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Wisconsin Housing and Economic Development Authority

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Introduction

The Wisconsin Housing and Economic Development Authority (WHEDA) was originally created as the Wisconsin Housing Finance Authority by Chapter 287, Laws of 1971, to help create safe and affordable housing for low- to moderate-income households in Wisconsin. The Authority is a public body corporate and politic which sells taxable and tax-exempt mortgage revenue bonds and uses the proceeds to fund loans to eligible homebuyers, housing developers and businesses at below-market interest rates. The Authority was created for this purpose because the state is prohibited from incurring this type of debt by Article VIII, Section 7 of the Wisconsin Constitution, and the state is also disallowed under Article VIII, Section 10 from being party to "internal improvements," which the Wisconsin Supreme Court has generally interpreted to include private housing. At the time of its creation, it was also considered infeasible to use state appropriations to finance a substantial increase in housing stocks given the associated costs. Subsequently, its mission was expanded to include providing financing for economic and agricultural development and it was given its present name. The Authority works through participating banks, savings and loans, mortgage bankers, and other lenders and sponsors.

The Authority is not a state agency. Its operating budget is not included in the state budget and is not subject to direct legislative control. Revenues to finance its operating budget primarily come from interest earnings on loans it makes, investments of its assets and administrative fees it assesses. As of June 30, 2010, the Authority had 167.0 full-time equivalent (FTE) employees. The Authority is divided into an executive office and the following nine teams: administration/human resources, legal, communications, economic development, finance, information technology, community development, multifamily housing, and single-family housing. The Authority's teams are similar to divisions in state agencies.

CHAPTER 1

BACKGROUND

History

The Legislature made a start-up appropriation of $250,000 in general purpose revenue (GPR), and the Authority repaid that amount from operating funds after establishment. The Authority began operations in July, 1973, following a Wisconsin Supreme Court decision regarding the new authority. In State Ex. Rel. Warren v. Nusbaum, the Court held that the Authority was not a state agency and that the State of Wisconsin did not have an enforceable legal obligation to back the Authority's bonds. Consequently, it was declared that the constitutional prohibition on incurring debt for such purposes did not apply to the Authority. Thus, it could issue bonds for housing programs.

The Authority's Board of Directors consists of 12 members, six of whom are public members appointed by the Governor with the advice and consent of the Senate for staggered, four-year terms. The remaining six members are: (a) the Secretary of the Department of Commerce or a designee; (b) the Secretary of the Department of Administration or a designee; and (c) one senator and representative of each political party, all four of whom are appointed from the Senate and Assembly standing committees on housing. In addition, section 234.02 (3) of the statutes requires that the Governor appoint: (a) one of the public members for a one-year term as chairperson; and (b) the Executive Director of the Authority, with Senate consent, to a two-year term. The Board meets bimonthly to carry out its responsibilities, which include authorizing bond issues, approving the Authority's annual operating budget and setting overall policy for the Authority and its staff.

In 1983, the mission of the Authority was expanded to allow the Authority to issue bonds to finance economic development projects and exports of Wisconsin products. Specifically, 1983 Wisconsin Act 81 authorized the Authority to make export loans and 1983 Wisconsin Act 83 authorized the Authority to make economic development loan guarantees to eligible small and medium-sized businesses. In recognition of the Authority's expanded responsibilities, it was renamed the Wisconsin Housing and Economic Development Authority (WHEDA).

1985 Wisconsin Act 9 created a credit relief outreach program (CROP) to be administered by WHEDA. The Act provided WHEDA with a state general purpose revenue (GPR) appropriation of $11.0 million for 1984-85 to guarantee agricultural production loans to eligible Wisconsin farmers and to provide interest rate subsidies on the loans. Then, in 1987 Wisconsin Act 421, the Authority was provided $7.5 million GPR for 1988-89 to guarantee and subsidize drought assistance loans.

Subsequent to the creation of the CROP and drought assistance loan programs, the following additional loan guarantee programs were authorized:

- Small business (contract) (1989 Wisconsin Act 31);
- Agricultural development (1989 Act 31);
- Tourism (1989 Act 336);
- Target area (1991 Act 39);
- Nonpoint source pollution (1991 Act 309);
- Agricultural chemical cleanup (1993 Act 16);
- Clean air loan guarantee program (1993 Act 16);
- Stratospheric ozone protection (1993 Act 16);
- Farm asset reinvestment (1995 Act 150);

- Safe drinking water (1997 Act 27); and
- Small business development (1997 Act 27).

The small business development loan guarantee program combined each of the seven programs marked with an arrow, thus repealing their individual program status.

Other housing programs begun in Wisconsin have either transferred to WHEDA or continued operating outside of WHEDA. The now-dissolved Department of Development was involved in administering certain housing programs, preparing the state housing plan and providing technical assistance until 1985 Act 29 transferred the Department's housing responsibilities to the Authority. In 1989, Wisconsin Act 31 created a Division of Housing in the Department of Administration (DOA) to: (a) provide state funds for housing grants and loans through local organizations; (b) obtain and distribute federal housing funds; (c) coordinate housing programs and activities of state and local agencies; and (d) aid in the development of state housing policy. Under 1991 Act 39, DOA took over from WHEDA the administration of the federally funded rental rehabilitation program and McKinney program for permanent housing for disabled homeless. DOA also became the designated agency for administering most of the other federally funded housing programs. In 2003, however, most of DOA's housing programs were transferred to the Department of Commerce.

Chapter 208, Laws of 1973, authorized WHEDA to issue up to $140 million of revenue bonds for veterans' housing loans. The Authority sold two bond issues totaling $61,945,000 for such loans. The proceeds of the bonds were used to fund 2,072 home loans to eligible state veterans. Those bonds were redeemed in August 1991, and no bonds from those issues are outstanding. Although the Wisconsin Constitution prohibits public debt for construction of private housing, Chapter 26, Laws of 1975, authorized the state to issue general obligation bonds for veterans' mortgage loans. The shift from Authority-issued revenue bonds to state-issued general obligation bonds was made possible by an amendment to the Wisconsin Constitution which allowed the state to contract public debt to make funds available for veterans housing loans. Housing programs for veterans are discussed further in the Legislative Fiscal Bureau informational papers entitled "State Programs for Veterans" and "State Housing Programs."

1993 Wisconsin Act 16 shifted the property tax deferral loan program from DOA to WHEDA. This program is described in the Legislative Fiscal Bureau informational paper entitled, "Property Tax Deferral Loan Program."

Other programs created in WHEDA have been either discontinued by the Authority or repealed from the statutes. 1989 Wisconsin Act 335 created a loan guarantee program for businesses emphasizing alternative uses of products recovered through recycling processes. This program was subsequently repealed in 1993 Wisconsin Act 75. 1997 Act 27 created a loan guarantee program for brownfields remediation, which was subsequently repealed in 1999 Act 9 after no loans had been guaranteed. An airport development zone loan program was authorized under 2005 Act 487 to make loans for construction or expansion of airports in designated airport development zones, including activities to increase the number of flights or carriers serving an airport. This program made no loans before being repealed in 2009 Act 2 and replaced with the Economic Development Tax Credit under the Department of Commerce.

1991 Act 39 allowed WHEDA to guarantee loans to a non-profit organization for cultural and architectural landmark property improvements. Such a loan for the restoration of Taliesin defaulted in 1999, and the program was repealed in 1999 Act 9. A portion of the Taliesin loan remains outstanding, however, and is discussed later in greater detail.

Authority Financing

Overview

The majority of the Authority's programs are funded from proceeds from the sale of tax-exempt and taxable bonds. However, WHEDA has also created several housing and economic development programs through Authority general fund monies that are available after setting aside required reserves and funding for general operations.

The Authority's assets and liabilities, as shown in Table 1, derive primarily from income receivable and debts incurred from the sale of bonds and notes to finance its housing programs. With respect to the sale of certain bonds and notes, the statutes require WHEDA to establish a capital reserve fund to meet debt service requirements on such obligations in the event of default. The statutes further stipulate that if WHEDA realizes a deficit in its capital reserve fund for these specific bonds, the Chairperson of the Authority must certify to the Secretary of the Department of Administration (DOA), the Governor and the Joint Committee on Finance the amount required to restore the fund to the level necessary to meet debt service costs. If the certification is received in an even-numbered year prior to compilation of the budget, DOA must include an appropriation for that amount in the budget bill. In any case, the Joint Committee on Finance must introduce, in either house of the Legislature, a bill appropriating the certified amount to the Authority so that it can meet debt service payments. While the Legislature is not obligated to approve the appropriation, the statutes state that "the legislature hereby expresses its expectation and aspiration that if ever called upon to do so, it shall make such appropriation" (s. 234.15(4) of the statutes). To date WHEDA has never realized a deficit in its capital reserves, and the Legislature has not been called upon to make an appropriation for such backing.

Table 1: WHEDA Combined Balance Sheet, June 30, 2010

*Assets and reserves (cash; investments; loans and interest receivable; other)	$3,722,271,000
Liabilities (bonds, notes and interest; payable; escrow deposits; other)	-3,170,913,000
Total restricted and unrestricted reserves	$551,358,000
Less restricted reserves for bond resolutions, administered funds	- 383,795,000
General reserve fund balance	$167,563,000
Less encumbered for housing and economic development activities	- 142,487,900
Less encumbered for WHEDA operations	- 20,669,600
Unencumbered general reserves (or "surplus") available for 2010-11 "Dividends for Wisconsin" plan	$4,405,500

*Assets include year-end adjustment for WHEDA building income from rent.

As shown in Table 1, the Authority completed the 2009-10 fiscal year with assets and reserves exceeding liabilities by about $551 million. However, of this balance, approximately $384 million was restricted reserves for statutorily required bond redemption funds and for funds which account for revenue and expenses of programs for which the source of funding is outside the Authority, such as legislative appropriations. These funds may be used only for permitted investments such as government-backed securities and bank deposits and permitted disbursements such as payment or repayment of principal, bond interest and program expenses.

The remaining $168 million indicated in Table 1 represents the balance in the Authority's general reserve fund for 2009-10. The statutes require WHEDA to establish a general reserve fund but provide discretion as to how the assets of the fund are used. Table 1 shows that WHEDA had encumbered $142.5 million of the general reserve balance under this statutory authority as of June 30, 2010, for targeted single- and multifamily housing programs and economic development programs. An additional $20.7 million had been encumbered for WHEDA operations. After these amounts were set aside, a total of $4.4 million remained. The statutes require these remaining unencumbered general reserves be set aside for a "Dividends for Wisconsin" plan. The plan, required to be reviewed by the Governor and Legislature, specifies the amount of funding from total unencumbered general reserves that is to be allocated to single- and multifamily housing programs and economic development programs. A detailed description of the 2010-11 plan is provided under the section "WHEDA Surplus Fund."

Summary

The Authority's primary sources of program funding are proceeds from the issuance of taxable and tax-exempt bonds and notes and funds that are in excess of required reserves. Through June 30, 2010, WHEDA had issued approximately $9.4 billion in bonds and notes for all of its programs. Approximately $2.9 billion were outstanding. The annual volume of WHEDA-issued debt is summarized in Table 2.

The following sections describe WHEDA's program funding sources in greater detail.

WHEDA-Issued Revenue Bonds

WHEDA issues revenue bonds to finance its programs. Revenue bonds finance the construction of buildings and structures on which rent or fees can then be collected from the users to repay the bondholders. Revenue bonds are also used for WHEDA's re-lending programs. For its re-lending programs, WHEDA borrows money through bonding and re-lends the proceeds of the bond issues to third parties for such uses as the development of multifamily housing or the purchase of single-family homes. WHEDA is then obligated to repay the bondholders using monies from repaid loans. The state has no legal obligation to back WHEDA-issued revenue bonds. For a discussion of state bonding practices and a description of the different types of municipal bonds, see the Legislative Fiscal Bureau informational paper entitled "State Level Debt Issuance."

With the exception of multifamily housing loans, state statutes limit the amount of bonds that

Table 2: Annual WHEDA Borrowing

Calendar Year	Revenue Bonds Issued
1974	$37,615,000
1975	35,510,000
1976	53,635,000
1977	52,225,000
1978	132,035,000
1979	25,000,000
1980	159,000,000
1981	9,990,000
1982	226,725,000
1983	198,130,000
1984	191,111,800
1985	209,494,300
1986	101,635,000
1987	186,625,000
1988	446,564,200
1989	156,554,700
1990	265,130,000
1991	198,630,000
1992	443,370,000
1993	252,400,000
1994	173,615,000
1995	365,920,000
1996	293,440,000
1997	255,000,000
1998	376,680,000
1999	354,615,000
2000	235,785,000
2001	94,060,000
2002	559,725,000
2003	372,190,000
2004	386,295,000
2005	659,235,000
2006	663,665,000
2007	595,405,000
2008	259,965,000
2009	359,045,000
2010*	0
Total	$9,386,020,000

*Through June 30.

WHEDA may issue for its revenue bond-supported programs. The various programs for which revenue bonds may be issued are discussed in the following sections.

1. Home Ownership Mortgage Loans. This program was established by Chapter 349, Laws of 1981, to enable eligible purchasers of single-family homes to secure low-cost mortgage financing. WHEDA carries out most of its lending for single-family home purchases under the WHEDA Advantage programs. Single-family home loans were previously made under the HOME program, although this program bore no relation to the federal HOME programs currently administered by the Wisconsin Department of Commerce. WHEDA renamed the programs in April, 2009, after temporarily ceasing single-family home lending in October, 2008, due to unfavorable credit conditions in the United States. Upon resumption of lending in 2010, WHEDA began a new financing model through the Federal National Mortgage Association (Fannie Mae). This financing model is explained later in greater detail.

WHEDA is also authorized by 2009 Act 2 to issue mortgage revenue bonds to refinance qualified subprime mortgage loans, which the act defines as adjustable-rate mortgage loans made from 2002 through 2007 for a single-family home. Prior to Act 2, state law did not allow single-family home loans to be made for the acquiring or replacement of an existing mortgage. Federal law also prohibited most mortgage revenue bonds to be issued for refinancing loans. However, the federal Housing and Economic Recovery Act of 2008 (HERA) created an allowance for housing finance agencies to make limited refinancing of qualifying subprime mortgage loans using tax-exempt mortgage revenue bonds. The changes to state law under Act 2 were intended to allow WHEDA to refinance troubled loans with bond proceeds. Eligible refinancing loans must: (a) be for a term of no more than 30 years; (b) be made for an eligible property that was and will continue to be the primary residence of the loan applicant; (c) replace a qualified subprime mortgage loan that has not been previously refinanced, and would be reasonably likely to cause financial hardship to the mortgagee if not refinanced; (d) include principal, interest and any applicable insurance payments; and (e) not be issued to anyone appearing on the state lien docket for delinquency in child-support payments. However, federal law only allows tax-exempt bond proceeds to be used for refinancing if the bonds are issued by December 31, 2010. As of that date, WHEDA had not issued any such bonds and was not planning on beginning a refinancing program for qualifying subprime loans.

