxes (payable in 2005). Receipt of a property tax deferral loan does not affect an applicant's eligibility for homestead or farmland preservation tax credits.

Other Requirements

In addition to the statutory requirements described above, WHEDA has established three additional program requirements under the property tax deferral loan program.

Additional Outstanding Obligation Limit. The amount of outstanding liens and judgments on a dwelling may not exceed 50% of the assessed value of the dwelling, including property tax deferral and housing rehabilitation loans. This is in addition to the statutory provision that limits outstanding obligations to 33% of the assessed value of the unit, not including property tax deferral and housing rehabilitation loans.

Title Search Fee. Applicants who have not applied for a property tax deferral loan in the previous year must pay a $75 title search fee when a loan application is submitted. The title search fee may not be added to the loan amount.

Phone Consultation. Before a loan is approved, each applicant must complete a phone consultation with WHEDA staff to help ensure the applicant understands his or her obligations under the program.

Interest Rates

From the program's inception in 1986 through 1993, the statutes provided that the interest rate to be charged on property tax deferral loans was to be set by the agency administering the program. Under this authority, the interest rate on loans in each year through 1993 was set at 8% and calculated as simple interest.

Subsequently, provisions of 1993 Wisconsin Act 16 provided that the WHEDA Executive Director set the loan interest rate by October 15 of each year. By law, the rate must be 1% over the prime lending rate established by the Federal Reserve Board at the time the rate is set. This provision was first effective for 1994 loans (the first to be administered by WHEDA) and an interest rate of 7% was established for 1994 loans. In addition, WHEDA has elected to charge compound, rather than simple, interest on program loans. For 2005 loans, the interest rate is set at 5.75%.

Repayment of the Loan

Upon entering the loan agreement, a lien in favor of WHEDA to secure repayment of the principal, interest and fees due on all loans made to the participant through the property tax deferral loan program (including loans made after the lien is filed) is attached to the dwelling unit on which the property taxes are paid. If WHEDA funds loans under the program through the sale of revenue bonds or notes, its right under such liens accrues to the benefit of the holders of the bonds or notes. The lien reduces the equity or ownership value in the

home by the amount of the loan(s) plus interest.

The amount of home equity is determined by WHEDA by multiplying the assessed value of the home (which appears on the property tax bill) by the municipal assessment ratio to bring the assessed value of the home up to an equalized or estimated full market value. The amount of home equity available is equal to the estimated full market value minus any eligible outstanding liens on the property. The lien remains on the home until WHEDA receives payment in full on all loans and charges. Notice of the lien is filed with the county register of deeds.

Repayment of the loan is due under any of the following conditions:

1. Sale or transfer of the home, except upon transfer to a co-owner who resides in the home and is permitted to assume the participant's account.

2. Death of the participant, if the participant is the sole owner, or death of the last surviving eligible co-owner.

3. Condemnation or involuntary conversion of the dwelling unit.

4. At the request of the participant or co-owner.

5. Inability of the participant to continue to comply with all eligibility requirements.

6. Discovery by WHEDA that a participant or co-owner has made a false statement on the application or otherwise in respect to the program.

If a participant in the program ceases to meet the eligibility requirements (for example, does not maintain an insurance policy on the property), WHEDA may: (a) request repayment of the loan; (b) allow the participant to continue in the program but be ineligible for additional loans; or (c) require partial repayment of the loan.

Revenue received from repayment of property tax deferral loans issued by WHEDA is returned to a revolving loan fund that WHEDA has established for the program. For loans issued prior to 1994, the portfolio of which was purchased by WHEDA using housing rehabilitation program reserves in 1992, repayment revenue is returned to the housing rehabilitation program reserve.

Factors such as the initial property tax rate, growth in the property tax rate, rate of increase in home value (appreciation) and interest rate charged on loans all affect the borrower's level of equity in a home on which a lien is secured. Also, it should be noted that while median home values have increased, in many cases the value of an elderly homeowner's property may increase more slowly than average due to its location, or because it is usually older and may not be receiving needed repairs. Therefore, elderly borrowers who receive consecutive property tax deferral loans could lose equity at a faster rate than the population as a whole.

