PROPERTY TAX DEFERRAL LOAN PROGRAM

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INTRODUCTION

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

A homeowner 65 years of age or older with total household income of no more than $20,000 may annually apply to the Division of Housing in the Department of Administration (DOA) for a loan equal to the amount of property taxes levied on the home. The maximum annual amount that may be borrowed is $1,800. Loans may be used to pay all or a portion of current property taxes due and may include any interest or penalties on delinquent property taxes. A co-owner must be 60 years of age or older, and, if a participant is married, the spouse must qualify as a co-owner. However, there is no minimum age requirement for a spouse if the spouse or participant is permanently disabled.

The principal and interest of 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. Then, the total loan, with interest, is repaid from the proceeds of the estate or sale of the property. The interest rate on loans received in 1993 is 8%.

The property tax deferral loan program is funded through two general fund appropriations, one for making loans ($550,500 in 1992-93) and one for administrative operations ($78,800 in 1992-93). In 1992, 464 individuals received $628,900 in loans averaging $1,355.

The following section provides background information on the program. Next, a summary of eligibility requirements and other current provisions of the property tax deferral loan program is presented. Finally, a description of the characteristics of 1992 program participants is presented. A history of the property tax deferral loan program is presented in Appendix I of this paper. Appendix II provides a detailed listing of the types of income included under the definition of household income.

BACKGROUND

According to 1990 census data, 23% of all households in Wisconsin were headed by individuals 65 years of age and older. Approximately 74% of the elderly population in Wisconsin live in their own homes. The property tax deferral loan program was created as a response to the needs of elderly homeowners who have resided in their homes for a substantial period of time and whose current incomes are insufficient to cover rising property taxes. Of the 417,907 elderly households in Wisconsin in 1990, 71.3% had income equal to or below $24,999.

Data from a special study conducted by the Department of Health and Social Services when the program was introduced indicated that elderly Wisconsin homeowners had a substantial amount of equity in their homes. These data indicated that over 46% of elderly homeowners had at least $20,000 in equity in their homes and that about 90% have no mortgage on their homes.

The need for the property tax deferral program was also based on arguments about special needs of the elderly. It was argued that many of the major items in the budget of an elderly person, such as energy or health care costs, had increased more rapidly than the general rate of inflation. Thus, even though social security benefits had been adjusted for inflation, such costs as energy and health care had grown more rapidly than the incomes of lower income elderly. It was believed that the financial pressures on low-income elderly made it difficult for them to afford the taxes and special assessments levied on their homes, as well as home maintenance and repairs. The property tax deferral program was viewed as a way to allow low-income elderly to convert their equity into increased cash income to pay these taxes and thereby remain in their own homes.

ELIGIBILITY REQUIREMENTS

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

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

Loan Purpose. The loan must be for property taxes due on a single family home, condominium or multi-unit dwelling (four or fewer units) in Wisconsin. The applicant may apply for a loan for all or part of the previous year's property taxes, payable in that year up to $1,800. For example, loan applications are filed in 1993 for 1992 taxes payable in 1993. Loans for less than $100 are not made except in special situations of financial hardship. Participants are liable for interest and penalty charges on delinquent taxes, but the principal amount requested may include the amount of these charges. In order to avoid late penalties, the applicant may pay the property taxes and then receive a reimbursement loan from DOA upon proof of payment and approval of the loan. If the property taxes have not yet been paid in full, DOA makes the loan check copayable to both the participant and the appropriate municipal treasurer. Property taxes on up to one acre of land surrounding the home may be included.

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

Outstanding Obligations. No more than $5,000 in outstanding liens, judgments, mortgages and delinquent property taxes may be filed against the property. Any previous loans under this program and loans under the housing rehabilitation loan program, administered by the Wisconsin Housing and Economic Development Authority, are excluded from the $5,000 limitation.

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

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

Application Deadline. Applications for property tax deferral loans must be filed with DOA by June 30 of the year in which the taxes are due. For example, applications must be filed by June 30, 1993, to receive a loan to pay 1992 property taxes (payable in 1993). Applicants may file for homestead or farmland preservation tax credits in addition to receiving a property tax deferral loan.

REPAYMENT OF THE LOAN

Upon entering the loan agreement, a lien in favor of DOA to secure repayment of the principal, interest and fees due on all loans made to the participant through the property tax deferral loan program (including loans made after the lien is filed) is attached to the dwelling unit on which the property taxes are paid. The lien reduces the equity or ownership value in the home by the amount of the loan(s) plus interest. The amount of home equity is determined by DOA by multiplying the assessed value of the home (which appears on the property tax bill) by the municipal assessment ratio to bring the assessed value of the home up to an equalized or full market value. The amount of home equity available is equal to the full market value minus any eligible outstanding liens on the property. The lien remains on the home until DOA receives payment in full on all loans and charges. Notice of the lien is filed with the county register of deeds.