At various times in WHEDA's history, the HOME/Advantage program has operated under statutory constraints on the amount of revenue bonds permitted to be outstanding. These time-limited statutory constraints on the amount of outstanding HOME bonds have expired. As of June 30, 2010, approximately $7.5 billion of general corporate purpose revenue bonds were issued for this program, of which $2.3 billion was outstanding.

2. Multifamily Housing Loans. WHEDA has used its authority to issue general corporate purpose bonds to provide financing for the federally sponsored multifamily mortgage loan program, which has provided permanent financing for apartment developments intended primarily for low- and moderate-income households. Other multifamily housing programs relying on the general corporate purpose bond authorization include both the purchase of multifamily residential mortgages to create and upgrade the stock of affordable housing and the issuance of construction loans for multifamily residences. As of June 30, 2010, approximately $1.6 billion of general corporate purpose revenue bonds were issued for these purposes, of which $530 million was outstanding, which is below the $600 million outstanding bond limit put into place by 2005 Act 75. WHEDA also has dedicated a portion of its surplus reserves to a multifamily housing revolving loan program.

3. Housing Rehabilitation Loans. This program was established in 1977 to support activities leading to the upgrading of the state's housing stock. The program, now known as the Home Improvement Advantage loan program, provides installment or deferred payment loans for alterations or repairs to existing housing. The Authority may have outstanding up to $100 million in revenue bonds under the program. No bonds are outstanding.

4. Property Tax Deferral Loan Program. Under this program, which was transferred to WHEDA in 1993, low- and moderate-income elderly homeowners are able to convert home equity into income to pay property taxes. WHEDA is authorized to issue up to $10 million in bonds to finance loans under this program but is also required to allocate a portion of its unencumbered general ("surplus") reserves to the program. No bonds have been issued for the program. A more complete discussion of this program may be found in the Legislative Fiscal Bureau informational paper entitled, "Property Tax Deferral Loan Program."

5. Beginning Farmer Loan Program. This program, which became effective on July 1, 1994, authorizes WHEDA to issue up to $17,500,000 in bonds to finance loans to first-time farmers. The program was repealed in 2007 Act 125. Under the beginning farmer loan program, WHEDA made loans to first-time farmers as defined under federal law for the purchase of agricultural land, agricultural improvements and depreciable agricultural property. WHEDA issued $10.2 million in bonds under this program before it ended. As of June 30, 2010, the program had $2.1 million in bonds outstanding.

6. Economic Development Loans. This program was established in 1983 to fund business development activities in the state. The Authority is authorized to issue bonds of up to $200,000,000 for economic development activities, and as of June 30, 2010, had issued $93 million. As of June 30, 2010, the Authority had $1 million in outstanding economic development loans that carry WHEDA's general obligation.

One-Time Federal Bonding Support. In 2009, the U.S. Treasury Department used authority under HERA to create bonding support programs in response to poor credit conditions that had inhibited the ability of state housing finance agencies such as WHEDA to continue typical lending. WHEDA received one-time federal support for its bond issues under these programs, known as the New Issue Bond Program (NIBP) and the Temporary Credit and Liquidity Program (TCLP). Treasury charged housing finance agencies to access this funding, which was assessed as an increase on the interest rate of the bonds.

WHEDA's allocation under the NIBP was $325 million, which was split by Treasury into a $256 million portion for single-family lending and a $69 million portion for multifamily lending. Under the program, Treasury purchased securities with short-term interest rates from government-sponsored enterprises such as Fannie Mae and Freddie Mac. Treasury in turn allowed housing finance agencies to use these housing bonds to support single- and multifamily lending activity. Participants were required to convert these bonds to long-term, fixed-rate bonds once loans were committed to them.

The TCLP allowed WHEDA to access a facility to provide liquidity for up to three years for both single-family and multifamily bond issues. This program allowed WHEDA to replace financing for its bond issues previously provided by lending institutions that the Authority had come to view as unstable due to their holding of troubled assets. WHEDA's TCLP allocation was $298 million for single-family bond issues and $39 million for multifamily bond issues.

WHEDA Operating Funds

The Authority does not receive any general purpose funds from the state for its operations, but instead, finances these operations out of its general reserve fund. In particular, the Authority earns revenue in the following ways: (a) by charging loan interest rates higher than the interest it pays its bondholders, although the Authority's yield on loans is limited by federal law to the interest paid on the bonds plus a premium which varies with the type of bond issued; (b) by collecting fees, such as loan origination fees and mortgage servicing fees, for the services it performs; and (c) by investing its reserves to produce income. Table 3 provides an overview of the last six years of WHEDA's general and administrative expenses. WHEDA officials report the $2.0 million increase in 2006-07 was due to a change in accounting practices that reclassified lease income received by the Authority. The revenue was previously recorded as an offset to building expenses. WHEDA attributes increases in 2007-08 expenses to increases in personnel and health insurance costs.

Table 3: WHEDA General and Administrative Expenses

2004-05	$16,211,000
2005-06	16,530,000
2006-07	18,496,000
2007-08	19,620,000
2008-09	19,581,000
2009-10	18,863,000

WHEDA Surplus Fund

The Authority is required by statute to maintain an unencumbered general reserve fund (also referred to as a "surplus" fund) within its general fund into which any Authority assets in excess of operating costs and required reserves are to be deposited. A calculation of unencumbered general reserve funds is done annually at the fiscal year end and reported by WHEDA to the Governor and the Legislature. To derive the figure, amounts are deducted from unrestricted reserves for purposes such as operating expenses, capital expenses and contingencies. In addition, it is necessary to deduct a portion of reserves that is encumbered or committed to various WHEDA programs beyond a certain date, which is usually the end of the next fiscal year. The remainder of the reserves is the Authority's available unencumbered general reserves. As shown in Table 1, a total of $4.4 million was available for this fund at the close of the 2009-10 fiscal year.

Section 234.165 of the statutes outlines the procedure for gubernatorial and legislative review of the Authority's annual plan for the unencumbered funds. By August 31 of each year, the Chairperson of the Authority certifies to the Secretary of the Department of Administration two items: (a) the actual unencumbered funds available on the preceding June 30, the close of the previous state fiscal year; and (b) the projected funds available on the following June 30, at the close of the current state fiscal year. For those funds available on the preceding June 30, the Chairperson submits to the Governor a plan for expending or encumbering the funds during the current year. The Governor may modify the plan and is required to submit, within 30 days, his or her plan to the presiding officer of each house of the Legislature, who then refers the plan to the appropriate housing committees within seven days. The standing committee review period extends for 30 days after referral. Within the review period, either of the standing committees may request WHEDA to appear before it to discuss the plan. If such a request is made, the review period is extended until 30 days after the request has been made. If a standing committee and the Governor agree to modifications in the plan, the review period for all standing committees will continue for an additional 10 days after receipt of the modified plan.

The plan or modified plan is approved if no standing committee objects to it within the designated review period. If a standing committee objects to the plan or modified plan, the parts under objection are referred to the Joint Committee on Finance, which is required to meet in executive session within 30 days to consider the objections.

The Joint Committee on Finance may: (a) concur in the standing committee objections; (b) approve the plan or modified plan notwithstanding standing committee objections; or (c) modify the portions of the plan objected to by the standing committee. Until approved or modified under these provisions, the plan is not effective. With the exception of certain statutorily permitted transfers of funds from one plan category to another, the unencumbered general reserve funds may be expended or encumbered only in accordance with the approved plan.

WHEDA is required to allocate a portion of its unencumbered general reserve funds to: (a) match federal funds available under the McKinney Homeless Assistance Act; (b) match federal funds available under the home investment partnership program; and (c) fund the property tax deferral loan program. Recent budget acts also have transferred a portion of WHEDA's surplus to Commerce to fund various housing grant and loan programs. WHEDA transferred $5 million in 2005-07 and $6,025,000 in the 2007-09 biennium. These transfers offset equivalent GPR reductions.

A large portion of WHEDA's unencumbered general reserve funds supplement bond proceeds to achieve more favorable interest rates or other lending terms. However, the Authority also has developed and administered several programs using these funds. These programs are included in the program summaries in the following chapter. In addition, Appendix I lists the allocation of the $4.4 million in 2009-10 unencumbered general reserve funds for WHEDA's 2010-11 "Dividends for Wisconsin" plan.

Transfers to the State General Fund and Other Agencies. In addition to funding specific programs from its unencumbered reserves, WHEDA has also been required to transfer a portion of those reserves to the state in certain instances. Transfers of $20.8 million since 2001-02 have gone to both the state general fund and other state agencies that administer housing grants and loans. Transfers to state agencies generally offset equivalent amounts of general purpose revenue (GPR) funding for certain housing-related purposes. Table 4 lists transfers from WHEDA's unencumbered reserves as required by recent budget acts or budget adjustment acts.

Table 4: Transfers from WHEDA Unencumbered Reserves

Year	Recipient Department/Fund	Amount
2001-02	Administration	$1,500,000
2002-03	Administration	3,300,000
2003-04	General Fund	2,375,000
2004-05	General Fund	2,125,000
2005-06	Commerce	3,000,000
2006-07	Commerce	2,000,000
2007-08	Commerce	3,025,000
2008-09	Commerce	3,000,000
2009-10	General Fund	225,000
2010-11	General Fund	225,000
Total		$20,775,000

State Appropriations

Because it exists as a public body corporate and politic, WHEDA generally does not receive funding from state appropriations, and only in rare circumstances does the Authority do so, such as for the Authority's startup and the Credit Relief Outreach Program (CROP). In addition to start-up funding for these programs, 2009 Act 2 created a continuing GPR appropriation with $4 million in one-time funding for the creation of the homeowner eviction and lien protection program (HELP).

HELP was intended to provide funding with which WHEDA could establish a loan-loss reserve to encourage lenders to modify terms of troubled mortgage loans. Under the program, WHEDA is authorized to enter into agreements requiring participating lenders to make loan terms more favorable for distressed borrowers. In exchange for modifying these loans, lenders would be able to make claims against the loan-loss reserve to recover any losses resulting from subsequent defaults. Losses would be determined following the sale of the property and settlement of any other claims against it. Borrowers are eligible under the following conditions: (a) the person has made a reasonable effort to refinance with the lender, the loan servicer or with the assistance of a WHEDA-approved third-party mediation organization, but has been unsuccessful; and (b) the lender will not refinance outside an agreement with WHEDA. The statutes require WHEDA to report quarterly to the

Joint Committee on Finance on the progress and performance of the program, once established, and the co-chairs of the Committee may convene a meeting at any time to review or dissolve the program. The statutes also specify that any unencumbered portion of the $4 million GPR was to lapse to the state's general fund on June 30, 2010.

WHEDA began seeking state lenders' participation in the loan-loss reserve after the passage of Act 2. The Authority secured commitments from five banks for approximately $5 million in loans. However, it has been unclear since the passage of Act 2 whether the GPR appropriation violates the general constitutional prohibition on state involvement with internal improvements. Therefore, WHEDA did not further pursue any agreements with lenders and no GPR was disbursed to WHEDA for the program.

CHAPTER 2

WHEDA HOUSING PROGRAMS

Housing programs under the responsibility of WHEDA are financed through several mechanisms. These include: (a) proceeds from the sale of revenue bonds; (b) unencumbered or "surplus" reserves; and (c) federal funds. The following descriptions of WHEDA housing programs are arranged according to these funding sources.

Housing Programs Financed by Bond Revenues

WHEDA Fannie Mae Advantage

The WHEDA Fannie Mae Advantage program provides first mortgage loans to low- and moderate-income households in Wisconsin. WHEDA began lending under Fannie Mae Advantage in 2010, replacing the home ownership mortgage loan (HOME) program that WHEDA had suspended in October, 2008. (HOME, which was created in Chapter 349, Laws of 1981, should not be confused with the federally funded home investment partnership program administered by Commerce, which also uses the acronym HOME.)

WHEDA temporarily ceased HOME lending on October 1, 2008, because the Authority's cost of borrowing increased significantly as investor demand for housing-related securities fell sharply. An increased cost of borrowing would have forced the Authority to raise interest rates to levels undesirable for first-time home buyers served by the program. Additionally, the increase in troubled loans nationally since 2007 decreased the value of private mortgage insurance (PMI), which is what WHEDA used as a primary means of insuring itself against default by HOME borrowers. Private mortgage insurance was required on most HOME loans to compensate WHEDA in case of defaults by borrowers. Increased costs of PMI also contributed to higher borrowing costs for lenders.

Fannie Mae Advantage is based on a 2006 agreement between Fannie Mae and the National Council of State Housing Agencies (NCSHA), the trade association of state housing finance agencies (HFAs) such as WHEDA. WHEDA joined the agreement in 2008 following the suspension of the HOME program. Under this agreement, which governs HFA loans that are sold to or guaranteed by Fannie Mae, a national lending initiative known as Affordable Advantage was developed.

WHEDA announced the beginning of Fannie Mae Advantage in February, 2010, and was the first state housing finance agency to implement the Affordable Advantage program framework. Fannie Mae Advantage has different requirements than those typical for conforming loans under Fannie Mae. For example, Fannie Mae Advantage allows borrowers to receive loans with up to 100% loan-to-value (LTV) ratios, which allows for a down payment as small as the minimum required borrower contribution of $1,000 for a standard single-family home under the program. Fannie Mae conforming loans typically have a maximum LTV of 97%, or about a 3% down payment. Borrowers without a 20% down payment generally must purchase PMI to limit Fannie Mae's liability in instances of loan default.

Fannie Mae Advantage requirements also differ from those WHEDA had under the HOME program, although the HOME program requirements are in most cases more restrictive than Advantage requirements. For example, HOME loans: (a) allowed a maximum loan-to-value ratio of 97%, except under the now-discontinued Zero-Down Program, which is described later; (b) required borrowers to pay for PMI to limit WHEDA's exposure on loan defaults; and (c) generally required a minimum credit score, which is not required of all borrowers under the Advantage programs. It should also be noted that several borrower requirements such as household income remain the same as under HOME. This is because WHEDA uses mortgage revenue bonds to fund the Advantage program, and federal requirements on mortgage revenue bonds generally have not changed.

Program Administration. One primary difference between the HOME and Advantage programs relates to the type of loss protection on mortgage loans. Under HOME, WHEDA primarily used PMI to provide WHEDA with loss protection if borrowers defaulted on loans. This ensured WHEDA's ability to repay its bondholders, even as borrowers missed monthly payments. HOME borrowers with little equity are generally required to pay mortgage insurance premiums as part of their monthly mortgage payments. Under the Advantage program, WHEDA's primary backing on mortgage loans is through guarantees provided by Fannie Mae. Rather than requiring monthly mortgage insurance premiums, WHEDA instead collects a guarantee fee, which is remitted to Fannie Mae.

