

**Wisconsin Housing and
Economic Development Authority**

Wisconsin Legislative Fiscal Bureau

January, 2009

Wisconsin Housing and Economic Development Authority

Prepared by

Paul Ferguson

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

TABLE OF CONTENTS

Introduction.....	1
Chapter 1: Background	
History	2
Authority Financing.....	3
Chapter 2: WHEDA Housing Programs	
Housing Programs Financed by Bond Revenues.....	9
Housing Programs Financed by Unencumbered General ("Surplus") Reserves.....	11
Housing Programs Financed by Federal Funds.....	14
Chapter 3: WHEDA Economic Development Programs	
Loan Subsidy Programs.....	17
Guarantee Programs	18
Federal Programs.....	27
Appendices	
Appendix I: Proposed Allocation of WHEDA Unencumbered General Reserves.....	29
Appendix II: Estimated Median Household Income by County	30
Appendix III: Homeownership Mortgage Loan Program Target Areas	31
Appendix IV: Homeownership Mortgage Loan Program Bonding and Loan Activity	32
Appendix V: Home Improvement Loan Program Bonding and Loan Activity	35
Appendix VI: WHEDA Programs -- Summary Information.....	36

Wisconsin Housing and Economic Development Authority

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, Sections 7 and 10, of the Wisconsin Constitution. 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 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, 2008, the Authority had 175.8 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.

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 the Secretary of the Department of Commerce (or designee), the Secretary of the Department of Administration (or designee), and one senator and representative of each political party, appointed as are members of other standing committees. In addition, under section 234.02(3) of the statutes the Governor appoints one of the public members for a one-year term as chairperson and appoints the Executive Director of the Authority, with Senate consent, to a two-year term. The Board meets monthly 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. In addition, 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. Further, 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. Finally, 1997 Act 27 created a loan guarantee program for brownfields remediation. This program was subsequently repealed in 1999 Act 9 after no loans had been guaranteed.

Other housing programs begun in Wisconsin have both transferred to WHEDA and 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: (1) provide state funds for housing grants and loans through local organizations; (2) obtain and distribute federal housing funds; (3) coordinate housing programs and activities of state and local agencies; and (4) 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 handicapped homeless. DOA also became the designated agency for administering most of the other federally funded housing programs. In 2003, how-

ever, 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 have since been redeemed (in August 1991) so that no bonds from those two issues remain outstanding. 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.

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."

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 the use of general fund monies that are available after setting aside required reserves and funding for the Authority's 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 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 experiences a deficit in its capital reserve fund, 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).

As indicated in Table 1, the Authority completed the 2007-08 fiscal year with assets and reserves exceeding liabilities by almost \$512 million. However, of this balance, approximately \$342 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 \$170 million indicated in Table 1 represents the balance in the Authority's general reserve fund for 2007-08. The statutes require WHEDA to establish a general reserve fund but provide discretion as to how the assets of the fund are used. Under this authority, out of this general reserve balance, Table 1 shows that WHEDA

Table 1: WHEDA Combined Balance Sheet, June 30, 2008

*Assets and reserves (cash; investments; loans and interest receivable; other)	\$3,954,610,000
Liabilities (bonds, notes and interest payable; escrow deposits; other)	<u>-3,442,859,000</u>
Total restricted and unrestricted reserves	\$511,751,000
Less restricted reserves for bond resolutions, administered funds	<u>- 342,150,000</u>
General reserve fund balance	\$169,601,000
Less encumbered for housing and economic development activities	- 138,102,300
Less encumbered for WHEDA operations	<u>- 23,498,300</u>
Unencumbered general reserves (or "surplus") available for 2008-09 "Dividends for Wisconsin" plan	\$8,000,400

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

encumbered \$138.1 million for targeted single- and multifamily housing programs and economic development programs in 2007-08. An additional \$23.5 million was encumbered for WHEDA operations. After these amounts were set aside, a total of \$8 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 2008-09 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, 2008, WHEDA had issued approximately \$9.2 billion in bonds and some notes for all of its programs. Approximately \$3.2 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.