Repayment of the loan will be 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 DOA that a participant or co-owner has made a false statement on the application or otherwise in respect to the program.

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

Revenue received from repayment of property tax deferral loans made after July 1, 1992, (principle and interest) is returned to the general fund. Loans received in 1993 will accrue interest at the rate of 8% annually. The Secretary of DOA annually sets the interest rate charged on property tax deferral loans. The Secretary is directed to set an interest rate which is sufficient to meet all expenses arising from the operation of the program and which will also recoup the maximum possible amount of interest forgone by the general fund without discouraging a reasonable rate of participation. The interest rate has been 8% since the program began in 1986.

Factors such as the initial property tax rate, growth in the property tax rate, rate of increase in home value (appreciation), and interest rate charged on loans all affect the number of years it will take for total loans (assuming successive loans) to exhaust the equity of the home on which the lien is secured. For example, if a recipient annually secures loans on a home which does not appreciate in value, with an initial property tax rate equivalent to 2.8% of value (28 mills) which increases 4% annually, the loans will exceed the value of the home equity in 15 years at an 8% interest rate. This scenario is close to the current statewide average of tax rates and tax rate increases. However, it has been argued that the value of elderly homeowners' property increases more slowly than average due to its location, or because it is usually older and may not be receiving needed repairs.

CHARACTERISTICS OF PARTICIPANTS

Following are five tables providing various data about program activity and program participants.

Table I shows the number of participants, total amount of loans received and the average loan amount received for each year since the property tax deferral loan program was instituted in 1986. Table I also shows the number and amount of loans repaid and the total number and amount of loans outstanding in each year. Since the program began, the number of participants has increased by 57.3% and the total amount of loans increased by 92.2%. The average loan amount has increased by 22.1% for the same period. Most of the loans issued each year are to continuing participants. Only 650 participants account for all 1,819 outstanding loans as of the end of 1992. Twenty-four percent of the 2,382 loans issued since the program's inception have been repaid.

TABLE I

Property Tax Deferral Loans
1986 to 1992

Year	Loans Issued Number	Loans Issued Total Amount	Loans Issued Average Loan Amount	Loans Repaid Number	Loans Repaid Amount*	Loans Outstanding At Year End Number	Loans Outstanding At Year End Amount*
1986	295	$327,200	$1,109	7	$12,200	288	$314,900
1987	298	354,800	1,191	62	64,300	524	605,400
1988	313	393,400	1,257	74	80,800	763	918,100
1989	311	394,800	1,269	107	136,500	967	1,176,300
1990	307	407,300	1,327	116	150,500	1,158	1,433,100
1991	394	541,800	1,375	111	150,400	1,441	1,824,500
1992	464	628,300	1,354	86	99,000	1,819	2,353,800
TOTAL	2,382	$3,047,600	$1,279	563	$693,700		

*Includes principal amounts only. Interest not shown.

Tables II through V provide descriptive information about the characteristics of the 1992 property tax deferral loan recipients. As Table II indicates, almost 72% of the loan recipients were between 65 and 79 years of age. The average age reported was 76 years of age.

TABLE II

Participant Age
1992 Loans

Age	Number of Participants	Percent of Participants
65-69	52	11.2%
70-74	163	35.1
75-79	118	25.4
80-84	87	18.8
85-89	33	7.1
90-94	9	2.0
95+	2	0.4
TOTAL	464	100.0%

The age distribution of loan recipients has increased since the program began. In 1986, 36.2% of loan recipients were under age 70. This percentage dropped to 27.2% in 1988, 14.9% in 1990 and 11.2% in 1992. In contrast, 13.0% of recipients were age 80 or older in 1986. This percentage increased to 19.8% in 1988, 22.8% in 1990 and 28.2% in 1992. This trend reflects the relatively limited growth in participation in the program since 1986 and the aging of continuing participants.

Table III indicates the distribution of reported household income among participants. Approximately 59% of the recipients reported a household income below $12,001. The average income reported was $11,657. Since the program began, there has been a slight increase in the average household income of recipients.