However, in addition to the standard loan under the Advantage program, WHEDA offers other variations on the Fannie Mae Advantage loan, some of which do offer private mortgage insurance as a means of enhancing the security for bondholders. Collectively, this variety of loans has the effect of offering a range of rates to borrowers with different profiles. These programs include: (a) Advantage – Low LTV, which requires a 20% down payment but no PMI; (b) Advantage – Price Point, which requires no PMI and allows for a high loan-to-value ratio; and (c) Advantage – MI Choice, which allows borrowers to pay PMI through a WHEDA-approved insurer. Of these loans, Advantage – Price Point offers the lowest interest rate to borrowers but also the highest closing costs, as borrowers pay a pricing fee at closing to compensate for the absence of PMI. For loans with both PMI and a Fannie Mae guarantee, WHEDA and its bondholders are made whole first by PMI and then Fannie Mae's guarantee in the event of a borrower default.

Another difference in the programs is that WHEDA no longer holds all issued loans in its portfolio as it did under HOME. Rather, Fannie Mae Advantage provides that WHEDA loans are purchased by Fannie Mae and packaged into mortgage-backed securities, which WHEDA then repurchases with proceeds from mortgage revenue bonds.

WHEDA reports that repurchasing its own mortgage-backed securities, as opposed to having those securities resold on the open market, involves less risk to the Authority in the marketing of securities. Specifically, repurchasing mortgage-backed securities allows WHEDA to issue loans generally based on the interest rates of its own subsequent bond issues. Market sales of securities, however, would expose the Authority to more pricing risks. Although market pricing could result in greater profitability, it is also possible to deliver loans at unfavorable prices, which could diminish the profitability of the program.

Program Terms and Eligibility. Because WHEDA uses mortgage revenue bond proceeds for MBS purchases under the Advantage programs, WHEDA is still bound by the federal requirements on bond issues as they pertain to borrowers' profiles. Specifically, household income is a primary determinant of eligibility. A borrower's annual income, combined with all sources of income of all adults who intend to purchase an eligible property or occupy the same dwelling unit as the applicant, may not exceed 115% of the median income for the area in which the home is located. (Appendix II provides estimated 2010 median household income by county.) WHEDA also may not make a loan to a person without a social security number.

In designated "targeted areas," a participant's income may not exceed 140% of county median income for households of four persons. The Authority may adjust the percentage according to the number of people in the household. These targeted areas are certified by the federal Department of Housing and Urban Development (HUD) and the Internal Revenue Service (IRS) as areas in need of economic revitalization and are listed in Appendix III.

Other program requirements include: (a) generally, the borrower must not have owned a home during the previous three years; (b) the property must be used as the principal residence of the borrower; (c) the selling price cannot exceed specified limits which vary both by type of home purchased and location; and (d) the property must be an existing single-family home or duplex. Federal law and state statutes allow WHEDA to use mortgage revenue bonds for structures other than one- or two-unit dwellings, but its current contract for Fannie Mae Advantage limits program offerings to single-family homes and duplexes.

Other features of the Fannie Mae Advantage program include the following: (a) loans are for a term of 30 years with no prepayment penalty and a fixed interest rate; (b) loans generally may not be used for refinancing; and (c) loans may be used for financing purchasing existing housing, new construction, or major rehabilitation of existing housing. However, Fannie Mae Advantage provisions only allow for loans to be made on newly constructed homes if construction is complete.

A borrower may have owned a home within the previous three years if the home for which the loan is sought is either in a targeted area or will be the object of major rehabilitation. Certain veterans are also exempt from this requirement. Loans for major rehabilitation may be used to purchase and rehabilitate a qualifying property or rehabilitate a property already owned by the borrower. The following requirements must be met to receive a loan for major rehabilitation: (a) the property must be either a single-family residence or a duplex; (b) the home must have been occupied as a dwelling for at least 20 years; (c) after completion of the rehabilitation, at least 50% of the external walls must remain as external walls; (d) the cost of the rehabilitation must be at least 33% of the purchase price of the residence; and (e) the borrower must be the first occupant of the property after rehabilitation. Maximum loan amounts vary with borrowers and the characteristics and value of the proposed improvements. No loans under HOME or the Advantage programs have been for rehabilitation since 2007, when 10 HOME loans, or approximately 0.2%, were for that purpose. However, in 2010, WHEDA made a number of rehabilitation loans under its Neighborhood Advantage program, which is discussed later.

Since the inception of the HOME program through 2008, the Authority made about 109,800 loans totaling almost $6.9 billion. In 2008, the final year in which lending was significantly active under HOME provisions, the Authority made 2,743 loans totaling over $295 million, with the average loan being approximately $107,600. (This does not include two loans that closed in 2009, which were pending when the program was suspended in October, 2008.) In 2010 through June 30, WHEDA has made 392 Fannie Mae Advantage loans totaling $46,044,500, with an average loan of approximately $117,500. Appendix IV contains information on HOME and Fannie Mae Advantage program activity.

It should be noted that beginning January 10, 2011, the only loans eligible under Fannie Mae Advantage will be those with a 20% down payment or those enrolling in Advantage – MI Choice and paying for regular mortgage insurance. WHEDA reports the Affordable Advantage initiative was discontinued by the Federal Housing Finance Agency, which is the regulator and conservator for Fannie Mae.

FHA Advantage Program

The FHA Advantage program, though not operating as of December, 2010, is similar to Fannie

Mae Advantage in that it is intended to allow WHEDA to resume lending under backing provided by federal programs following the decline in demand for bonds issued by state housing finance agencies. WHEDA reports this program is expected to be available to the general public beginning in March, 2011.

Under FHA Advantage, WHEDA would conduct lending in a manner similar to that of Fannie Mae Advantage. Loans originated by participating lenders would be securitized and repurchased by WHEDA using bond proceeds, although they are not sold to any entity for securitization. (The Government National Mortgage Association, or Ginnie Mae, which provides guaranties on FHA loans, does not directly participate in buying or selling loans on the secondary market as Fannie Mae does.) Borrowers would pay a guarantee fee, and WHEDA would be protected against borrower defaults by guarantee fees, which would help ensure the Authority met obligations to bondholders.

Home Improvement Advantage Loan Program

WHEDA began the Home Improvement Advantage loan program in 2009 in conjunction with the Fannie Mae Advantage program. The Home Improvement Advantage loan program replaced the former home improvement loan program (HILP), which was suspended in April 2008. WHEDA suspended HILP due to low lending activity and declines in property values that began in 2007 that the Authority was concerned would increase the likelihood of losses in HILP lending if borrowers' homes entered foreclosure. Home improvement loans are generally second mortgages, meaning that lenders on the first mortgage would recoup losses in foreclosure before WHEDA could recoup amounts loaned for home improvement. Further, the program does not require borrowers to have any equity in their homes. The statutes provide WHEDA the authority to issue bonds to fund the program, but no bonds have been issued since 1992, and none of the bonds are outstanding.

A Home Improvement Advantage loan provides loans to low- and moderate-income households to repair their homes or to improve their homes' energy efficiency. Prospective borrowers must have a first-lien WHEDA mortgage on which payments have been current for 12 months. In accordance with statutory provisions, annual household income limit under the program is 120% of the median family income in the area in which the home is located, or the median income in the state, whichever is greater, except in designated reinvestment neighborhoods where the income limit is 140%. Additionally, the Authority can increase or decrease the income limit by 10% for each person greater or less than four. Eligible properties include residential structures containing four dwelling units or fewer. Mobile homes and properties to be used in a trade or business are ineligible. Further, the borrower must be both the owner and occupant of the property.

Home Improvement Advantage loans can be for up to $10,000, and may have a maximum term of 10 years. (HILP loans formerly had no maximum loan amount, with a $17,500 maximum having been repealed in 2006. The maximum loan term formerly was 15 years.) The statutes cap interest rates for home improvement loans at the greater of: (a) 3% plus the rate required to repay holders of any bonds issued for program loans; or (b) 8%. Loan proceeds may be used only for housing additions, alterations or repairs to: (a) maintain decent, safe and sanitary conditions; (b) reduce the cost of owning or occupying the housing; (c) conserve energy; and (d) extend the economic or physical life of the property. Fireplaces and luxury improvements do not qualify under the program.

1999 Act 9 requires WHEDA to annually transfer, by October 1, all funds in the housing rehabilitation loan program administration fund that are no longer required for the housing rehabilitation loan program to the general fund. In 2000, the first year of the requirement, WHEDA transferred $1,500,000 to the state's general fund. Through 2010, WHEDA had not made another transfer to the state's general fund. No transfer is expected in 2010-11.

The Authority made 15,282 home improvement loans totaling $103.6 million between the program's inception in 1979 and its suspension in April 2008. In 2007, the last full year of lending under HILP, WHEDA made 79 home improvement loans totaling $1,002,996, with the average loan of approximately $12,700. Outstanding loans numbered 221 as of June 30, 2010, with an outstanding amount of $1,782,200. Since Home Improvement Advantage began lending in August, 2009, it has made eight loans for $62,700. As of June 30, 2010, $56,300 of this total was outstanding. Appendix V provides information on home improvement loans since the program's inception.

Multifamily Loan Fund

The Authority has provided construction and permanent financing to develop multifamily housing that meets the needs of low- and moderate-income persons. Under the multifamily revolving loan fund, WHEDA sells both taxable and federally tax-exempt revenue bonds, authorized by the state through the Authority's general corporate purpose bonding authorization, to finance projects. Financing is subject to federal regulations concerning limits on tax-exempt bonding, project eligibility, and rent and occupancy restrictions. Taxable bond proceeds are used by WHEDA to make 30-year, fixed-rate loans to developers of low-income housing tax credit projects.

Table 5: Multifamily Loan Fund

Calendar Year	Number of Loans	Amount of Loans	Units Assisted*	Average Loan Per Unit
2001	46	$49,833,022	2,833	$17,590
2002	63	103,028,202	4,113	25,049
2003	33	58,618,687	2,217	26,441
2004	30	51,361,345	2,368	21,690
2005	41	72,271,217	3,662	19,735
2006	31	73,092,523	2,251	32,471
2007	40	91,748,260	2,474	37,085
2008	23	52,177,470	1,133	46,052
2009	13	45,200,238	1,020	44,314
2010**	14	48,268,405	741	65,140
Total	334	$645,599,369	22,812	$28,300

*A unit assisted includes bed units for special needs projects.
** Through June 30.

Since the inception of the program in 1974 through June 30, 2010, WHEDA has issued $1,570,845,000 in general corporate purpose revenue bonds for multifamily housing. Table 5 provides multifamily loan activity information for the past 10 years.

Housing Programs Financed by Unencumbered General ("Surplus") Reserves

The Authority is required by statute to maintain an unencumbered general reserve fund or "surplus" fund into which any WHEDA assets in excess of operating costs and required reserves are to be deposited. This plan is subject to review by the Governor and legislative committees, and is approved if no objections are raised.

A large portion of this reserve fund supplements bond proceeds to achieve more favorable interest rates or other lending terms under WHEDA's single or multifamily housing programs. However, WHEDA also has developed several additional programs that have been funded from its unencumbered general reserves. These programs are described below.

Easy Close Program / HOME Plus

WHEDA began lending under HOME Easy Close in February, 1993. HOME Easy Close provided a deferred loan of up to $1,000 to assist individuals with their mortgage closing costs. An individual was eligible for an Easy Close loan if his or her income was not in excess of $35,000 and if the individual was otherwise eligible for a HOME loan. A loan under this program was separate from a HOME mortgage loan, though the interest rate was the same. Easy Close loans generally had three-year terms. HOME Easy Close loans were made using an allotment from WHEDA's unencumbered general reserves.

WHEDA replaced the HOME Easy Close program with the HOME Plus program in April, 2002. HOME Plus encumbered resources: (a) from Easy Close to provide assistance for down payments and closing costs; and (b) from HILP funds for home repairs. HOME Plus offered loans up to $10,000 at a fixed interest rate for a 15-year term. Eligible properties were at least 10 years old, and initial draw requests on the credit line for meeting down payment and closing costs were not to exceed 5% of the home's purchase price. WHEDA made 6,339 HOME Plus loans totaling $59,886,500 over the life of the program, with an average loan value of $9,447. Of these amounts, 2,138 loans and $11,200,500 remain outstanding as of September 30, 2010.

WHEDA suspended HOME Plus in April, 2008, and began a new Easy Close Program offering loans up to $4,000 for down payments and closing costs. This Easy Close was suspended in October, 2008, as HOME lending ceased, but WHEDA restarted Easy Close Advantage in September, 2010, to work in conjunction with the other Advantage loan offerings. Easy Close now offers up to $3,000 for assistance with down payments, closing costs or the pricing adjustments charged in Advantage – Price Point and other loans. Loans may be for terms up to 10 years, and interest rates are set at one percentage point higher than the note on the first mortgage. Borrowers with more than $7,000 in liquid assets at the time of application are not eligible for Easy Close.

WHEDA has made 823 loans for a total value of $1,833,300 under HOME Easy Close during its operation, not counting time it operated as HOME Plus. Average loan value is $2,228. As of September 30, 2010, 262 loans worth $899,300 were outstanding. WHEDA has made five loans for a total of $15,000 under the Easy Close Advantage program since it started in 2010.

Multifamily Housing Programs

Since 1992-93, WHEDA has allocated $111.7 million of its surplus reserves to establish and administer a general multifamily housing revolving loan fund to provide capital for the development and preservation of multifamily housing.

As of June 30, 2010, approximately $69.4 million of the surplus reserves set aside for multifamily loan programs are dedicated to the general revolving fund lending program. The general lending program provides financing for multifamily housing projects that serve low-income families. Loans under this category represent construction lending or short-term financing prior to conversion to long-term financing. Funds also may be used to make housing preservation project loans.

As of June 30, 2010, about $1.3 million in surplus reserves had been allocated to the homeless/special needs fund of the multifamily housing revolving loan program. WHEDA plans to put these funds into the multifamily revolving loan fund to be designated for the homeless and people with disabilities. This fund gives WHEDA flexibility in establishing loan terms, and possible uses for these funds include: (a) the provision of permanent housing, group homes, and community-based residential facilities; (b) set-asides for the Affordable Housing Tax Credit for Homeless Program; and (c) matching federal grants under the McKinney Homeless Assistance Program.