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	446,565,200
1989	156,554,700
1990	265,130,000
1991	198,630,000
1992	438,970,000
1993	252,400,000
1994	173,615,000
1995	365,920,000
1996	301,490,000
1997	255,000,000
1998	376,680,000
1999	321,015,000
2000	235,785,000
2001	285,965,000
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*	<u>246,155,000</u>
Total	\$9,175,121,000

*Through June 30.

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 the HOME program and multifamily housing loans, state statutes limit the amount of bonds that 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 to secure low-cost mortgage financing. It is usually referred to as the HOME program, although it has no relation to the federal HOME programs currently administered by the Wisconsin Department of Commerce.

At various times in its history, this 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, 2008, approximately \$7.3 billion of general corporate purpose revenue bonds were issued for this program, of which \$2.7 billion was outstanding.

On October 1, 2008, WHEDA suspended rate locks for new borrowers under the HOME program, which was the first such suspension in the program's history. WHEDA officials report that a

severe tightening of credit in the United States and elsewhere would have forced the Authority to raise interest rates to levels undesirable for first-time home buyers served by the program. As of January 1, 2009, WHEDA had not resumed lending in the HOME program.

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, 2008, approximately \$1.45 billion of general corporate purpose revenue bonds were issued for these purposes, of which \$526 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, known as the home improvement 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, and the loan program was suspended in April, 2008.

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, 2008, the program had \$3.1 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. As of June 30, 2008, the Authority had \$4.2 million in outstanding economic development loans that carry WHEDA's general obligation.

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: (1) 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; (2) by collecting fees, such as loan origination fees and mortgage servicing fees, for the services it performs; and (3) by investing its reserves to produce income. Table 3

provides an overview of the last six years of WHEDA's general and administrative expenses. Authority officials indicate the larger amount of expenditures in 2003-04 was due to: (a) a \$2.1 million unpaid sick leave liability paid to the state; (b) \$1.1 million in legal fees related to a lawsuit; and (c) \$0.5 million in unexpected health care premiums. 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

2002-03	\$15,209,000
2003-04	19,522,000
2004-05	16,221,000
2005-06	16,530,000
2006-07	18,496,000
2007-08	19,620,000

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 \$8 million was available for this fund at the close of the 2007-08 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: (1) concur in the standing committee objections; (2) approve the plan or modified plan notwithstanding standing committee objections; or (3) 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: (1) match federal funds available under the McKinney Homeless Assistance Act; (2) match federal funds available under the home investment partnership program; and (3) 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 \$8 million in 2007-08 unencumbered general reserve funds for WHEDA's 2008-09 "Dividends for Wisconsin" plan.

WHEDA HOUSING PROGRAMS

Housing programs under the responsibility of WHEDA are financed through several mechanisms. These include: (1) proceeds from the sale of revenue bonds; (2) unencumbered or "surplus" reserves; and (3) federal funds. The following descriptions of WHEDA housing programs are arranged according to these funding sources.

Housing Programs Financed by Bond Revenues

Home Ownership Mortgage Loan Program (HOME)

The home ownership mortgage loan (HOME) program provides first mortgage loans to low- and moderate-income households in Wisconsin. This program was created in Chapter 349, Laws of 1981, and should not be confused with the federally-funded home investment partnership program administered by Commerce, which also uses the acronym HOME. A principal eligibility criterion for the WHEDA HOME program is household income. As specified in 2005 Act 75, the 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 2008 median household income by county.) Act 75 also specifies that WHEDA may not make a HOME loan to an individual who does not have 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. Again, 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: (1) generally, the borrower must not have owned a home during the previous three years; (2) the property must be either a duplex, a single-family home, a condominium unit or an existing three- or four-unit residential structure at least five years old; (3) the property must be used as the principal residence of the borrower; and (4) the selling price cannot exceed specified limits which vary both by type of home purchased and location.

