Property Tax Deferral Loan Program

Informational
Paper
23

Wisconsin Legislative Fiscal Bureau

January, 2019

Property Tax Deferral Loan Program

Prepared by

Rory Tikalsky

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703
http://legis.wisconsin.gov/lfb

Property Tax Deferral Loan Program

Introduction

The Wisconsin property tax deferral loan program allows low- and moderate-income elderly homeowners and veterans to convert home equity into income to pay property taxes. The program provides cash income to individuals who have little disposable income and a significant amount of home equity. Loans help pay property tax bills, thereby helping owners remain in their homes. In the 2017-18 program year ending June 30, 2018, 16 persons or households received a total of $48,000 in loans averaging $3,002.

State statutes specify a homeowner 65 years of age or older, or a qualifying veteran of any age, with total household income of no more than $20,000 may annually apply to the Wisconsin Housing and Economic Development Authority (WHEDA) for a loan equal to the amount of property taxes and special assessments levied on the home. The maximum annual loan to an individual borrower is $3,525, which has been the maximum amount since 2011. Loans may be used to pay all or a portion of current property taxes and special assessments due and may include any interest or penalties on delinquent property taxes.

The principal and interest due for tax deferral loans do not have to be repaid until the ownership of the property transfers or the loan recipient no longer lives in the home. Upon transfer of ownership of the property, or the participant ceases to live in the residence, the total loan, with interest, is repaid from the proceeds of the estate or sale of the property. The interest rate on loans made in 2019 for taxes levied in 2018 is 6.25%.

The property tax deferral loan program is funded from WHEDA's surplus fund. State law requires WHEDA to maintain this surplus fund, which consists of any Authority assets in excess of operating costs and required reserves, and a portion of the surplus is required to be allocated to property tax deferral loans. The Authority is also authorized under statute to use up to $10 million in bonds or notes to fund property tax deferral loans, although WHEDA has never issued bonds to fund the program.

The following section provides background information on the program. Next, a summary of eligibility requirements is presented with other current provisions of the property tax deferral loan program. A description of the characteristics of 2018 program applicants follows. Appendix I lists criteria under the statutes for classification as a veteran, which would qualify a person for participation in the property tax deferral loan program, regardless of age. Appendix II lists the types of income included as household income under the program. For a history of the program, see previous versions of this paper available on the Legislative Fiscal Bureau website.

Background

The property tax deferral loan program was created to assist elderly homeowners who have resided in their homes for a substantial period of time and whose current incomes are insufficient to cover property taxes. The program is seen as a way to keep the elderly in their homes by converting equity in their home to cash income to pay property taxes. U.S. Census data indicate an estimated 426,000, or 27%, of the approximately 1.57 million owner-occupied households in Wisconsin are headed by persons 65 years of age and older. Further, Census data suggest 77% of Wisconsin households headed by persons at least age 65 are owner-occupied. (U.S. Census data in this section are reported from the U.S. Census Bureau American Community Survey 2017 1-Year and 2016 5-Year Estimates.)

Eligibility Requirements

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

Veterans, regardless of age, may participate in the program. WHEDA has authority to establish alternative repayment terms for veterans younger than 65. This allowance is intended to keep program loan funds revolving, rather than being allocated to relatively younger participants for potentially abnormally long periods. While veterans under 65 are eligible for the program, WHEDA reports none under the age of 65 have been approved for a loan as of November, 2018. Qualifications for veteran eligibility are described in Appendix I.

Loan Purpose. The loan must be for property taxes and special assessments due on a single-family home, condominium or unit in a multi-unit dwelling of four or fewer units in Wisconsin. The applicant may apply for a loan for all or part of the previous year's property taxes and special assessments, payable in that year up to $3,525. Loans under $100 are made only in situations of special financial hardship, but none have been made in recent years. Participants are liable for interest and penalty charges on delinquent taxes, but the principal amount requested may include the amount of these charges. To avoid late penalties, the applicant may pay the property taxes and special assessments and then receive a reimbursement loan from WHEDA upon proof of payment and approval of the loan. If the taxes and assessments have not yet been paid in full, WHEDA makes the loan check co-payable to both the participant and the appropriate municipal treasurer. Taxes and assessments on up to one acre of land surrounding the home may be included.

Residence Requirements. The applicant must be the owner of the subject property and must have lived in the dwelling unit for at least six months during the preceding year. Temporary residence in a health care facility, such as a nursing home or hospital, may count toward the six-month residency requirement.

Outstanding Obligations. Total outstanding liens, judgments, mortgages and delinquent property taxes may not exceed 33% of the value of the housing unit. WHEDA considers property value to be the lower of either assessed value or the most recent broker price opinion, which is a program requirement discussed later in greater detail. Any previous property tax deferral loans and loans under the housing rehabilitation loan program, also administered by WHEDA, are excluded from this limitation.