The remaining $42.5 million in surplus reserves set aside for multifamily housing programs were dedicated as follows: (a) $700,000 for the Federal National Mortgage Association's (Fannie Mae) Secondary Market Initiative, which collateralizes WHEDA's guarantee requirement for the sale of certain tax credit projects in WHEDA's loan portfolio; (b) $16.8 million for preserving low-income rental housing; (c) $1.3 million for the U.S. Department of Agriculture Preservation Revolving Loan Fund, which supports preservation or revitalization of rural multifamily housing for low-income persons; (d) $2.75 million for the Housing Preservation Initiative, which funds rehabilitation, refinancing of current debt, and other activities to preserve housing within Wisconsin; (e) $12.1 million for revolving loans for very low-income multifamily housing, initially generated from savings on refinanced bond issues; (f) $5.5 million to subsidize interest rates on multifamily project loans; (g) $3.1 million for support of multifamily housing revenue bonds; and (h) approximately $250,000 total from administration of the federal HUD Housing Choice Voucher and Moderate Rehabilitation programs, which is reserved for use within each program.

Table 6 shows the funding allocated from the general reserve fund surplus revenues that is set aside for the multifamily housing program.

Table 6: Surplus Reserves for Multifamily Housing Programs, 1992-93 through 2009-10

Program	Reserve Amount
General Revolving Fund	$69,382,797
Homeless Fund	1,677,629
FNMA Secondary Market Initiative	700,000
Preservation Reserve Account	16,548,612
Housing Preservation Initiative	2,750,000
Bond Refinancing Savings	11,865,645
Interest Subsidy Funds	5,503,461
Multifamily Bond Support	2,710,361
HUD Housing Choice Voucher	253,786
HUD Moderate Rehabilitation	257,914
Total	$111,650,205

WHEDA Foundation Grant Program

In 1983, the Authority created the Wisconsin Housing Finance Authority (WHFA) Foundation, later renamed the WHEDA Foundation, a nonprofit corporation organized to make grants to nonprofit organizations and local governments for improving housing opportunities for low- and moderate-income persons, the elderly, handicapped and disabled persons, and persons in crisis. The Authority's surplus reserves provide funding for Foundation grants. The WHEDA Foundation, consisting of Authority employees, has made grants to organizations to create and rehabilitate housing for eligible persons. The WHEDA Board approves Foundation grants and transfers funds to the Foundation so it can meet its grant commitments. Housing grants are awarded through an annual, statewide competition and each proposal is evaluated based on project need, implementation, impact and budget. Since the inception of the grant program in 1985 through December, 2010, $20.1 million has been awarded. In 2010, the WHEDA Foundation awarded $500,000 to 49 recipients.

Property Tax Deferral Loan Program

Under this program, which was transferred to WHEDA in 1993 Wisconsin Act 16, low-income elderly homeowners are able to convert home equity into income to pay property taxes. This program is considered particularly beneficial for elderly homeowners who have little disposable income and a significant amount of home equity. WHEDA may issue up to $10,000,000 in bonds to finance property tax deferral loans, but the Authority must also allocate a portion of its unencumbered general reserves to the program. The program has an unpredictable revenue stream of loan repayments, however, which makes bond repayments difficult. WHEDA has thus far opted to fund this program exclusively with its unencumbered general reserves. Since WHEDA began administering the program in 1994, WHEDA has utilized these revenues to provide 3,591 loans totaling $6,942,100. WHEDA funded 59 loans for a total of $129,800 in 2010, which paid participants' property taxes due for 2009. The average loan was $2,200. A more complete discussion of this program may be found in the Legislative Fiscal Bureau informational paper entitled, "Property Tax Deferral Loan Program."

Housing Programs Financed by Federal Funds

The Authority also acts on behalf of the state in administering four federally funded housing programs.

Low-Income Housing Tax Credit Program

The federal Tax Reform Act of 1986 created a low-income housing tax credit program as an incentive to encourage private investment into the development and/or rehabilitation of low-income rental housing. By executive order of the Governor, WHEDA has been responsible for dispersing the state's annual allocation. Table 7 shows the amount of federal tax credits distributed since the program's inception, as well as the associated number of low-income housing projects and units funded.

As of 2003, total state base allocations are $1.75 per resident, although the figure is now about $2.15 after being adjusted annually for inflation. Wisconsin's 2011 allocation is expected to be $12,157,800. However, WHEDA's allocations in 2009 and 2010 reflect federal increases of approximately $30 million annually under the federal Heartland Disaster Tax Relief Act of 2008. That act allocated an additional $30 million for disaster relief efforts after severe flooding in parts of Wisconsin in mid-2008. Wisconsin's pool of credits also increased about 20¢ per person for 2009 pursuant to the federal Housing and Economic Recovery Act of 2008. The Authority must set aside 10% of each year's allocation of credits for projects sponsored by qualified nonprofit organizations.

Table 7: Low-Income Housing Tax Credit

Calendar Year	Amounts of Credits Applied	Number of Projects Funded	Number of Low-Income Units Created / Rehabilitated	Average Tax Credit Per Unit
1987	$1,191,300	24	558	$2,135
1988	5,407,900	76	2,423	2,232
1989	6,072,500	120	2,800	2,169
1990	5,475,400	63	1,917	2,856
1991	6,768,370	40	1,781	3,800
1992	9,618,301	74	2,755	3,491
1993	547,672	11	273	2,006
1994	17,968,744	96	3,893	4,616
1995	25,482,563	46	1,892	13,469
1996	6,606,380	53	1,740	3,797
1997	7,400,045	39	1,645	4,499
1998	8,227,118	47	2,192	3,753
1999	7,397,832	38	2,009	3,682
2000	6,679,173	27	986	6,774
2001	8,511,465	41	1,531	5,559
2002	9,255,867	35	1,662	5,569
2003	11,641,161	40	2,353	4,947
2004	9,132,045	30	1,541	5,926
2005	9,143,988	23	1,118	8,179
2006	9,642,172	32	1,500	6,428
2007	10,591,025	38	1,401	7,560
2008	11,389,965	30	1,356	8,400
2009	43,509,281	53	3,225	13,491
2010	39,407,937	41	2,206	17,863
Total	$277,068,204	1,117	44,757	$6,190

The three categories of eligible projects are: (a) new construction or rehabilitation of existing housing when rehabilitation expenditures are at least $6,000 per unit or 20% of the value of the project's depreciable assets, whichever is greater; (b) new construction or rehabilitation financed by a subsidized federal loan or a tax-exempt bond; and (c) acquisition costs of existing housing, including rehabilitation work of at least $6,000 per unit or 20% of the adjusted depreciable assets in the building(s), whichever is greater. The maximum tax credit for qualifying units in eligible projects is adjusted monthly by the federal Department of Treasury to reflect their present value. The maximum tax credit has been 9% for projects in the first category and 4% for projects in the other two categories, although those percentages have generally been set around 8% and 3.5%, respectively. Once allocated to a project, the tax credit is received each of the 10 subsequent tax years. This means recipients generally earn 70% of the present value of costs for non-subsidized new construction and 30% of the present value of costs for acquisitions and subsidized new construction over the life of the credit.

WHEDA reports the increased per-unit average credit in 2009 and 2010 is due in part to: (a) increased federal credit allocations; and (b) a reduced price of tax credits as purchased by investors. A reduction in the market value of the credits generally requires additional funding (tax credit allocation) to support the same level of project costs. WHEDA also reports per-unit averages will vary from year to year based on the mix of selected projects; specifically, rehabilitation projects are less expensive than new construction, and variation in the proportion of each project type will result in fluctuation in per-unit averages.

Several restrictions regarding unit affordability remain in place for 30 years on LIHTC properties. Either 20% or more of the units in a project must be available to, or occupied by, individuals with incomes at or below 50% of the county median income, or 40% of the units must be available to or occupied by persons with incomes at or below 60% of the county median income. In addition, gross rent paid by families in qualifying units, including a utility allowance, may not exceed 30% of the maximum qualifying income. Further, the program includes provisions authorizing the Internal Revenue Service to recapture a portion of the tax credit for either a qualifying unit or an entire project if the income targets are not met. Provisions of the program limit individual investors in qualifying projects in both the amount of credit that can be applied to federal tax liability and the amount of losses that can be deducted.

ARRA Initiatives. In response to a significant decline in investor interest in LIHTC projects in 2008, the American Recovery and Reinvestment Act (ARRA) of 2009 contained two initiatives intended to encourage continued investments. First, the Tax Credit Assistance Program (TCAP) provided approximately $2.25 billion in additional funding to state housing finance agencies to provide any additional investments needed by projects already awarded tax credits in federal fiscal years 2007, 2008 or 2009. WHEDA received a TCAP allocation of $35,594,900. All funds were committed by May, 2010.

The ARRA also established the Tax Credit Exchange Program, under which state housing finance agencies award grants directly to developers of qualifying low-income housing projects. The grants are in lieu of future tax credits, which have the effect of exchanging future tax credits for immediate cash funding to further stalled projects. Although both TCAP and Exchange awards provide up-front financing to allow for continued progress in low-income housing developments, the programs differ in that Exchange recipients will not receive future tax credits. However, WHEDA's Exchange awards have generally been larger than TCAP awards. Of the $3.1 billion available nationally for Exchange awards, WHEDA received an allocation of $139,572,400 in Exchange funds. WHEDA allocated and closed awards for all Exchange funds by December, 2010. A total of 73 projects received funding through the TCAP and Exchange programs.

Public Housing Programs

WHEDA administers several forms of public housing assistance under the federal Section 8 housing program. These programs are described below. Although federal policy in recent years has expanded the use of tenant-based housing assistance, WHEDA continues administering subsidies paid under project-based provisions of the Section 8 program.

Project-Based Rental Assistance. Provisions of the Section 8 program allocate federal rental subsidies directly to property owners on behalf of tenants. Tenants are generally responsible for paying 30% of their monthly income toward rent, and the remainder is covered by federal assistance under contracts negotiated with property owners at the time of the property's construction or acquisition. Federal project-based contracts generally run for the duration of the mortgage on the property, which is typically 20 to 40 years.

WHEDA generally provides project-based assistance under one of two HUD contract regimes: (a) traditional contract administration (TCA); or (b) project-based contract administration (PBCA). TCA properties, which generally have WHEDA mortgages, receive monthly payments according to payment vouchers the property owner submits to WHEDA. WHEDA forwards claims to HUD and funds returned by HUD pay both WHEDA, as the mortgagee, and the property owner for the rental subsidy. Under PBCA, WHEDA similarly receives and verifies payment claims submitted by property owners, then forwards claims to HUD. HUD in turn disburses funds to WHEDA, which forwards payments to property owners. All federal TCA and PBCA funds handled by WHEDA, as well as the Authority's administrative responsibilities under each category, are set forth in what is known as an annual contributions contract (ACC).

WHEDA currently administers approximately $3,754,700 in monthly housing assistance payments, or about $45,056,600 annually, under its traditional Section 8 contract. These payments go to 153 different properties containing 10,774 units. WHEDA's PBCA portfolio covers 443 properties containing 22,120 units. Monthly housing assistance payments for this portfolio total about $8,082,100 per month, or about $96,985,000 annually. For administering these contracts, WHEDA in 2009-10 received annual payments from HUD of approximately $6.9 million, including $5.3 million for the PBCA portfolio and $1.6 million for the traditional contract. Revenues of $7.8 million are estimated for 2010-11, including $6.2 million for the PBCA portfolio and $1.6 million for the traditional contract.

Housing Choice Voucher Program. This federal program is a tenant-based subsidy, under which persons eligible for subsidies have flexibility in selecting their residence. WHEDA was budgeted 1,439 vouchers per month as of July, 2010, equaling total federal assistance of $6 million per year. This amount goes to low-income households in 37 counties in the state. Eligibility for a rental voucher is limited to families with income at or below 50% of the county median income level. The household pays 30% of its income for rent, with the federal government covering the remainder, up to the local housing authority's payment standard. The household must also pay any amount above the local housing authority's payment standard. WHEDA limits recipients to one move per year in Wisconsin, but vouchers are otherwise portable. This means a voucher household can move to another area in or out of the state where a voucher program is operational and still retain the voucher benefit. Additionally, once a family has been certified to receive a voucher, it can be recertified annually as long as it remains income-eligible and the program is operational in the area where the family lives.

Neighborhood Advantage Program

The WHEDA Neighborhood Advantage Program was created in 2009 using funds awarded to Wisconsin under the federal Neighborhood Stabilization Program (NSP). NSP, which was created within HUD as part of the Housing and Economic Recovery Act of 2008, is intended to provide emergency assistance for redevelopment of abandoned and foreclosed homes.

In September, 2008, HUD announced that approximately $38.8 million in NSP funding would be available to Wisconsin agencies. Commerce, as the lead state agency for administration of the state share, allocated approximately $5.8 million to WHEDA. WHEDA initially planned to use $4 million to establish a loan-loss reserve program, under which NSP funds would support a loan pool of approximately $33 million in loans for purchase of foreclosed or abandoned homes that would be rehabilitated and occupied as primary residences. WHEDA reached an agreement with Neighborhood Housing Services of America (NHSA) to purchase Neighborhood Advantage loans, and NHSA would have relied on the loan-loss reserve to compensate its investors for losses incurred on any defaulted loans. However, due to difficulties in funding, the loan-loss partnership with NHSA was terminated. Instead, $4 million that was to fund the loan-loss reserve was reallocated by Commerce, and WHEDA used $1,878,500 in NSP funds to provide down-payment and closing-cost assistance for Neighborhood Advantage loans on a first-come, first-served basis. WHEDA has sold all Neighborhood Advantage loans to Fannie Mae, and estimates it has made $140,400 from these sales.

Neighborhood Advantage loans: (a) are generally 30-year, fixed-rate loans; (b) are limited to

Brown, Kenosha, Milwaukee, Racine and Rock counties; and (c) must be for an existing, vacant single-family property on which the initial lender foreclosed. Borrowers are required to provide a down payment of 20%, at least $1,000 of which must come from the borrower's own funds. Borrowers whose household income is between 50% and 120% of their county's median may qualify for assistance up to 25% of the loan amount with a $35,000 maximum, and households with income of less than 50% of the county median may qualify for assistance up to 50% with a $50,000 maximum. As of December, 2010, WHEDA has made 57 Neighborhood Advantage loans, with an average of $33,000 provided on each loan for down payments and closing costs. Neighborhood Advantage assistance on closed loans included the following: (a) $1,111,600 assisting 33 loans in Rock County; (b) $473,300 assisting 14 loans in Milwaukee County; (c) $235,000 assisting eight loans in Brown County; and (d) $58,600 assisting two loans in Racine County.