TABLE III

Household Income
1992 Loans

Household Income	Number of Participants	Percent of Participants
$0 to 3,000	2	0.4%
3,001 to 6,000	15	3.2
6,001 to 9,000	148	31.9
9,001 to 12,000	110	23.7
12,001 to 15,000	94	20.3
15,001 to 18,000	59	12.7
18,001 to 20,000	36	7.8
TOTAL	464	100.0%

Tables IV and V provide information on loan amounts and the fair market values of the dwelling units with outstanding liens from the property tax deferral loan program.

The number and percentage of participants receiving the maximum $1,800 loan increased from 40 participants (13.3% of the total) in 1986 to 68 participants (21.7% of the total) in 1988, and to 95 recipients (30.8% of the total) in 1990. As Table IV indicates, 166 recipients (35.8% of the total) received the maximum loan of $1,800 in 1992.

TABLE IV

1992 Loan Amounts

Amount of Loan	Number of Loans	Percent of Participants
Less than $200	3	0.6%
$200 to < 400	11	2.4
400 to < 600	19	4.1
600 to < 800	42	9.1
800 to < 1,000	40	8.6
1,000 to < 1,200	54	11.6
1,200 to < 1,400	42	9.1
1,400 to < 1,600	47	10.1
1,600 to < 1,800	40	8.6
1,800	166	35.8
TOTAL	464	100.0%

Table V indicates the distribution of fair market value of participants' dwelling units. Fair market values of participants' dwelling units ranged from $12,200 to $227,700. The average fair market value reported was $58,643. There has been a modest increase in the average value since the program began.

TABLE V

Fair Market Values of Dwelling Units
1992 Loans

Fair Market Value	Number of Properties	Percent of Total
Less than $20,001	8	1.7%
$20,001 to 30,000	48	10.3
30,001 to 40,000	63	13.6
40,001 to 50,000	63	13.6
50,001 to 60,000	81	17.5
60,001 to 70,000	74	15.9
70,001 and above	127	27.4
TOTAL	464	100.0%

Table VI indicates the number of program participants in each county in 1992. Participation has increased by 83% between 1990 and 1992 in Milwaukee County. The increase in participation may be the result of increased promotion and publicity about the program there.

TABLE VI

Participants by County 1992 Loans

County	Number of Participants	County	Number of Participants
Adams	1	Marathon	10
Ashland	0	Marinette	1
Barron	10	Marquette	2
Bayfield	1	Menominee	1
Brown	16	Milwaukee	137
Buffalo	1	Monroe	1
Burnett	2	Oconto	0
Calumet	3	Oneida	4
Chippewa	3	Outagamie	17
Clark	4	Ozaukee	8
Columbia	5	Pepin	1
Crawford	3	Pierce	1
Dane	22	Polk	5
Dodge	4	Portage	1
Door	1	Price	2
Douglas	9	Racine	16
Dunn	3	Richland	0
Eau Claire	7	Rock	15
Florence	2	Rusk	4
Fond du Lac	13	Sauk	1
Forest	1	Sawyer	0
Grant	0	Shawano	1
Green	3	Sheboygan	6
Green Lake	1	St. Croix	2
Iowa	0	Taylor	2
Iron	2	Trempealeau	1
Jackson	1	Vernon	1
Jefferson	5	Vilas	1
Juneau	1	Walworth	6
Kenosha	17	Washburn	3
Kewaunee	1	Washington	3
La Crosse	9	Waukesha	41
LaFayette	0	Waupaca	3
Langlade	1	Winnebago	6
Lincoln	2	Wood	2
Manitowoc	5	TOTAL	464

APPENDIX I

History of the Property Tax Deferral Loan Program

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

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

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

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

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

In the 1991-93 budget adjustment bill (1991 Wisconsin Act 269), administration of the program was transferred from DOR to the Division of Housing in DOA effective July 1, 1992. Act 269 also required that the balance in the program's trust fund ($1,147,047) be transferred to the state's general fund on July 1, 1992. A 1992-93 appropriation of $550,000 was provided for funding new loans, and a separate 1992-93 appropriation of $78,800 was authorized for administrative costs of the program. One, half-time position that had been funded from the program's trust fund was converted to general fund revenues and transferred to DOA, also effective July 1, 1992.

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

APPENDIX II

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

- Sum of Wisconsin adjusted gross income
- Maintenance payments (except foster care maintenance and supplementary payments excludable under section 131 of the Internal Revenue Code)
- Support money
- Cash public assistance and general relief (not including amounts granted under s. 46.27 of the statutes)
- Gross amount of any pension or annuity
- Railroad retirement benefits
- Social security payments
- Veterans disability pensions
- Interest on United States securities
- 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
- Contributions to simplified employe pension (SEP), Keogh and deferred compensation plans
- Net operating loss carry-forwards
- Capital loss carry-forwards