Other features of the HOME program include the following: (1) loans generally are for a term of 30 years with no prepayment penalty and a fixed interest rate; (2) loans may be used for financing new construction, purchasing existing housing or major rehabilitation of existing housing; and (3) loans may not be used for refinancing purposes, except for construction loans, temporary initial financing or major rehabilitation loans.

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

HOME loan for major rehabilitation: (1) the property must be either a single-family residence or a duplex; (2) the home must have been occupied as a dwelling for at least 20 years; (3) after completion of the rehabilitation, at least 50% of the external walls must remain as external walls; (4) the cost of the rehabilitation must be at least 33% of the purchase price of the residence; and (5) 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. In 2007, 10 HOME loans, or approximately .2%, were made for rehabilitation.

Since the inception of the program through June 30, 2008, the Authority has made over 108,800 HOME loans totaling almost \$6.8 billion. In 2007, the Authority made 4,705 HOME loans totaling over \$522 million with the average loan being approximately \$111,000. On October 1, 2008, WHEDA temporarily suspended new lending under the HOME program for the first time in the program's history. WHEDA officials report that a severe tightening of credit in the United States and elsewhere increased the Authority's cost of borrowing, which would have forced the Authority to raise interest rates to levels undesirable for first-time home buyers served by the program. As of January 1, 2009, WHEDA had not resumed lending in the HOME program. Appendix IV contains information on HOME program activity.

Home Improvement Loan Program (HILP)

HILP closed to new borrowers and was suspended in April 2008. HILP provided below-market-rate loans to low- and moderate-income households to repair their homes or to improve their homes' energy efficiency. The annual household income limit under the program was 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 could increase

or decrease the income limit by 10% for each person greater or less than four. Eligible properties included residential structures containing four dwelling units or fewer. Mobile homes and properties to be used in a trade or business were ineligible. Further, the borrower was required to be both the owner and occupant of the property.

Home improvement loans have a maximum term of 15 years. The program formerly had a \$17,500 maximum loan amount, which 2005 Act 75 eliminated. 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. Most fireplace construction and landscaping 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 2008, WHEDA had not made another transfer to the state's general fund. No transfer is planned by WHEDA in 2008-09, as WHEDA officials indicate the administration fund has not produced a surplus. This is due to: (a) loans that closed prior to the suspension still drawing on lines of credit; and (b) WHEDA collecting less in prepayments after the suspension of new loans.

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. WHEDA officials indicate the Authority discontinued the program for two primary reasons, one of which was loan volume that did not meet expectations. Further, home improvement

loans did not require a borrower to have any equity in his or her home. WHEDA officials became concerned that broad declines in property values that began in 2007 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. Appendix V provides information on home improvement loans since the program's inception.

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. Mortgage insurance is generally required by lenders seeking to limit potential losses on unconventional or risky loans, such as loans made without a down payment, as these are considered to be more prone to default. 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. As of June 30, 2008, WHEDA had 1,769 loans for a total value of \$213 million outstanding in the Zero-Down Program.

Partnership Neighborhood Initiative

WHEDA began the Partnership Neighborhood Initiative (PNI) in 2006 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 funded the program with excess yields from issues of tax-exempt mortgage revenue bonds. Grants from the

Affordable Housing Program of the Federal Home Loan Bank of Chicago also assisted applicants with down payments and closing costs in amounts up to \$4,000.

WHEDA suspended PNI in September, 2008, as credit conditions deteriorated and interest rates increased. WHEDA officials indicate as of January, 2009, that there were no plans to resume lending under PNI.

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. As of November 30, 2008, the interest rate on loans made from tax-exempt bonds was 7.862%.

Since the inception of the program in 1974 through June 30, 2008, WHEDA has issued \$1,453,960,000 in general corporate purpose revenue bonds for multifamily housing. Table 4 provides multifamily loan activity information for the past decade.