National Foreclosure Mitigation Counseling Program

WHEDA participates in the National Foreclosure Mitigation Counseling Program (NFMCP), which received $180 million in funding under a continuing appropriations bill in December, 2007, and another $180 million under the federal Housing and Economic Recovery Act of 2008. WHEDA reached a grant agreement with NeighborWorks America, which administers funding for the program, in March, 2008. WHEDA received $437,800 in the first grant round. The Authority partnered with eight community organizations throughout Wisconsin to provide foreclosure counseling services to delinquent borrowers and provide legal assistance to help households avoid foreclosure. WHEDA was awarded $348,600 in a second grant round in November, 2008, of which $173,600 is designated for counseling services and $175,000 is designated for legal services. WHEDA did not receive a funding award in NFMCP's third round, which was provided $50 million in March, 2009, under a federal appropriations bill, but the Authority did receive an award of $50,100 in the fourth round of NFMCP funding awarded in January 2010. The fourth round of funding was $65 million made available in an appropriations bill passed in December, 2009. These funds were to be expended by December 31, 2010.

Federal Home Loan Bank Affordable Housing Program

WHEDA has offered assistance to homeowners since 2005 for down payments and closing costs under grants received under the federal Affordable Housing Program (AHP). The AHP is administered by the system of Federal Home Loan Banks (FHLB), which are chartered by Congress to ensure stable funding sources for mortgage loans made by various financial institutions.

FHLB grant awards have distinguished between urban and rural housing, with $4,000 grants being available to urban homeowners and $5,000 grants being available to rural homeowners. In the most recent grant cycle, the FHLB of Chicago awarded WHEDA: (a) $250,000 for up to 50 grants to rural households; and (b) $120,000 for up to 30 grants to urban households. As of December, 2010, WHEDA had allocated 45 rural grants for $225,000 and 22 urban grants for $88,000.

Inactive Housing Programs

The Authority has suspended several housing loan programs in recent years, due to economic conditions or lack of interest. These programs and their outstanding obligations, if any, are discussed below.

Zero-Down Program

The Zero-Down Program operated between June, 2006, and April, 2008. It offered buyers an affordable mortgage without a down payment for purchase of: (a) an existing 1- or 2-unit owner-occupied residence; (b) a double-wide manufactured home; or (c) a newly constructed 1- or 2-unit owner-occupied home.

WHEDA suspended the Zero-Down Program after mortgage insurance companies stopped insuring loans with little or no down payment, as these loans have a higher risk of incurring losses. Further, Authority officials report that bond rating agencies gave poor ratings to bonds issued for the Zero-Down Program due to the perceived risk of the loans. WHEDA issued a total of 1,839 Zero-Down loans during the program's operation, with total principal of $220.8 million. As of November 30, 2010, WHEDA had 1,328 loans and a total principal balance of $152.1 million outstanding.

Partnership Neighborhood Initiative

WHEDA began the Partnership Neighborhood Initiative (PNI) in 2006 as a subset of the HOME program to increase lending in urban neighborhoods that were primarily minority and low-income areas. WHEDA offered interest rates on PNI loans that were 0.25 percentage points lower than typical HOME loans. WHEDA bought down interest rates for PNI loans using "zero-cost money," which is a term given to excess yields from issues of tax-exempt mortgage revenue bonds. Urban AHP grants were made by WHEDA in conjunction with PNI loans in amounts up to $4,000 for assistance with down payments and closing costs.

WHEDA suspended PNI in September, 2008, as credit conditions deteriorated and interest rates increased. However, the Urban AHP grants of up to $4,000 continue to be available to first-time homebuyers in Brown, Dane, Kenosha, Milwaukee, Racine, Rock and Waukesha counties.

Lease-Purchase Program

The Lease-Purchase Program has not been offered since 2006. Under this program, WHEDA made loans to nonprofit organizations, public housing authorities and government agencies using a revolving loan fund created for the program. The agencies used the loan funds to purchase or construct single-family homes to be leased to low-income households with an option for the lessee to purchase the home within three years. Project sponsors made monthly payments, which included principal, interest, and escrows for taxes and insurance, to WHEDA. The prospective owner's monthly payments were structured over three years to cover the sponsor's loan and escrow payments and to accumulate the funds needed for the balance of the down payment and estimated closing costs.

WHEDA required project sponsors to conduct necessary rehabilitation activities and act as property managers during the lease period. Prospective owners were eligible for the program if their gross annual income did not exceed 80% of the county median income for the county in which the property was located. Other requirements applied, including pre-qualification for financing under the HOME program.

WHEDA provided financing through a 30-year, fixed-rate loan in an amount not exceeding 95% of the lesser of the total acquisition cost or appraised value of the property. WHEDA held these loans in the revolving loan fund. WHEDA used the HOME program as the source of financing for the prospective owner if funds were available when the option to purchase is exercised.

WHEDA initially allocated $487,000 from its 1991-92 surplus reserves to start the program. It was discontinued in 1998 but restarted in November 2003. Thirteen applicants entered the program before the program was again discontinued in June 2006. During that time, five persons exercised a purchase option. The program made 27 loans totaling $991,475 in its two operating periods. There are no further purchase options pending. The Authority eliminated the revolving loan fund for the program in June, 2010, and reallocated associated funds to Easy Close loans.

CHAPTER 3

WHEDA ECONOMIC DEVELOPMENT PROGRAMS

The Authority carries out two major activities that are intended to foster economic development in the state. First, the Authority uses allocations from its unencumbered general reserves to make below-market-rate loans to small- and medium-sized businesses under several programs. Second, WHEDA issues guarantees on economic development loans made by private lenders. The Authority uses funds in its Wisconsin development reserve fund to back these guarantees. Programs under each of these areas of economic development activity are described below.

Loan Subsidy Programs

Linked Deposit Loan Subsidy Program

Under the linked deposit loan (LiDL) program, private financial institutions provide low-cost, short-term loans to small businesses that are more than 50% controlled or owned by minority group members or women. Under the program, eligible persons may borrow from $10,000 to $99,000 for a two-year term.

To receive a LiDL loan, the borrower must demonstrate that: (a) the business is more than 50% owned or controlled by minority group members or women; (b) the gross annual sales of the business are less than $500,000; (c) the business employs 25 persons or fewer at the time of application; (d) the loan proceeds will be used to purchase or improve land, buildings, and / or equipment located in the state; and (e) the project undertaken through the use of the loan will help expand employment or maintain jobs that otherwise would be lost.

To finance this program, in 2010-11 WHEDA has allocated a total of $3,000,000 of its unencumbered general reserves to provide private financial institutions with investment capital, which those lenders agree to use to make below-prime rate loans to eligible borrowers. Upon agreement with a participating lender, the Authority will purchase certificates of deposit from the lender and the interest rate payable to WHEDA on such deposits for the duration of the linked deposit loan will be lower than the customary rate established by the lender. In return for the Authority accepting a below-market rate on its investment, the lender agrees to charge the LiDL borrower a below-prime interest rate on the loan. The Authority's deposit does not serve as a guarantee or as collateral; the borrower is solely responsible for loan repayment. Further, the lender determines loan terms and conditions. Table 8 provides information on loan activity under the program over the past several years.

In addition, in 2001, WHEDA made LiDL subsidies available to businesses in storm-damaged areas of Burnett and Washburn Counties. However, no loans were made and WHEDA has not used the LiDL program for such circumstances since.

Table 8: Linked Deposit Loan Program

Calendar Year	Number of Loans	Amount of Loans
1998	40	$1,862,443
1999	29	1,399,670
2000	24	1,366,670
2001	29	1,655,567
2002	18	1,022,989
2003	16	801,364
2004	13	656,305
2005	12	725,250
2006	28	1,663,953
2007	9	595,900
2008	12	749,316
2009	3	120,000
2010*	2	85,000
Total	235	$12,704,427

*Through June 30.

Airport Development Zone Loan Program

2005 Act 487 created an airport development zone loan program in WHEDA, and provided WHEDA with bonding authority of $200 million in aggregated principal to fund loans made under the program. However, the program was repealed under 2009 Act 2 without any loans ever being issued. Under the program, WHEDA had authority to award loans to businesses for the purpose of financing the construction or expansion of an airport in an airport development zone as established under Act 487. In addition to airport construction, loan proceeds could have supported activities to increase the number of flights under an established service, or to expand service to airports not previously served by a carrier.

Beginning Farmer Loan Program

2007 Act 125 repealed the Beginning Farmer Loan Program. Prior to the program's discontinuation, WHEDA was authorized to issue up to $17.5 million in bonds and notes to provide financial institutions with capital to finance loans to beginning farmers. Eligible farmers were engaged in farming or wished to engage in farming and who meet the federal Internal Revenue Code definition of first-time farmers for the purpose of determining whether a private activity bond is a tax-qualified bond. Loan proceeds could purchase agricultural land, agricultural improvements and depreciable agricultural property. Bonds and notes issued by WHEDA under this program are special limited revenue obligation bonds and do not represent any general moral or legal obligation of WHEDA to any person. The bonds or notes were sold to financial institutions upon approval of a loan to a beginning farmer.

WHEDA issued $8,641,800 in bonds to 59 private lenders while the program was active. As of June 30, 2010, 14 bonds and $2,190,500 were still outstanding. WHEDA staff has indicated that in recent years, beginning farmers have applied for FARM loan guarantees, which are discussed later in this paper.

Economic Development Loan

Although statutory language remains, the economic development loan program offered by WHEDA -- the business development bond program (BDB) -- is defunct. WHEDA discontinued the BDB when the small business loan guarantee program was created under the 1997 biennial budget act.

BDB provided below-market, fixed-rate loans to eligible small and medium-sized manufacturing firms to construct, purchase, expand and improve land, buildings and equipment in order to retain or expand employment. Bonds totaling $166,898,000 have been issued through the BDB program, $93 million of which carried WHEDA's general obligation. As of June 30, 2010, of the $93 million that had WHEDA's general obligation, approximately $1 million was outstanding.

Guarantee Programs

The Authority operates several programs established by the Legislature that guarantee loans made by private lenders to qualified businesses. The Legislature appropriated the monies to back the loan guarantees, and that funding is held in the Authority's Wisconsin Development Reserve Fund (WDRF). The fund is described below, followed by descriptions of each of the loan guarantee programs. In addition to the loan guarantee programs funded from the WDRF, one loan guarantee program, the neighborhood business revitalization loan guarantee program, is funded from WHEDA's general reserves.

Wisconsin Development Reserve Fund

The WDRF was created by 1991 Wisconsin Act 39 through the consolidation of several existing guarantee funds: (a) the agricultural production loan fund (CROP fund); (b) the drought assistance and development loan fund; and (c) the recycling loan fund. Each of these separate funds had been created to back guarantees made under loan guarantee programs authorized by the Legislature. The consolidated WDRF now backs guaranteed loans made by private lenders by reserving funds to repay lenders for any losses from defaulted loans made under any of these guaranteed programs. The WDRF also funds the administrative costs of the loan guarantee programs and pays interest subsidies for the CROP loan guarantee program.

2001 Act 16 replaced the individual maximum guarantee authority for the agribusiness, credit relief outreach (CROP), farm asset reinvestment (FARM) and small business loan guarantee programs that are backed by the WDRF. Instead, Act 16 established that "the total principal amount or total outstanding guaranteed principal amount of all loans that the authority may guarantee" may not exceed $49.5 million. WHEDA interprets this to mean the total amount of outstanding guarantee authority must not exceed $49.5 million. This amount excludes the amount of an outstanding loan to Taliesin, which is discussed later.

As shown in Table 9, on June 30, 2010, $28.6 million in loan guarantees were outstanding, leaving approximately $20.9 million in remaining guarantee authority.

The consolidated reserves available in the WDRF were approximately $9.3 million on June 30, 2010, as reported to the Joint Committee on Finance in the WDRF annual report. These reserves are primarily maintained to repay the lender in case of program loan defaults. The ratio of authorized guarantee amount to reserves amount is referred to as WDRF's leverage factor. The 1997 biennial budget act increased the leverage factor from 4:1 to 4.5:1 for all guarantee programs backed by the fund, except a loan to the Taliesin Preservation Commission, which remains at a leverage factor of 4:1. This means the WDRF needs to have at least one dollar in reserve for every $4.50 in available guarantee authority. On July 1, 2010, the actual leverage factor was 5.3:1 for available guarantee authority. However, based on actual loan guarantee activity through June, 2010, WHEDA has a 3.08:1

Table 9: WHEDA Loan Guarantee Program Authority as of June 30, 2010

Loan Guarantee Program	Guarantees Outstanding	Loans Made	Loans Defaulted	Default Rate
Agribusiness	$681,343	33	4	12.1%
CROP*	9,742,585	15,279	200	1.3
FARM	5,581,376	317	8	2.5
Small Business	12,522,723	401	18	4.5
Discontinued Programs	107,946	---	---	---
Total	$28,635,973	16,030	230	1.4%

* CROP amounts include only activity beginning in 1993.

ratio. That is, for every $3.08 in outstanding loans guaranteed, the WDRF had one dollar in reserve.

The Legislative Audit Bureau reported in a December, 1997, evaluation that the balance in WDRF steadily declined from $21.1 million on June 30, 1992 to $12.9 million on June 30, 1997, with annual deficits ranging from $700,000 to $1.9 million. The balance continued to drop, albeit less rapidly, to a $12.1 million balance on June 30, 2000. After rising to $12.9 million again on June 30, 2002, the balance has decreased to $9.3 million as of June 30, 2010, which is below the statutory requirement of $11 million. However, although the WDRF effective guarantee maximum is therefore $41.8 million as of June 30, 2010, rather than the authorized level of $49.5 million, WHEDA had $13.2 million in available guarantee authority based on the outstanding guarantees shown in Table 9. A contributing factor to the June 30, 2010, balance was $556,000 in guarantee claims, which had ranged from $162,900 to $230,200 in each of the preceding three fiscal years. Similarly, WHEDA has estimated approximately $1 million in guarantee claims in 2010-11. Table 10 shows the condition of the WDRF since 2006-07.

Table 10: Wisconsin Development Reserve Fund Condition

	2006-07	2007-08	2008-09	2009-10
Opening Balance	$10,994,900	$10,711,200	$10,339,000	$10,108,800
Revenues	917,800	877,100	906,200	623,000
Expenses	1,201,500	1,249,300	1,136,400	1,433,500
Closing Balance	$10,711,200	$10,339,000	$10,108,800	$9,298,300

While the statutes specify a maximum guarantee authority amount of $49.5 million for WDRF loan guarantee programs, the statutes provide that WHEDA may request the Joint Committee on Finance to authorize an increase or decrease in the guarantee authority for the programs authorized under the WDRF. WHEDA is required to include in its request a projection, for the end of the fiscal year, of the balance in the fund if the request is approved and the balance if the request is not approved. The Authority must then receive the approval of the Joint Committee on Finance under s. 13.10 of the statutes before any change in total guarantee authority becomes effective.