Household Income. Applicants' prior year household income may not have exceeded $20,000. This amount was established at the program's inception and has not changed since. WHEDA reports this limit has likely restricted participation over time due to inflationary pressure. Adjusted for inflation, $20,000 in 1986 would be equivalent to approximately $45,200 in 2018. The definition of household income used in this program is the same as that used in the homestead tax credit program. Household income is broadly defined to reflect most cash resources available to claimants, and it includes all income that is taxable for Wisconsin income tax purposes plus nontaxable income sources such as Social Security, supplemental security income and pensions. Appendix II provides a complete listing of the income sources included in the definition of household income under this program.

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

Application Deadline. Applications for property tax deferral loans must be filed with WHEDA by June 30 of the year in which the taxes are due. For example, applications filed by June 30, 2019, if approved, would receive loans to pay 2018 property taxes payable in 2019. Receipt of a property tax deferral loan does not affect an applicant's eligibility for farmland preservation or homestead tax credits. WHEDA begins accepting applications approximately each December 1 for property taxes due beginning on the succeeding January 31.

Other Requirements

In addition to the statutory requirements described above, WHEDA has established additional program requirements.

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

Application Fees. All applicants must pay a $75 title search fee each year a loan application is submitted. The title search fee is nonrefundable and may not be added to the loan amount. WHEDA also has charges a $30 fee for recording loans with registers of deeds for first-time borrowers, or persons whose previous loans have been paid in full. Recording fees are to be refunded if the loans are denied or otherwise do not close.

Additionally, WHEDA currently requires a flood hazard determination for all properties new to the program to comply with federal lending requirements. The determination costs $10, but this cost currently is absorbed by WHEDA.

Broker Price Opinion. Because borrowers' homes serve as collateral on loans, WHEDA requires a broker price opinion (BPO) to ensure sufficient value in the home. BPOs are similar to appraisals, but less rigorous and thus less costly. BPOs are obtained at a typical cost of $140 and are required every other year. Owners of properties participating in the program for the first time also pay an additional $30 for recording fees. WHEDA reports BPO fees are refundable if a title search proves an applicant does not meet requirements for outstanding obligations on the property. These fees are not refundable, however, if a BPO occurred but the loan otherwise does not close.

Phone Consultation. First-time borrowers complete a phone consultation to inform them of the loan process and their obligations under the program, but that typically does not cover other considerations regarding the loan relative to their circumstances. WHEDA also answers participant questions as they are received.

Interest Rates

The WHEDA Executive Director sets the loan interest rate by October 15 of each year. By law, the rate must be 1% over the prime lending rate established by the Federal Reserve at the time the rate is set. For 2019 loans, the interest rate is set at 6.25%. WHEDA exercises its discretion to charge simple interest on loans 2012 and later, providing terms that are more favorable for borrowers.

Repayment of the Loan

Upon entering the loan agreement, a lien is attached to the dwelling unit on which the property taxes are paid. The lien is filed with the county register of deeds and allows WHEDA to secure repayment of the principal, interest and fees due on all property tax deferral loans made to the participant. The lien reduces the equity or ownership value in the home by the loan amounts outstanding, plus interest. The lien remains on the home until WHEDA receives payment in full on all loans and charges.

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

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

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

3. Condemnation or involuntary conversion of the dwelling unit.

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

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

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

WHEDA reports repayments mostly occur as a result of property sale or the participant's passing, with earlier repayments being less common. If a participant in the program ceases to meet the eligibility requirements, WHEDA may request full or partial repayment of the loan, or may allow the participant to continue in the program but be ineligible for additional loans.

Revenue received from repayment of property tax deferral loans issued by WHEDA is returned to the Authority's general reserves. Table 1 shows repayments made by fiscal year since 2008-09 for property tax deferral loans. The number of loans represents individual loans, and may include multiple loans made over multiple years to a single property. As of July 1, 2018, WHEDA has established an encumbrance of $1,685,000 for the program in its general reserves.

Table 1: Property Tax Deferral Loan Repayments

Fiscal Year	Number of Loans Repaid in Full	Repaid Amount
2008-09	179	$523,800
2009-10	203	748,800
2010-11	45	135,000
2011-12	110	422,600
2012-13	60	282,800
2013-14	92	391,800
2014-15	91	289,200
2015-16	86	467,400
2016-17	27	74,500
2017-18	41	152,800
Total	934	$3,488,700

Factors such as the initial property tax rate, growth in the property tax rate, appreciation in home value and interest rate charged on loans all affect the borrower's level of equity in a home on which a lien is secured. Also, it should be noted that while median home values have generally increased during the program's existence, in many cases the value of an elderly homeowner's property may increase more slowly than average due to its location, or because it may be older and not receiving needed repairs on a timely basis. Therefore, elderly borrowers who receive consecutive property tax deferral loans could lose equity during participation in the program. Most loans in recent years have customarily gone to repeat participants in the program. WHEDA reports no borrowers in 2017 or 2018 were first-time participants in the program.