Characteristics of Participants

The six tables in this section provide historical data about program activity and program participants, as well as preliminary data on 2004 participants in the program. Table 1 shows the number of participants, total amount of loans received and the average loan amount received for each year since the property tax deferral loan program was instituted in 1986. Since the program's inception 5,838 loans have been issued for over $9.3 million. Further, the average loan amount has increased by 88% between 1986 and 2004.

An additional point of information is that most program participants are repeat loan recipients who have received a number of loans from the program. For example, of the 346 loans made in 2003 and 2004), only 44 loans, or 12.7%, were made

Table 1: Property Tax Deferral Loan Approvals

Year	Number	Total Amount	Average Loan Amount
1986	295	$327,200	$1,109
1987	298	354,800	1,191
1988	313	393,400	1,257
1989	311	394,800	1,269
1990	307	407,300	1,327
1991	394	541,800	1,375
1992	464	628,300	1,354
1993	486	687,300	1,414
1994	438	778,900	1,778
1995	402	733,700	1,825
1996	356	663,900	1,865
1997	314	553,900	1,764
1998	276	498,500	1,806
1999	242	473,100	1,955
2000	217	417,300	1,923
2001	200	401,800	2,009
2002	179	365,900	2,044
2003	173	360,400	2,083
2004*	173	360,600	2,084
TOTAL	5,838	$9,342,900	$1,600

*Preliminary totals for the year.

to individuals who were first-time loan recipients.

As Table 2 indicates, 49.8% of the loan recipients were between 65 and 79 years of age and the average age reported was 79.1 years. The age distribution of loan recipients has increased since the program began. In 1986, 36.2% of loan recipients were under age 70. This percentage dropped to 14.9% in 1990, 6.0% in 2000 and has steadily risen to 9.3% in 2004. In contrast, 13.0% of recipients were age 80 or older in 1986. This percentage increased to 22.8% in 1990, 46.6% in 2000 and peaked at 53.8% in 2003. The percentage of loan recipients over the age of 80 in 2004 is 50.2%. This general upward trend is consistent with the aging of continuing participants.

Table 2: Participant Age - 2004* Loans

Age	Number of Participants	Percent of Participants
65-69	16	9.3%
70-74	27	15.6
75-79	43	24.9
80-84	45	26.0
85-89	35	20.2
90-94	7	4.0
95+	0	0.0
TOTAL	173	100.0%

*Preliminary totals for the year.

Table 3 indicates the distribution of reported household income among participants. Approximately 49% of the recipients reported a household income below $12,001. The average income reported was $12,378. This compares with an average household income for recipients of $10,611 in 1986 when the program began.

Table 3: Household Income - 2004* Loans

Household Income	Number of Participants	Percent of Participants
$0 to $3,000	0	0.0%
3,001 to 6,000	1	0.6
6,001 to 9,000	28	16.2
9,001 to 12,000	56	32.4
12,001 to 15,000	51	29.4
15,001 to 18,000	21	12.1
18,001 to 20,000	16	9.3
TOTAL	173	100.0%

*Preliminary totals for the year.

Table 4 provides information on the number of loans by amount. The number and percentage of participants receiving the maximum $1,800 loan increased from 40 participants (13.3% of the total) in 1986 to 206 participants (42.4% of the total) in 1993. Beginning in 1994, the maximum loan amount increased to $2,500. In 2004, 73 participants (over 42%) received a loan of the maximum amount of $2,500.

Table 5 portrays the distribution of estimated fair market value of participants' dwelling units. The fair market values of participants' dwelling

Table 4: 2004* Loan Amounts

Amount of Loan	Number of Loans	Percent of Participants
Less than $200	0	0.0%
$200 to < 400	0	0.0
400 to < 600	0	0.0
600 to < 800	0	0.0
800 to < 1,000	3	1.3
1,000 to < 1,200	10	5.8
1,200 to < 1,400	14	8.1
1,400 to < 1,600	10	5.8
1,600 to < 1,800	11	6.5
1,800 to < 2,000	13	7.6
2,000 to < 2,200	13	7.6
2,200 to < 2,400	19	11.0
2,400 to $2,500	80	46.3
TOTAL	173	100.0%

*Preliminary totals for the year.