Annually, on June 30, WHEDA is required to transfer to the state's general fund any balance in the WDRF which remains after deducting: (a) amounts sufficient to pay outstanding claims; and (b) a reserve amount sufficient to maintain the required leverage factor (generally 4.5:1) of total principal guarantee authority to reserve fund balance under each loan program backed by the fund. The WHEDA Executive Director is required to submit a signed statement to the Secretary of the Department of Administration and the Joint Committee on Finance that lists the amounts deducted to pay outstanding claims and to fund remaining guarantees. The Authority also must provide a report to the Chief Clerk of each house of the Legislature and to the Joint Committee on Finance by November 1 of each year on the number and amount of all loans guaranteed by the fund, as well as the loan default rate. WHEDA's last transfer from WDRF reserves to the state's general fund was $463,400 in 2003-04.

A description of each of the programs backed by the WDRF follows. Some programs that have been either repealed or consolidated do not appear below, although the Authority continues to service and maintain WDRF-backed loans under some such programs.

Credit Relief Outreach Program (CROP)

The Authority was provided $11 million GPR in 1984-85 to guarantee agricultural production loans to Wisconsin farmers and to provide interest subsidies on the loans. This program is known as the credit relief outreach program or CROP.

Loans under the program may be used to purchase fertilizer, seed, fuel, pesticides, tillage services, crop insurance, animal feed or any other service or consumable good necessary to produce an agricultural commodity. 2003 Act 236 authorized WHEDA to guarantee up to 90% of each qualifying agricultural production loan of less than $50,000 made by a participating lender and up to 80% of loans that are greater than $50,000. In addition, the Authority annually sets the maximum guarantee amount for loans made under the program between $30,000 and $100,000. In 2005 the Authority set the current maximum CROP loan amount at $60,000. The maximum loan amount under CROP increased to $100,000 beginning January 1, 2009. Prior to 2003 Act 236, WHEDA guaranteed up to 90% of loan principal with a maximum loan of $30,000.

The maximum interest rate allowed on a CROP loan is determined by WHEDA. For loans guaranteed in 2010, this rate was the prime lending rate on the date of closing, plus two percentage points, with a WHEDA-imposed maximum rate of 7%. If the prime rate and the interest rate on a guaranteed loan exceeds 10%, the statutes require WHEDA to use monies in the WDRF to subsidize each loan by paying 2% of the loan principal to the lender.

WHEDA deposits to the WDRF revenues from an application fee of 1% of the overall loan amount, with a minimum of $500 and a maximum of $1,000 on a $100,000 loan. For the 2009 calendar year, revenues for application fees were $319,300. Revenues in 2010 through June 30 were $110,800. WHEDA also assesses a fee for loans that enter forbearance, which either postpones or restructures a loan's outstanding principal. Fees for forbearance agreements are $300. WHEDA received $6,300 in these fees in 2009 and $11,700 in 2010 through June 30.

To be eligible for CROP, Wisconsin farmers must meet four conditions: (a) the farmer does not meet the participating lender's minimum standards of creditworthiness to receive an agricultural production loan in the normal course of the lender's business; (b) the amount of the farmer's debts totals at least 40% of the amount of the farmer's assets; (c) in the judgment of the lender, it is reasonably likely that if the farmer receives a guaranteed loan, the farmer's assets, cash flow and managerial ability are sufficient to preclude voluntary or involuntary liquidation before April 1 of the next calendar year; and (d) the farmer does not appear on a statewide support lien docket for delinquency in making child support or maintenance payments, unless the farmer submits an approved payment agreement. Farmers must also have sufficient insured collateral to cover the value of a loan, and those in default on previous WHEDA loans are ineligible.

WHEDA has authority to make CROP loans subject to emergency eligibility criteria. WHEDA may guarantee a loan to an otherwise ineligible farmer if the Governor determines that an emergency situation exists and existing eligibility criteria prohibit WHEDA from adequately responding to the emergency situation. However, WHEDA must submit the emergency criteria to be used in making such a loan to the Joint Committee on Finance for review and approval under s. 13.10 of the statutes. It should be noted that unlike other CROP loans, the level of loan principal for which WHEDA may guarantee repayment for emergency guaranteed loans is not specified.

In January, 1999, in response to the low price producers were receiving for their hogs, the Governor determined that an emergency situation existed and WHEDA submitted eligibility criteria for a hog production emergency loan guarantee program to the Joint Committee on Finance. The Committee approved the emergency criteria, which included: (a) a maximum loan limit of $50,000, including outstanding CROP loans, for hog producers; (b) loan repayment within three years; (c) an application deadline of July 31, 1999; and (d) emergency loans totaling no more than $5,000,000. WHEDA was allowed to guarantee up to 90% of the principal of any hog production emergency loan, and these loans were not to be applied to the outstanding balance of any other loan or to refinance an existing CROP loan. Further, assets in addition to the hogs produced were at times required to secure an emergency loan. Farmer eligibility requirements were substantially similar to those in

Table 11: Credit Relief Outreach Program (CROP)

Calendar Year	Number of Loans Guaranteed	Total Loan Amounts	Average Loan Amount	Default Rate
1985	833	$11,158,400	$13,395	6.10%
1986	1,369	17,746,000	12,963	3.12
1987	1,535	19,488,200	12,696	1.72
1988	1,792	23,346,000	13,028	2.41
1989	1,675	22,660,800	13,529	1.89
1990	1,587	21,386,800	13,476	2.04
1991	1,980	24,941,000	12,596	1.34
1992	2,010	26,486,600	13,177	1.38
1993	2,022	27,305,300	13,504	0.97
1994	2,044	28,413,500	13,901	0.76
1995	1,459	20,170,800	13,825	0.55
1996	1,589	23,220,200	14,613	2.40
1997	1,417	20,837,500	14,705	1.23
1998	1,158	17,353,900	14,986	0.82
1999	758	12,468,600	16,449	0.64
2000	697	12,139,600	17,417	2.38
2001	571	10,791,500	18,899	0.23
2002	449	9,840,445	21,916	2.00
2003	481	10,736,231	22,321	1.04
2004	451	9,453,526	20,961	0.44
2005	443	12,514,621	28,250	0.90
2006	407	14,441,378	35,482	1.23
2007	373	14,840,008	39,786	0.27
2008	362	15,260,825	42,157	1.16
2009	448	28,378,012	63,344	0.75
2010*	139	8,696,659	62,566	N.A.
Total	28,049	$464,076,405	16,545	N.A.

*Through June 30.

the regular CROP program, and 24 loans totaling $1,058,400 ($952,560 of which was guaranteed) were made under the hog production emergency loan guarantee program.

Originally, CROP was intended to be a one-year program to assist eligible farmers in obtaining capital to continue their operations at a time when the farm economy of the state and nation was in economic difficulty. The program was subsequently extended several times. 1995 Act 5 eliminated the one-year provision on the program, making it a permanent guaranteed loan program. Through June 30, 2010, WHEDA had 219 outstanding guarantees totaling $9,742,600. Table 11 provides information on the CROP program for each year of the program's existence.

The term of a CROP loan may not extend beyond March 31 of the next calendar year, except the lender has an option to extend the term up to three months to no later than June 30. In addition, the proceeds of a CROP loan may not be applied to the outstanding balance of any other loan, except that the proceeds may be used twice to refinance a previously received CROP loan provided that 60% of the previous year's CROP loan is repaid. Further, the lender must obtain a security interest for repayment of the loan in the agricultural commodity resulting from one of the loan proceeds. Finally, unless waived by WHEDA, the borrower must obtain insurance to protect the agricultural commodity against risk of loss and the proceeds must be payable to the lender. This insurance provision has been interpreted to require hail insurance but not drought insurance.

Farm Asset Reinvestment Management Loan Guarantee Program (FARM)

1995 Act 150 provided WHEDA the authority to administer a farm assets loan guarantee program. Loans eligible for the guarantee financing include: (a) the acquisition of agricultural assets such as machinery, equipment, facilities, land and livestock; (b) the costs of improvements to farm facilities; or (c) refinancing of existing debt only if a farmer is expanding existing farm operations. To be eligible for a FARM loan guarantee, an individual must be currently operating a farm or must intend to operate a farm and have at least three years of farming experience including day-to-day operations of a farm. In addition, eligible farmers must: (a) reside in Wisconsin or, if the farm is a partnership or corporation, be registered in Wisconsin; (b) have a debt amount that does not exceed 85% of the farmer's assets, including both the debt load of the FARM loan and the value of the assets to be acquired or improvement to be made with the loan proceeds; (c) have a participating lender that considers the farmer's assets, cash flow and managerial ability sufficient to preclude voluntary or involuntary liquidation during the term of the loan; (d) no history of defaults on a WHEDA loan; and (e) have sufficient insured collateral to cover the value of the loan. Program loans may be used in conjunction with other government loan programs, such as the federal Farm Service Agency or Small Business Administration loan programs.

Under the program, WHEDA may guarantee the lesser of 25% of the amount of the loan made by a participating lender or an amount equal to the potential borrower's net worth. Also, the total outstanding principal amount of all guaranteed FARM loans made to a borrower may not exceed: (a) $100,000 if any of the FARM loans were affected by any other state or federal credit assistance program; and (b) $200,000 if loans were not associated with other assistance.

The interest rate and loan terms, including any fees or charges, are approved by WHEDA, while the lender is required to obtain a security interest in the assets of the borrower sufficient to secure repayment of the loan. Loan guarantees under FARM may not exceed 10 years for improvements or acquisitions of buildings or land. Loan guarantees may not exceed five years for purchases of equipment or livestock. WHEDA charges a $150 application fee and a guarantee origination fee of 1% of the loan's guaranteed principal on each FARM loan. For calendar year 2009, application fees totaled $3,300 and origination fees totaled $19,300. For 2010 through June 30, application fees have totaled $300 and origination fees have totaled $5,000. This amount is collected and remitted to WHEDA by the lender. WHEDA is directed to place these fee revenues in the WDRF to be used to guarantee FARM loans.

As of June 30, 2010, 317 loans with guarantees worth $18.6 million had been made. Outstanding guarantees totaled $5,581,400. Table 12 provides information on historical activity under the FARM program.

Table 12: Farm Asset Reinvestment Loan Guarantee Program (FARM)

Calendar Year	Number of Loans Guaranteed	Total Loan Amounts	Guaranteed Loan Amounts	Average Guarantee Amount
1996	5	$360,000	$90,000	$18,000
1997	21	4,776,405	847,850	40,374
1998	10	1,578,000	394,500	39,450
1999	33	5,780,519	1,312,379	39,769
2000	35	7,519,435	1,758,859	50,253
2001	25	6,229,867	1,313,716	52,549
2002	26	7,388,251	1,631,062	62,733
2003	24	4,662,878	1,100,220	45,843
2004	23	5,104,562	1,258,081	54,699
2005	24	6,766,891	1,566,683	65,278
2006	23	6,162,945	1,431,736	62,249
2007	15	6,299,167	1,415,628	94,375
2008	27	9,469,653	2,172,321	80,456
2009	23	8,639,237	1,945,205	84,574
2010*	3	2,695,000	409,999	136,666
Total	317	$83,432,990	$18,648,238	$58,827

*Through June 30.

Small Business Development Loan Guarantee Program

The 1997-99 biennial budget repealed several loan guarantee programs backed by the WDRF, and consolidated much of the loan guarantee authority for those repealed programs under a single new program called the small business loan guarantee program.

Applicants under the small business development loan guarantee program must meet all of the following eligibility criteria: (a) the loan proceeds are used for direct or related expenses including the purchase or improvement of land, buildings, machinery, equipment or inventory associated with (1) the start-up of a small business in a vacant storefront in the downtown area of a rural community, which has a population of 12,000 or fewer or is located in a county with a population density of less than 150 persons per square mile; (2) the start-up of a day care; or (3) the expansion or acquisition of a business; (b) loan proceeds may be used to refinance debt if the borrower is expanding an existing business, but loans otherwise cannot be used for refinancing debt, entertainment expenses, expenses related to the production of an agricultural commodity or expenses related to a community-based residential facility; (c) loan guarantee terms may not extend beyond 15 years for fixed assets, seven years for inventory or permanent working capital, or two years for revolving working capital, unless WHEDA agrees to an extension of the loan term; (d) the lender obtains a security interest in the physical plant, equipment, machinery or other assets; (e) the lender believes it is reasonably likely that the borrower will be able to repay the loan in full with interest; (f) the lender agrees to the guarantee percentage established for the loan by WHEDA; and (g) WHEDA believes the loan will have a positive impact in terms of job creation or retention.

Further, eligible borrowers must be: (a) unable to obtain adequate financing on reasonable terms; (b) an owner who is actively engaged in the business; (c) employing 50 persons or fewer; (d) located in or locating to the state; and (e) not delinquent in the payment of child support. Elected governing bodies of federally recognized American Indian tribes or bands in this state are also eligible for loan guarantees.

Existing loans made under the repealed programs continue to be backed by the WDRF. Similarly, any loan guarantee agreements with lenders associated with those existing loans continue to be in effect. As of June 30, 2010, WHEDA is guaranteeing $107,900 for the repealed Target Area fund. Additionally, as shown in Table 13, since the inception of the small business development loan guarantee program through June 30, 2010, WHEDA has guaranteed 401 loans for $38 million.

Under section 234.83(4) of the statutes, individual loans for fixed assets, permanent working capital and inventory may be guaranteed at 80% or $200,000, whichever is less. Revolving working capital may be guaranteed at the lesser of 80% or

Table 13: Small Business Loan Guarantee Program

Calendar Year	Number of Loans Guaranteed	Guarantee Amount	Average Guarantee Amount
1997	1	$65,250	$65,250
1998	30	2,542,359	84,745
1999	30	2,573,610	85,787
2000	50	5,052,574	101,051
2001	34	3,048,692	89,667
2002	38	3,026,059	79,633
2003	22	2,069,574	94,072
2004	23	2,503,744	108,858
2005	26	2,412,532	92,790
2006	41	4,544,915	110,852
2007	39	4,025,246	103,211
2008	36	2,989,787	83,050
2009	19	2,366,417	124,548
2010*	12	759,394	63,283
Total	401	$37,980,153	$94,714

*Through June 30.

$80,000. WHEDA must establish the portion of the principal of an eligible loan to be guaranteed in an agreement with the participating lender. The Authority is allowed to establish a single guarantee rate for loans that do not exceed $250,000 and a separate guarantee rate for loans that exceed $250,000, or WHEDA can establish a different guarantee rate for eligible loans on an individual basis. Most loans are guaranteed at 80%.

