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Senate Committee on Housing, Commerce and Trade

Testimony from Rep. William Penterman in favor of passage of SB 877

Thank you Chairman Jagler and members of the Senate Committee on Housing, Commerce and Trade for the opportunity to testify on Senate Bill 877.

Wisconsin is in the midst of a growing workforce housing shortage. According to the 2019 Wisconsin Relators Association report titled *Falling Behind: Addressing Wisconsin's Workforce Housing Shortage*, since 2012, Wisconsin has created 75% fewer lots and 55% fewer new homes than pre-recession averages.

This scarcity has been further compounded by a series of other factors. The National Association of Home Builders estimates that excessive and outdated regulations add an average of \$93,870 to the final price of a home – or increase the total by approximately 23.8 percent. Rents are also growing faster than incomes, and the cost of construction materials is increasing.

As a result, Wisconsin's median age for first-time home buyers has risen to 33. The state is also running a migration deficit with individuals aged 20-24 and has a lower homeownership rate for households ages 25-34 and 35-44 than all neighboring states, except Illinois.

This bill is part of a larger legislative package to provide safer, more affordable housing options across the state.

SB 877 would create a low-interest or no-interest loan program for the rehabilitation of certain residential properties. Covered uses under the bill include improvements to the home that allow for it to remain in a safe and sanitary condition. Improvements can include structural repairs, the removal of lead paint, replacing heating, electrical, or plumbing systems, or repairing or replacing insulation or siding.

I ask the members of this committee to support this common sense bill. Thank you for your time and I would be happy to answer any questions you may have.



To: Members, Wisconsin Senate Committee on Housing, Commerce and Trade

From: Tom Larson, WRA Executive Vice President and NAIOP-WI lobbyist

Date: February 3, 2022

Re: SB 877/AB 607 – WHEDA Workforce Housing Rehabilitation Loans

The Wisconsin REALTORS® Association (WRA) supports SB 877/AB 607, legislation seeking to increase the supply workforce housing in Wisconsin by authorizing WHEDA to offer low-interest or no-interest rehabilitation loans to update older housing stock.

Background

Wisconsin employers are having difficulty recruiting workers to fill thousands of job openings due to a shortage of affordable housing options for workers. With statewide housing inventory levels at historic lows, median home prices continuing to rise, and apartment rent increases outpacing wage growth, Wisconsin has a major workforce housing shortage problem. Unless this workforce housing problem is fixed, Wisconsin will be unable to keep and attract the skilled workers necessary for our economy to thrive.

Older, existing homes are often the primary source of workforce housing in Wisconsin. Specifically, over 65% of all housing units in Wisconsin were built before 1980. In Milwaukee, the number of housing units constructed before 1980 jumps to 92%.

In many communities, this older housing is often in poor condition and in need of repair. However, the owners of these homes often do not have the financial resources to make the necessary updates to these homes. Moreover, the rehabilitation of older housing stock is more expensive and higher risk than building new housing due to environmental issues (lead paint, radon, asbestos, etc.), energy inefficiencies (windows, doors, insulation), and outdated mechanical systems (plumbing, electrical, heating/cooling).

This Legislation

SB 877/AB 607 attempts to update Wisconsin's older housing stock and revitalizes older neighborhoods by authorizing the Wisconsin Housing and Economic Development Authority (WHEDA) to make low-interest or no-interest rehabilitation loans to invest in Wisconsin's older housing stock. Specifically, SB 877/AB 607 authorizes WHEDA to make low-interest or no-interest loans for the rehabilitation of residential properties if ALL the following apply:

- Applicant's household **income does not exceed 120% of county median household income**
- Applicant's home is a **single-family residence constructed before 1980**
- Applicant agrees to **repay loan upon sale or title transfer**

We respectfully request your support for SB 877/AB 607. If you have questions or need additional information, please contact us.

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TO: Members of the Senate Committee on Housing, Commerce and Trade
FROM: WHEDA
RE: Senate Bill 877 (Workforce Housing Rehabilitation Loan Program)
DATE: February 3, 2022

The Wisconsin Housing and Economic Development Authority (WHEDA) appreciates the opportunity to share with you some concerns related to Senate Bill 877.

Under SB 877, WHEDA is authorized to make low-interest or no-interest loans to income-eligible applicants for the rehabilitation of their home if certain conditions are met. The loan is not repaid until the applicant vacates the homes or sells/transfers title to the home, allowing any interest to accrue over time.

The loans authorized under SB 877 would function much like reverse equity mortgages with no principal repayment due until the end and interest continuing to grow. What might seem like a good deal at the time of loan origination can become a heavy financial burden when loan payment comes due upon the sale of the home. To quantify this using an example, homeowners who take out a **\$20,000** rehabilitation loan with 3% interest would owe **\$26,000** with simple interest when they sell their home ten years later. There are also collection concerns if the homeowner ends up underwater. It is difficult and often not cost-effective to enforce a second mortgage. In such cases, it often prevents the homeowner from selling and could trigger a foreclosure by the first mortgage holder to clear title to the home.

Another concern is the source of the capital. WHEDA cannot borrow at reasonable rates when the loan does not have a repayment schedule. Under the legislation, the loan is repaid upon sale/transfer of title to the home or when the home is vacated by the borrower - a time uncertain at the time the loan was taken.

Thank you for your consideration of the concerns raised above.

If you have any questions, please contact Kim Plache, WHEDA Interim Executive Director, at Kim.Plache@WHEDA.com or at (262) 412-4123.