Table 5: Fair Market Values of Dwelling Units - 2004* Loans

Fair Market Value	Number of Properties	Percent of Total
Less than $20,001	0	0.0%
$20,001 to 30,000	1	0.6
30,001 to 40,000	2	1.2
40,001 to 50,000	3	1.7
50,001 to 60,000	9	5.2
60,001 to 70,000	9	5.2
70,001 to 80,000	18	10.4
80,001 to 90,000	13	7.5
90,001 to 100,000	18	10.4
100,000 and above	100	57.8
TOTAL	173	100.0%

*Preliminary totals for the year.

units ranged from $29,600 to $381,391 in 2004. The average fair market value reported was $118,492. This compares to an average value of $51,812 in 1986 when the program began.

Table 6 indicates the number of program participants in each county in 2004. Milwaukee County's 44 loans accounted for over 25% of the 173 program loans made in 2004. Waukesha County was the second largest at 11%. On the other hand, 34 of Wisconsin's 72 counties had no participants in 2004.

Table 6: Participants by County – 2004 Loans*

County	Number of Participants	County	Number of Participants	County	Number of Participants
Adams	0	Iron	0	Price	0
Ashland	0	Jackson	0	Racine	11
Barron	4	Jefferson	4	Richland	2
Bayfield	0	Juneau	0	Rock	6
Brown	4	Kenosha	2	Rusk	0
Buffalo	0	Kewaunee	0	Sauk	1
Burnett	1	La Crosse	3	Sawyer	0
Calumet	1	LaFayette	1	Shawano	0
Chippewa	0	Langlade	2	Sheboygan	1
Clark	0	Lincoln	0	St. Croix	0
Columbia	2	Manitowoc	7	Taylor	0
Crawford	0	Marathon	7	Trempealeau	1
Dane	9	Marinette	1	Vernon	0
Dodge	2	Marquette	0	Vilas	2
Door	1	Menominee	0	Walworth	5
Douglas	0	Milwaukee	44	Washburn	0
Dunn	1	Monroe	0	Washington	1
Eau Claire	0	Oconto	0	Waukesha	19
Florence	0	Oneida	1	Waupaca	4
Fond du Lac	4	Outagamie	3	Waushara	2
Forest	0	Ozaukee	3	Winnebago	6
Grant	0	Pepin	0	Wood	1
Green	2	Pierce	1	TOTAL	172
Green Lake	0	Polk	0		
Iowa	0	Portage	0		

*Preliminary totals for the year.

APPENDIX I

History of the Property Tax Deferral Loan Program

Chapter 20, Laws of 1981 (the 1981-83 biennial budget act), authorized the creation of the property tax deferral loan program in the Department of Revenue (DOR). However, the program was not implemented until 1986 due to funding issues. As originally created, the deferred loan program was to be funded through the proceeds of revenue bonds issued by DOR and through revenues received in repayment of loans.

The combination of a federal tax law change (the Mortgage Subsidy Bond Tax Act) and an inability to arrange an acceptable interest rate with conventional bond financing prevented DOR from securing funding for the deferral loan program in 1983. The federal law change was designed to restrict the use of tax-exempt state revenue bonds to finance single-family home purchases. However, the law was written in such a way that tax deferral bonds were technically disqualified from a federal tax exemption. Without the federal exemption, interest earned on bonds issued by the state to fund the deferral loan program would probably have been subject to federal taxation, necessitating a higher interest rate on the deferred property tax loans. In addition, the deferred nature of the loan repayments would have created difficulties in finding interested bond purchasers.

Consequently, the 1985-87 biennial budget (1985 Wisconsin Act 29) created a segregated fund in DOR, funded by a $10 million loan from the general fund, to implement the property tax deferral loan program effective for property taxes levied in 1985 (payable in 1986). In addition, revenues received from a 1985 tax amnesty program were to be deposited in the fund. The general fund loan was to be repaid after 10 years, without interest. Subsequently, 1985 Wisconsin Act 120 (the 1985-87 budget adjustment bill) repealed the provision directing the deposition of the proceeds from the tax amnesty program into the fund. In addition, Act 120 directed that $7.5 million from the balance in the fund be lapsed to the general fund. These actions left the deferral loan fund with a balance of $2.5 million from the general fund loan.