WHEDA charges a closing fee of 1.5% of the guaranteed amount on loans of $150,000 and less or 2.5% of the guaranteed amount on loans greater than $150,000, and an annual servicing fee of 0.25% of the outstanding guaranteed balance of all small business loans. WHEDA officials indicate the servicing fee is intended to encourage lenders to release WHEDA guarantees from loans that are performing and allow WHEDA to provide additional guarantees. Fee revenues are deposited to the WDRF. Revenues from closing fees in 2009 were $53,100, while revenues from servicing fees were $26,600. Through June 30, 2010, closing fees have totaled $11,600 and servicing fees have been $29,100.

Contractors Loan Guarantee Program. Under this program, which is part of the small business development loan guarantee, WHEDA guarantees loans made to contractors to complete an eligible contract. In order to be eligible for a guarantee under the program, a business must have been: (a) awarded a contract, purchase order or other WHEDA-approved instrument by a government agency or business with gross annual sales of at least $5 million; (b) have been in business for at least 12 months; and (c) have fewer than 50 full-time employees. Eligible expenses include employee salaries and benefits, inventory, supplies, and equipment needed to complete the contract. Under the program, WHEDA will guarantee up to 80% or $200,000 of a loan. WHEDA charges a closing fee of 1.5% of the guaranteed amount on loans of $150,000 and less and 2.5% of the guaranteed amount on loans greater than $150,000, along with an annual servicing fee of 0.25% of the outstanding guaranteed balance of the loan. WHEDA has guaranteed three loans under this program: (1) a $100,000 loan in 2005; (2) a $242,000 loan in 2006; and (3) a loan for $150,000 in 2010. All were guaranteed at 80%.

Agribusiness Loan Guarantee Program

Under this program, WHEDA guarantees loans made by financial institutions for projects that result in the development of new or more viable methods for processing or marketing raw agricultural commodities grown in Wisconsin. Agribusinesses located in communities of 50,000 or less in total population are eligible to apply for guaranteed loans. WHEDA has statutory authority to guarantee up to $750,000 in loan principal at 90%, or $675,000 in guarantees, but currently guarantees 80% of loans up to $750,000, or $600,000 in guarantees. Loans may be used for working capital, the purchase of a building or equipment, or marketing expenses. Refinancing of existing debt is not permitted except in cases of business expansion. Unless extended by WHEDA, the maximum loan guarantee term is 15 years for fixed assets or seven years for inventory and permanent working capital.

Table 14: Agribusiness Loan Guarantee Program

Calendar Year	Number of Loans Guaranteed	Guarantee Amount	Average Guarantee Amount
1991	7	$1,360,750	$194,393
1992	5	1,757,500	351,500
1993	4	447,011	111,753
1994	1	178,500	178,500
1995	1	450,000	450,000
1996	0	0	0
1997	0	0	0
1998	2	1,200,000	600,000
1999	0	0	0
2000	3	739,814	246,605
2001	1	44,640	44,640
2002	2	478,579	239,290
2003	0	0	0
2004	2	300,000	150,000
2005	1	599,846	599,846
2006	0	0	0
2007	2	482,400	241,200
2008	0	0	0
2009	0	0	0
2010*	2	273,440	136,720
Total	33	$8,312,480	$251,893

*Through June 30.

The program guaranteed no loans in 2008 or 2009. Two loans in 2010 through June 30 were guaranteed for a total of $273,400. As of June 30, 2010, WHEDA has made 33 loans in this program for $8,312,500. Guarantees of $681,300 were outstanding. Historical loan guarantees are shown in Table 14.

In 2001, WHEDA began charging lenders an annual servicing fee of 0.25% of the outstanding guaranteed balance of all agribusiness loans. Revenues for this servicing fee were $1,200 in 2009 and $1,000 for 2010 through June 30.

Beginning in 2006, WHEDA charged a closing fee of 1.5% of the guaranteed amount on loans of $150,000 and less and 2.5% of the guaranteed amount on loans greater than $150,000. Fee revenues were $0 in 2009 and $6,800 in 2010 through June 30. These amounts were deposited to the WDRF.

In addition, 1991 Wisconsin Act 39 authorized WHEDA to guarantee, as a subprogram of the agribusiness loan guarantee program, loans of up to $100,000 in total principal amount to commercial fishing operators who harvest whitefish from Lake Superior. Loans must be for working capital or to purchase new equipment, including fish processing and refrigeration equipment, required under the administrative rules of DNR for whitefish harvests on Lake Superior.

Guaranteed Loans for the Restoration of Taliesin (Home of Frank Lloyd Wright)

1991 Wisconsin Act 39 authorized WHEDA to guarantee loans made to a non-profit organization that owns or leases cultural and architectural landmark property and improvements — Taliesin, Frank Lloyd Wright's home in Spring Green. Guarantees would occur under the WDRF and back loans of up to $8,000,000 made from the proceeds of WHEDA-issued economic development bonds or loans made by a private lender. The proceeds of the guaranteed loans were required to be used for: (1) acquiring, constructing, improving, rehabilitating, or equipping Taliesin; or (2) purchasing or improving land, buildings, or machinery or equipment or related expenses. Interest income received by individuals from the proceeds of any bonds that WHEDA issues to finance loans for Taliesin is exempt from state taxation. Further, real or personal property of Taliesin is exempted from general property taxation.

In October, 1993, $7,583,600 was loaned to the Taliesin Preservation Commission through the proceeds of debt instruments issued by WHEDA. The WDRF was used to guarantee 90% of the principal amount of the loan. WHEDA and the Commission restructured the loan agreement in April, 1997 to eliminate interest on the loan and split the loan into two parts. Payment on $6.5 million in principal would be deferred until January, 1999, while principal payments would be required on another $1.1 million. The smaller loan would be due in full in September, 2016.

A large portion of the loan ($6,494,700) defaulted in January, 1999. The WDRF, as guarantor, was responsible for repayment of 90% of the defaulted amount, or $5,845,200, with the remaining amount paid from a WHEDA reserve account for the loan. 1999 Act 9 transferred $5,845,200 in December, 1999, from the housing rehabilitation loan program administration fund to the WDRF to pay off the guarantee on the defaulted portion of the Taliesin loan. 1999 Act 9 further eliminated the guarantee program used for the Taliesin loan. The Commission has paid off $422,200 on the remaining $1,122,200 in disbursements, with $700,000 in principal, of which $630,000 was guaranteed, remaining outstanding on December 31, 2008.

WHEDA further restructured the remaining outstanding amounts in January, 2009 to encourage a Taliesin fundraising initiative for a broad program to repair deteriorating buildings at the site. Under the agreement, WHEDA deferred principal payments of $60,000 in each of 2008 and 2009 and $70,000 in each of 2010 and 2011. Further, for every dollar Taliesin raises and subsequently spends on identified capital improvements, WHEDA will forgive Taliesin's debt by the same amount, up to the remaining $700,000, by September 1, 2012. As a condition of the agreement, Taliesin must deposit fundraising proceeds to an account from which expenditures would be restricted to building repairs. Taliesin is also to provide WHEDA with a four-year capital improvement plan, and must report every six months on the progress of the building and fundraising campaigns. If Taliesin does not raise and expend the full $700,000, it must resume annual principal payments September 1, 2012, on amounts remaining. The overall loan remains due in full by September, 2016.

Taliesin secured contributions of $342,300 between January, 2009, and July 2010. These amounts will be reduced from the organization's outstanding obligations. Taliesin has made $401,200 in capital expenses since the beginning of the loan forgiveness agreement.

Safe Drinking Water Loan Guarantee Program

The 1997 biennial budget act created a safe drinking water loan guarantee program to guarantee up to 80% of the principal of loans for projects that improve the quality of drinking water in water systems not owned by local units of government. Unlike most other guarantee programs listed in this section, eligible loans are guaranteed by funds deposited to the Wisconsin drinking water reserve fund, which consists of deposits from the safe drinking water loan fund, funds received for the program from any other source and the interest income from the fund. The Department of Natural Resources (DNR), with the approval of DOA, is authorized to transfer funds from the safe drinking water fund appropriations. WHEDA is required to regularly monitor the fund to ensure a balance of at least one dollar for every $4.50 in total outstanding guaranteed principal authorized under the program.

Under the program, WHEDA may guarantee up to 80% of the principal of an eligible loan for individual loans. The total outstanding principal amount for all guaranteed safe drinking water loans is not allowed to exceed $3.0 million, unless the Joint Committee on Finance, under s. 13.10, permits the Authority to increase or decrease the amount. A request for additional authority must include a projection that compares the next June 30 balance, less the amount necessary to fund guarantees under the program and to pay outstanding claims, with the same balance if the request is approved.

WHEDA is required to enter into a guarantee agreement with lenders wishing to participate in the program. WHEDA may only use the Wisconsin drinking water reserve fund to guarantee safe drinking water loans. WHEDA may guarantee a loan under the program if all of the following apply:

1. The borrower is not a local unit of government;

2. The borrower is either: (1) an owner of a "community water system" (a public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year round residents); or (2) is the owner of a public nonprofit water system that is not a community water system (for example, a private school).

3. The loan, as determined by DNR, either facilitates compliance with national primary drinking water regulations or otherwise significantly furthers the health protection objectives of the federal Safe Drinking Water Act.

4. The lender of the loan enters into a guarantee agreement with WHEDA.

All loans guaranteed under this program are backed by the moral obligation of the Legislature to appropriate any funds necessary to meet the obligations created.

Prior to 1995, DNR and EPA negotiated policy and procedural issues related to the implementation of the program. In the fall of 2006, DNR indicated that EPA would require each small, privately owned water supply system that wanted to participate in the program to be scored according to the state's priority system and placed on a priority list with all other safe drinking water loan projects, requiring the borrower to incur costs for engineering and consulting activities. Funds would have to be allocated in the order of project priority, meaning that loan guarantees would be issued once per year, based on the funding list.

DNR officials indicated that the Department has determined that EPA requirements would be so onerous that a safe drinking water loan guarantee program could not be implemented. As of December 2010, the program has not been implemented and WHEDA has not guaranteed any safe drinking water loans.

Guarantee Programs Funded by WHEDA Unencumbered Reserves

In addition to loan guarantee programs funded from the WDRF, WHEDA funds the neighborhood business revitalization loan guarantee program from its unencumbered general reserves.

Neighborhood Business Revitalization Loan Guarantee Program. This program, started by WHEDA in 2003, guarantees the principal amount of loans made by financial institutions to businesses or developers for the expansion or acquisition of commercial real estate or a small business, which has annual revenue of less than $5 million. The business or real estate must be located in a community with a population of at least 35,000. Under the program, WHEDA will guarantee up to 75% of principal up to $1 million, or $750,000 in guarantees, on loans made for fixed assets and inventory, and up to 75% or $200,000 on loans made to finance working capital. The maximum term of these loans is five years for a fixed-assets or inventory loan or permanent working capital, and two years for a loan for revolving working capital. Interest rates for these loans are set by the lender with WHEDA's approval, and a variable rate loan may not exceed the prime rate plus 2.75%.

WHEDA charges a closing fee of 2.5% of the guaranteed principal amount, and an annual servicing fee of 0.25% of the amount guaranteed. Revenues of $42,000 were collected in 2009, including $31,000 in closing fees and $11,000 in servicing fees. Revenues of $80,900 were collected in 2010 through June 30, including $69,400 in closing fees and $11,500 in servicing fees.

Table 15 provides an overview of all loans made under the neighborhood business revitalization loan guarantee program.

Table 15: Neighborhood Business Revitalization Guarantee Program

Calendar Year	Number of Loans Guaranteed	Guaranteed Amount
2003	4	$1,924,998
2004	3	1,204,780
2005	5	2,182,282
2006	4	1,358,271
2007	2	998,199
2008	6	1,387,098
2009	3	1,936,159
2010*	3	800,780
Total	30	$11,792,567

*Through June 30.

General Fund Reserve for Loan Guarantees. In August, 2009, the Authority created a $3 million reserve to guarantee additional loans in a manner similar to that used by the WDRF. WHEDA staff reported that the WDRF guarantee authority had decreased to approximately $900,000 in July, 2009; staff reported this occurred due to both increased guarantees under CROP in 2009 and increases in forbearance and default activity under outstanding CROP loans. The general fund reserves were intended to allow for a continuation of WDRF programs' loan guarantees even if the WDRF itself were to run out of guarantee authority. The Authority expected to use a leverage factor of between 4:1 and 4.5:1, meaning overall guarantee authority of the $3 million reserve could be as much as $13.5 million.

As of December, 2010, WHEDA has encumbered $3 million for this WDRF sister reserve, but no loans have been guaranteed using this reserve.

Federal Programs

New Markets Tax Credit

WHEDA is a partner with Legacy Bancorp in the Wisconsin Community Development Legacy Fund (WCDLF), an organization formed to apply for New Markets Tax Credits (NMTC) received from the U.S. Department of the Treasury and distribute the credits throughout Wisconsin. The NMTC Program provides federal tax credits for individuals who make qualifying investments in community development entities (CDEs). A CDE must in turn invest in development activities in qualifying low-income communities, most of which are in major U.S. urban areas. Credits are good for up to 39% of an individual's investment and are made over seven years.

WCDLF has received four NMTC allocations: (a) $100 million in 2004, all of which has since been allocated; (b) $120 million in 2007, of which $77.8 million had been allocated as of June 30, 2010; and (c) $100 million in 2008, of which $30 million was allocated on June 30, 2010; and (d) $85 million in 2009, of which $39 million had been awarded as of June 30, 2010.

APPENDICES

The following appendices are included to provide additional information on the Authority and its programs.

- Appendix I details the 2010-11 proposed allocation of WHEDA's unencumbered general reserves.
- Appendix II lists Wisconsin county median incomes that are used for eligibility purposes in certain housing programs.
- Appendix III indicates HOME program targeted areas.
- Appendix IV displays WHEDA's HOME program activity.
- Appendix V displays home improvement loan program activity.
- Appendix VI provides summary information regarding each current WHEDA program.

APPENDIX I

Proposed Allocation of WHEDA Unencumbered General Reserves

2010-11

Activity	Amount
Home Ownership	$2,755,513
Multifamily Housing	700,000
Small Business and Economic Development	0
Housing Grants and Services	725,000
Transfer to State General Fund*	225,000
Total	$4,405,513

*2009 Act 28 requires WHEDA's 2010-11 "Dividends" plan to transfer $225,000 to the state general fund.

Source: WHEDA 2010-11 "Dividends for Wisconsin" plan submitted August, 2010.