Characteristics of Participants

The tables in this section provide historical data about program activity and program participants, as well as data on participants in the 2017-18 program year.

Table 2 shows the number of participants, total amount of loans received and the average loan amount received for each year since the property tax deferral loan program began in 1986. Since the program's inception, 6,658 loans have been issued for $11.2 million. As of June 30, 2018, WHEDA reports 179 loans were outstanding with total balances of $835,900.

Program participation has declined substantially over time. WHEDA reports decreased enrollment is affected by: (a) inflation, which pushes more potential participants above the income limit over time; and (b) a smaller proportion of home mortgages are paid off as compared to historical levels, which means participants may not meet requirements that a certain percentage of the home be paid off.

Table 3 shows the distribution of amounts for 2018 loans. The annual average loan amount has increased 171% between 1986 and 2018. For 2018, the average loan was $3,002. In the 2018 program year, four participants received the maximum loan amount of $3,525.

Table 4 shows the age distribution of program participants for 2018. The age distribution of participants generally has increased since the program began. In 1986, 36.2% of loan recipients were under age 70. This percentage was 18.75%

Table 2: Property Tax Deferral Loan History

Year*	Number	Amount	Average Loan
1986	295	$327,200	$1,109
1987	298	354,800	1,191
1988	313	393,400	1,257
1989	311	394,800	1,269
1990	307	407,300	1,327
1991	394	541,800	1,375
1992	464	628,300	1,354
1993	486	687,300	1,414
1994	438	778,900	1,778
1995	402	733,700	1,825
1996	356	663,900	1,865
1997	314	553,900	1,764
1998	276	498,500	1,806
1999	242	473,100	1,955
2000	217	417,300	1,923
2001	200	401,800	2,009
2002	179	365,900	2,044
2003	173	360,400	2,083
2004	173	360,600	2,084
2005	173	370,200	2,139
2006	158	338,300	2,139
2007	101	215,900	2,138
2008	76	164,900	2,169
2009	59	130,600	2,214
2010	59	129,800	2,200
2011	38	101,600	2,673
2012	38	104,000	2,738
2013	30	82,300	2,742
2014	24	63,100	2,629
2015	16	41,500	2,594
2016	16	41,000	2,563
2017	16	47,000	2,940
2018	16	48,000	3,002
Total	6,658	$11,221,100	$1,685

* Totals reflect loans made for applications received by June 30 of the year noted.

Table 3: 2018 Loan Amount

Amount	Applicants	Percent
$0 to $2,000	0	0.00%
2,000 to 2,250	1	6.25
2,251 to 2,500	3	18.75
2,501 to 2,750	1	6.25
2,751 to 3,000	3	18.75
3,001 to 3,250	2	12.50
3,251 to 3,525	6	37.50
Total	16	100.00%

Table 4: Participant Age - 2018

Age	Number	Percent
65-69	3	18.75%
70-74	4	25.00
75-79	3	18.75
80-84	2	12.50
85-89	2	12.50
90-94	1	6.25
95+	1	6.25
Total	16	100.00%

in 2018. In contrast, 13.0% of recipients in 1986 were age 80 or older. This percentage was 37.5% of participants in 2018. The average participant age reported in 2018 was 78.1 years old, which is comparable to recent averages.

Table 5 shows the distribution of reported household income among participants. The average income reported was $15,766 in 2018, which represents an increase from an average of $15,491 in 2017. Average household income for loan recipients was $10,611 when the program began in 1986.

Table 6 shows the distribution of values of participants' dwelling units. Values reported may be either assessed values or broker price opinions, depending on which value is lower for a property. The average value reported for 2018 was $152,306, compared to $51,812 in 1986 when the program began.

Table 7 shows participants by county in 2018. Waukesha County had the highest number of participants with three. Of Wisconsin's 72 counties, 61 had no participants.