In the 1987-89 biennial budget (1987 Wisconsin Act 27), the $2.5 million loan from the general fund was forgiven. It was intended that this general fund startup funding plus loan repayments would fund the program for 1987-89 and thereafter.

1991 Wisconsin Act 39 (the biennial budget) required DOR to include information regarding the program in the homestead tax credit application.

In the 1991-93 budget adjustment bill (1991 Wisconsin Act 269), administration of the program was transferred from DOR to the Division of Housing in DOA effective July 1, 1992. Act 269 also required that the balance in the program's trust fund ($1,147,047) be transferred to the state's general fund on July 1, 1992. To fund the program, a 1992-93 appropriation of $550,000 GPR was provided for funding new loans and a separate 1992-93 appropriation of $78,800 GPR was authorized for administrative costs of the program. A half-time position that had been funded from the program's trust fund was converted to general fund revenues and transferred to DOA, also effective July 1, 1992. Subsequently, in May 1993, the original appropriation was increased by a one-time supplement of $250,000 GPR from the program supplementation appropriation of the Joint Committee on Finance to meet increased loan demand in the program in that year.

Act 269 also provided that WHEDA purchase, by December 31, 1992, the portfolio of existing property tax deferral loans and that the proceeds of that sale be deposited into the state's general fund. A total of $2,714,832 was provided by WHEDA at the end of December and deposited in the general fund.

Under provisions of 1993 Wisconsin Act 16 (the 1993-95 biennial budget), the property tax deferral loan program was transferred from DOA to WHEDA, effective with the 1993-94 fiscal year. The GPR appropriations, which had been created in 1992-93 to fund new loans and to administer the program, were repealed. Instead, WHEDA was permitted to make loans under the program either from proceeds of the sale of bonds or notes under its general corporate purpose bonding authority, or from WHEDA surplus funds. The Act also required that WHEDA allocate at least a portion of its surplus funds to the property tax deferral program. WHEDA has encumbered $2,685,000 in surplus reserves for the program.

Act 16 also made several modifications to the statutory criteria for the program: (1) eligibility provisions for the program were modified by increasing outstanding lien limits from $5,000 to 33% of the assessed value of the applicant's house; (2) the maximum loan amount was increased from $1,800 to $2,500 annually; (3) loan funds were permitted to be used to pay special assessments, in addition to or in lieu of property taxes; and (4) the interest rate for loans was required to be set at 1% over the prime lending rate established by the Federal Reserve Board at the time the rate is set. Under previous law, the interest rate was set by the agency administering the program.

APPENDIX II

Sources of Income Included in "Household Income" Under the Property Tax Deferral Loan Program

- Sum of Wisconsin adjusted gross income
- Maintenance payments (except foster care maintenance and supplementary payments excludable under section 131 of the Internal Revenue Code)
- Support money
- Cash public assistance and general relief (not including amounts granted under s. 46.27 of the statutes)
- Gross amount of any pension or annuity
- Railroad retirement benefits
- Social security payments
- Veterans disability pensions
- Nontaxable interest on United States securities
- Nontaxable interest received from state and municipal bonds
- Worker's compensation
- Unemployment compensation
- Gross amount of "loss of time" insurance
- Compensation and other cash benefits received from the United States for past or present services in the armed forces
- Scholarship and fellowship gifts or income
- Capital gains
- Gain on the sale of a personal residence excluded under section 121 of the Internal Revenue Code
- Dividends
- Income of a nonresident or part-year resident who is married to a full-year resident
- Housing allowances provided to members of the clergy
- Amount by which a resident manager's rent is reduced
- Nontaxable income of an American Indian
- Nontaxable income from sources outside this state
- Nontaxable deferred compensation
- Intangible drilling costs
- Depletion allowances and depreciation, including first-year depreciation allowances under section 179 of the Internal Revenue Code
- Amortization
- Contributions to individual retirement accounts under section 219 of the Internal Revenue Code
- Contributions to Keogh plans
- Net operating loss carry-forwards
- Capital loss carry-forwards