APPENDIX II

Estimated 2010 Median Household Income by County

County	Median Income	County	Median Income
Adams	$48,600	Marathon	$67,200
Ashland	49,700	Marinette	52,200
Barron	53,000	Marquette	51,400
Bayfield	50,000	Menominee	35,700
Brown	65,900	Milwaukee	71,100
Buffalo	56,000	Monroe	56,100
Burnett	50,700	Oconto	57,700
Calumet	71,300	Oneida	56,100
Chippewa	63,700	Outagamie	71,300
Clark	52,500	Ozaukee	71,100
Columbia	66,700	Pepin	57,000
Crawford	52,200	Pierce	84,000
Dane	80,000	Polk	61,300
Dodge	64,600	Portage	67,600
Door	60,500	Price	53,800
Douglas	60,000	Racine	67,900
Dunn	60,700	Richland	52,400
Eau Claire	63,700	Rock	65,000
Florence	51,300	Rusk	48,200
Fond du Lac	66,000	Sauk	61,600
Forest	49,000	Sawyer	48,800
Grant	55,200	Shawano	54,500
Green	64,000	Sheboygan	67,000
Green Lake	59,000	St. Croix	84,000
Iowa	66,100	Taylor	58,000
Iron	45,800	Trempealeau	58,200
Jackson	54,700	Vernon	53,300
Jefferson	66,700	Vilas	52,300
Juneau	53,200	Walworth	70,300
Kenosha	71,000	Washburn	50,900
Kewaunee	65,900	Washington	71,100
La Crosse	63,500	Waukesha	71,100
Lafayette	55,700	Waupaca	59,700
Langlade	51,700	Waushara	52,300
Lincoln	59,800	Winnebago	68,400
Manitowoc	63,800	Wood	61,800

Source: U.S. Department of Housing and Urban Development, 2010.

APPENDIX III

WHEDA Fannie Mae Advantage Targeted Areas

Targeted areas are census tracts in the state in which 70% of the families have an annual income of 80% or less of the statewide median income or areas determined by the state and approved by the federal Departments of Treasury and Housing and Urban Development to be areas of chronic distress. In determining an applicant's annual income, the income of any child or parent of the applicant is not considered unless the child or parent applies for the loan in conjunction with the applicant.

Rural Targeted Areas

Entire Counties			Entire Municipalities
Ashland	Crawford	Marquette	Augusta--Eau Claire County
Barron	Iron	Oconto	Clear Lake--Polk County
Bayfield	Jackson	Rusk	La Farge--Vernon County
Burnett	Juneau	Sawyer	
Clark	Marinette	Trempealeau	

Urban Targeted Areas

Portions of These Cities		
Beloit	Kenosha	Oshkosh
Fond du Lac	La Crosse	Racine
Green Bay	Madison	Superior
Janesville	Milwaukee	Wausau

APPENDIX IV

Homeownership Mortgage Loan Program (HOME) and Fannie Mae Advantage

Historical Bonding Activity

Bond Issue	Amount of Bonds Issued	Amount Available for Loans	Mortgage Rate
1982 Series A	$100,000,000	$89,641,656	13.75%
1982 Issue II	50,000,000	49,097,612	10.75, 11.0
1983 Issue I	60,000,000	52,213,244	10.25
1983 Issue I	90,000,000	80,436,614	10.70
1983 Issue II	35,000,000	31,971,568	11.00
1984 Issue I	140,000,955	116,242,940	11.25
1984 Issue II	41,110,948	32,836,675	10.90
1985 Issue I	169,995,438	155,959,688	9.65
1985 Issue II	10,003,263	9,172,580	9.90
1985 Issue III	19,495,597	18,060,409	9.75
1986 Series A	30,740,000	28,850,000	8.65
1986 Series B	67,105,000	62,500,000	7.99
1987 Series A	44,625,000	42,000,000	8.85
1987 Series B&C	100,000,000	94,750,000	8.75
1987 Series D&E	42,000,000	39,250,000	8.99
1988 Series A&B	75,000,000	71,160,000	8.875
1988 Series C	135,000,000	130,843,434	8.80
1988 Series D	204,999,158	198,585,859	8.60
1989 Series A	36,150,000	35,251,514	8.97
1989 Series B&C	73,769,715	71,542,450	8.55
1990 Series A,B&C	168,130,000	163,637,469	8.95
1990 Series D&E	79,300,000	76,805,714	8.88
1991 Series A,B&C	93,000,000	86,641,615	8.85
1991 Series 1,2&3	97,565,000	94,823,229	8.21, 7.9
1992 Series A&B	96,285,000	79,760,000	7.99
1992 Series 1&2	100,000,000	98,097,000	7.71
1993 Series A&B	116,165,000	114,150,000	7.00, 8.25
1994 Series A&B	82,645,000	70,468,982	6.50, 8.25
1994 Series C&D	50,000,000	48,957,000	7.68
1994 Series E&F	30,000,000	29,800,000	8.49
1995 Series A&B	125,000,000	121,355,383	8.17
1995 Series C,D&E	100,000,000	96,910,590	7.79
1995 Series F,G&H	70,000,000	68,600,000	7.60
1996 Series A&B	75,000,000	74,180,000	7.13
1996 Series C&D	75,000,000	74,167,000	7.47
1996 Series E&F	60,000,000	59,223,000	7.04
1997 Series A,B&C	85,000,000	84,189,000	7.49
1997 Series D,E&F	95,000,000	94,029,000	7.01
1997 Series G,H&I	75,000,000	73,869,000	6.74
1998 Series A,B&C	126,785,000	101,785,400	6.42

APPENDIX IV (continued)

Homeownership Mortgage Loan Program (HOME) and Fannie Mae Advantage

Historical Bonding Activity

Bond Issue	Amount of Bonds Issued	Amount Available for Loans	Mortgage Rate
1998 Series D&E	$115,000,000	$113,887,742	6.60%
1998 Series F&G	95,000,000	94,021,706	6.54
1999 Series A&B*	68,215,000	0	N.A.
1999 Series C,D&E	90,000,000	89,098,970	6.65
1999 Series F,G,H&I	80,000,000	80,000,000	6.87
2000 Series A,B&C	$70,000,000	$69,279,000	7.79%
2001 Series A,B,C&D	94,060,000	85,126,000	6.50
2002 Series A,B,C&D	135,565,000	78,230,000	5.87
2002 Series E,F,G&H	160,000,000	113,114,000	5.87
2002 Series I&J	95,000,000	95,000,000	5.87
2003 Series A	110,000,000	109,164,000	5.40
2003 Series B	110,000,000	108,878,000	5.38
2003 Series C&D	110,215,000	87,304,000	5.54
2004 Series A&B	136,295,000	126,763,000	5.45
2004 Series C&D	150,000,000	146,672,299	5.44
2005 Series A&B	131,200,000	117,517,063	5.35
2005 Series C	200,000,000	195,348,457	5.26
2005 Series D&E	148,500,000	146,985,300	5.26
2006 Series A&B	200,000,000	196,000,000	5.15
2006 Series C&D	247,585,000	244,432,872	6.16
2006 Series E&F	180,000,000	175,900,692	6.28
2007 Series A&B	180,000,000	174,025,427	6.12
2007 Series C&D	225,000,000	219,513,224	5.91
2007 Series E&F	130,000,000	126,075,047	5.88
2008 Series A&B	190,000,000	185,901,840	5.77
Total	$6,776,505,074	$6,300,054,264	

*1999 Series A & B were used solely to refund previously issued bonds.

APPENDIX IV (continued)

Homeownership Mortgage Loan Program (HOME) and Fannie Mae Advantage

HOME Loan Activity

Year	Number of Loans	Amount
1980	770	$28,558,498
1981	208	9,783,833
1982	1,284	43,660,764
1983	5,073	187,441,013
1984	4,007	154,763,106
1985	4,790	178,692,094
1986	2,263	84,187,848
1987	3,782	156,612,841
1988	4,338	181,742,936
1989	6,263	280,280,326
1990	6,951	317,373,822
1991	4,112	180,466,199
1992	4,523	206,007,576
1993	2,112	92,299,271
1994	4,079	207,870,035
1995	4,671	254,120,816
1996	3,813	201,902,977
1997	3,912	224,500,694
1998	4,497	287,891,179
1999	3,334	218,891,179
2000	3,488	231,935,053
2001	2,642	193,981,367
2002	3,514	287,703,871
2003	4,010	360,820,996
2004	4,125	407,111,252
2005	5,226	566,138,122
2006	4,559	500,153,436
2007	4,705	522,058,372
2008	2,743	295,278,144
2009	2	97,000
Subtotal	**109,796**	**$6,862,324,620**

Fannie Mae Advantage Loan Activity

2010*	392	$46,044,470
Total	**110,188**	**$6,908,369,090**

* Through June 30.

APPENDIX V

Home Improvement Loan and Home Improvement Advantage Programs

Bond Issue	Amount of Bonds Issued	Amount Available for Loans	Mortgage Rate
R-1 Subordinated	$4,880,000	---	---
1979 Series A	20,120,000	$22,398,868	4, 6, 8%
1981 Series A	9,990,000	12,761,268	9.9, 12.9, 14
1983 Series A	10,000,000	10,275,307	10.95
1984 Series A	9,999,850	9,773,539	10.95
1985 Series A	10,000,000	10,275,000	10.5
Prepayments and Excess Revenues	---	2,700,000	8
1988 Series A	12,635,000	11,679,975	8.75
1990 Series A&B	10,000,000	9,272,200	8.75
1992 A&B	10,000,000	9,140,250	8
Total	$97,624,850	$98,276,407	

Home Improvement Loan Activity by Calendar Year

Year	Number of Loans	Amount
1979	448	$2,504,434
1980	2,800	16,636,013
1981	255	1,480,773
1982	981	5,931,679
1983	1,084	6,339,121
1984	1,720	11,591,423
1985	1,275	8,758,421
1986	365	2,688,067
1987	160	1,152,813
1988	654	3,911,100
1989	1,324	7,646,729
1990	977	6,624,234
1991	580	4,135,288
1992	454	3,448,632
1993	311	2,354,315
1994	342	2,875,314
1995	330	3,082,895
1996	194	1,669,447
1997	176	1,646,106
1998	145	1,376,213
1999	111	1,097,043
2000	100	1,035,813
2001	55	$497,948
2002	53	578,320
2003	49	558,077
2004	57	720,667
2005	94	1,084,911
2006	101	1,080,965
2007	79	1,002,996
2008*	8	126,101
Subtotal	15,282	$103,635,858

*Program was suspended effective April, 2008.

APPENDIX V (continued)

Home Improvement Loan and Home Improvement Advantage Programs

Home Improvement Advantage Loan Activity By Calendar Year

Year	Number of Loans	Amount
2009	5	$37,190
2010*	3	25,500
Subtotal	8	$62,690
Total (Both Programs)	15,290	$103,698,548

*Through June 30. Home Improvement Advantage began lending in August, 2009.

APPENDIX VI

Summary of WHEDA Programs

Housing Programs

Program	Purpose	Primary Funding	Program Expenditures
Fannie Mae Advantage	Mortgage loans for the purchase of homes by low- and moderate-income households. Previously known as the Home Ownership Mortgage Loan Program (HOME).	Revenue bond proceeds	In 2010 through June 30, 392 loans totaling $46,044,470 were made.
Home Improvement Advantage Program	Housing rehabilitation loans to low- and moderate-income households. Previously administered as the Home Improvement Loan Program (HILP).	Revolving loan fund; revenue bond proceeds eligible, but not issued since 1992	Between August, 2009, when WHEDA resumed a home improvement loan, and June 30, 2010, eight loans were issued for $62,700.
Multifamily Loan Program	Financing to developers of multifamily projects for low- and moderate-income households.	Revenue bond proceeds	In 2009, 13 loans for $45,200,238 were made, representing 1,020 units.
Easy Close Advantage Program	Loans of up to $3,000 for down payment or home mortgage closing costs. Previously administered as HOME Easy Close and HOME Plus.	WHEDA unencumbered reserves	As of December, 2010, 5 loans for $15,000 have been made.
WHEDA Foundation Grant Program	Grants to nonprofit organizations for housing-related purposes.	WHEDA unencumbered reserves	In 2010, $500,000 was allocated for Foundation grants to 49 organizations.
Property Tax Deferral Loan Program	Loans to low-income elderly homeowners for payment of property taxes.	WHEDA unencumbered reserves	In 2010, 59 loans totaling $129,800 were made.
Low-Income Housing Tax Credit Program	Federal tax credits to developers of low-income rental housing.	Federal tax credits	In calendar year 2010, $39,407,937 worth of 2010 tax credits were approved for 41 projects and 2,206 low-income units.
Section 8 / Project-Based Rental Assistance	Housing payments directly to property owners to subsidize rental housing for persons of low income.	Federal funds	As of December, 2010, WHEDA administers monthly subsidies equivalent to $142 million annually, which covers 596 properties and 32,894 units.
Housing Choice Voucher Program (Tenant-Based Rental Assistance)	Federal housing vouchers to low-income households.	Federal funds	As of July, 2010, WHEDA distributed 1,439 vouchers equivalent to assistance of $6 million per year.

APPENDIX VI (continued)

Summary of WHEDA Programs

Economic Development Programs

Program	Purpose	Funding Source	Program Expenditures
Linked Deposit Loan Program (LiDL)	Provide economic development loans to small businesses at least 50% owned or controlled by minority group members or women.	WHEDA unencumbered reserves	In 2009, 3 loans totaling $120,000 were made.
Credit Relief Outreach Program (CROP)	Guarantee agricultural production loans to farmers and provide subsidies on those loans.	Wisconsin Development Reserve Fund (WDRF)	In 2009, 448 loans totaling $28,378,012 were guaranteed.
Farm Asset Reinvestment Management (FARM) Loan Guarantee Program	Guarantee for the acquisition of farm assets and/or improvements of agricultural facilities or land.	WDRF	In 2009, 23 loans were made with guarantees of $1,945,205.
Small Business Loan Guarantee Program	Guarantee loans for the acquisition or expansion of a business with less than 50 employees.	WDRF	In 2009, 19 loans were made with guarantees of $2,366,417.
Agribusiness Loan Guarantees	Guarantee loans for projects resulting in the development of new or more viable methods for processing or marketing a Wisconsin-grown commodity.	WDRF	In 2010, through June 30, two loans were guaranteed for a total of $273,400. No loans were guaranteed in 2008 or 2009.
Contractors Loan Guarantee Program	Guarantee loans to contractors for the completion of a contract.	WDRF	One loan was made under this program in 2010 at a guarantee of $120,000. Two other loans, one each in 2005 and 2006, have been guaranteed under this program for a total of $273,600.
Neighborhood Business Revitalization Guarantee Program	Guarantee loans for the expansion or acquisition of small businesses or commercial real estate.	WHEDA unencumbered reserves	In 2009, 3 loans were made with guarantees of $1,936,159.
Safe Drinking Water Loan Guarantee Program	Guarantee loans for projects to improve the quality of drinking water in water systems not owned by local units of government.	WHEDA Drinking Water Reserve Fund	No loans have been guaranteed under this program.