Table 5: Household Income - 2018 Participants

Household Income	Number	Percent
$0 to $9,000	0	0.00%
9,001 to 12,000	3	18.75
12,001 to 15,000	4	25.00
15,001 to 18,000	3	18.75
18,001 to 20,000	6	37.50
Total	16	100.00%

Table 6: Values of Dwelling Units - 2018 Participants

Assessed Value	Number	Percent
$0 to $75,000	0	0.00%
75,001 to 100,000	1	6.25
100,001 to 125,000	2	12.50
125,001 to 150,000	5	31.25
150,001 to 175,000	3	18.75
175,001 to 200,000	2	12.50
200,000 to 225,000	3	18.75
Total	16	100.00%

Table 7: Participants by County - 2018

County	Participants
Ashland	1
Dane	1
Iowa	1
Juneau	1
Kenosha	1
Marathon	1
Milwaukee	2
Outagamie	2
Pierce	2
Walworth	1
Waukesha	3
Total	16

APPENDIX I

Veterans Eligibility for the Property Tax Deferral Loan Program

For purposes of eligibility for the property tax deferral loan program, persons qualify as veterans if they meet any of the following:

- A person who has served on active duty for at least one qualifying term of service under honorable conditions in the U.S. armed forces, or units incorporated as part of the U.S. armed forces, during a war period or in a crisis zone. Qualifying terms of service are as follows:
    - Two years or more on active duty, or the full period of an initial service obligation, whichever is less;
    - Active duty for 90 days or more during a war period or for any period of service in reserve forces; or
    - Any term under honorable conditions that entitles the person to receive the Armed Forces Expeditionary Medal, the Vietnam Service Medal, the Navy Expeditionary Medal, the Marine Corps Expeditionary Medal, or an equivalent expeditionary or service medal.

- A person honorably discharged due to a service-connected disability or hardship; or

- A person honorably discharged due to a reduction in the U.S. armed forces.

War periods, not including earlier conflicts for which no survivors remain, are designated as follows:

- World War II, between August 27, 1940, and July 25, 1947;

- Korean conflict, between June 27, 1950, and January 31, 1955;

- Vietnam War, between August 5, 1964, and January 1, 1977, excepting service on active duty for training purposes only;

- Persian Gulf War, between August 1, 1990, and the ending date of Operation Desert Shield or Operation Desert Storm as established by the Department of Veterans Affairs (DVA) by rule;

- Afghanistan War, between September 11, 2001, and the ending date of Operation Enduring Freedom or an operation that is a successor to Operation Enduring Freedom, as established by rule;

- Iraq War, between March 19, 2003, and the ending date of Operation Iraqi Freedom or an operation that is a successor to Operation Iraqi Freedom, as established by DVA by rule; or

- Any subsequent period that DVA determines and designates by rule, after reviewing the criteria used to establish the war periods above, and after consultation with the U.S. Department of Defense, to be a period when the United States is in a conflict that places persons at such a risk that the period should be designated as a war period.

Service in crisis zones includes the following:

- Service in Lebanon or Grenada, if the person was on active duty in Lebanon or its territorial waters under honorable conditions between August 1, 1982, and August 1, 1984, or in Grenada between October 23, 1983, and November 21, 1983, and was entitled to receive the Armed Forces Expeditionary Medal, the Marine Corps or Navy Expeditionary Medal, or was not entitled to receive either medal, but submits other acceptable proof of service to DVA.

- Service in a Middle East crisis if, because of active duty in the U.S. armed forces or forces incorporated as a part of U.S. armed forces, any of the following applies:

  - The person was awarded the Humanitarian Service Medal for participating in the attempt to rescue American hostages in Iran;
  - The person was awarded the valor ribbon bar by the U.S. Department of State for having been a hostage in Iran during the Iranian hostage crisis in 1980 and 1981;
  - The person participated in the April 14, 1986, military action against Libya;
  - The person served on the U.S.S. Stark on May 17, 1987;
  - The person served in support of Operation Desert Shield or Operation Desert Storm under all of the following conditions:

    - Under an active duty order or a unit assignment order in the Middle East or in waters adjacent to the Middle East;
    - Under honorable conditions; and
    - Between August 1, 1990, and the ending date of Operation Desert Shield or Operation Desert Storm, as established by DVA by rule.

  - The person served for 90 days or more in support of Operation Enduring Freedom or a successor operation, or served in the Operation Enduring Freedom theater under all of the following conditions:

    - Under an active duty order or a unit assignment order;
    - Under honorable conditions; and
    - Between September 11, 2001, and the ending date of Operation Enduring Freedom or an operation that is a successor to Operation Enduring Freedom, as established by DVA by rule.

- Service in Panama, if the person was on active duty in the U.S. armed forces in Panama or its territorial waters under honorable conditions between December 20, 1989, and January 31, 1990.

- Service in Somalia, if the person was on active duty in the U.S. armed services in Somalia or in territorial waters adjacent to Somalia under honorable conditions between December 9, 1992, and the ending date of Operation Restore Hope, as established by DVA by rule.

- Service in Bosnia or other regional locations, if the person served for 90 days or more in support of Operation Balkan Endeavor, under all of the following conditions:

  - Under an active duty order, or a unit assignment order;
  - Under honorable conditions; and
  - Between December 1, 1995, and the ending date of Operation Balkan Endeavor or a successor operation, as established by DVA by rule.

APPENDIX II

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

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