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

Table 4: Multifamily Loan Fund

Calendar Year	Number of Loans	Amount of Loans	Units Assisted*	Average Loan Per Unit
1999	29	\$39,375,000	1,128	\$34,907
2000	27	34,451,900	799	43,119
2001	33	51,507,800	2,105	24,469
2002	39	103,000,700	2,329	44,225
2003	28	59,156,300	1,639	36,093
2004	34	58,493,900	1,526	38,332
2005	47	75,011,800	2,600	28,851
2006	42	83,026,612	2,479	33,492
2007	41	91,488,304	1,974	46,347
2008**	<u>31</u>	<u>64,581,321</u>	<u>1,146</u>	<u>56,354</u>
Total	351	\$660,093,637	17,725	\$37,240

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

** Through June 30.

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.

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, 2008, 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, 2008, almost \$1.7 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 \$40.6 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) \$16.55 million for preserving low-income rental housing; (c) \$2.75 million for the Housing Preservation Initiative, which funds rehabilitation, refinancing of current debt, and other activities to preserve housing within Wisconsin; (d) \$11.9 million from bond refinancing savings for loans to very low-income households; (e) \$5.5 million to subsidize interest rates on multifamily project loans; (f) \$2.7 million for support of multifamily housing revenue bonds; and (g) approximately \$250,000 from administration of each of the federal HUD Housing Choice Voucher and Moderate Rehabilitation programs, which is reserved for use within each program.

Table 5 indicates the funding allocated from the general reserve fund surplus revenues that is set aside for the multifamily housing program.

Easy Close Program

Before its suspension by WHEDA in April of

Table 5: Surplus Reserves for Multifamily Housing Programs 1992-93 through 2007-08

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	<u>257,914</u>
Total	\$111,650,205

2002, the HOME Easy Close Program was allotted \$2,248,400 of WHEDA's unencumbered general reserves. 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.

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 offers loans up to \$10,000 at a fixed interest rate for a 15-year term. Properties must be at least 10 years old, and initial draw requests on the credit line for meeting down payment and closing costs cannot exceed 5% of the home's purchase price. WHEDA made 1,356 HOME Plus loans totaling \$12,916,767 in 2007, and 319 loans totaling \$2,974,305 through April, 2008.

WHEDA began a new Easy Close Program in March, 2008, and suspended HOME Plus in April, 2008. The new Easy Close offers loans up to \$4,000 for down payments and closing costs. Borrowers may not have more than \$7,000 in liquid assets to

be eligible for a loan. WHEDA has made 347 loans for a total of \$1,388,000 under the new Easy Close.

Lease-Purchase Program

Although the Lease-Purchase Program has not been offered since 2006, 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.

WHEDA Foundation Grant Program

In 1983, the Authority created the Wisconsin Housing Finance Authority (WHFA) Foundation, later renamed the WHEDA Foundation, a non-profit 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 November, 2008, \$19.1 million has been awarded. In 2008, the WHEDA Foundation awarded \$1,000,000 to 50 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 administer-

ing the program in 1994, WHEDA has utilized these revenues to provide 3,459 loans totaling \$6.6 million. WHEDA funded 78 loans for a total of \$159,040 in 2008, which paid participants' property taxes due for 2007. The average loan was \$2,039. A more complete discussion of this program may be found in the Legislative Fiscal Bureau informational paper entitled, "Property Tax Deferral Loan Program."

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 \$20.3 million since 2001-02 have gone to both the state general fund and other state agencies that administer housing grants and loans. Agency transfers generally offset equivalent amounts of GPR funding for these purposes that had been otherwise reduced. Table 6 lists transfers from WHEDA's unencumbered reserves as required by recent budget acts or budget adjustment acts.

Table 6: 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	<u>3,000,000</u>
Total		\$20,325,000

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 the development and/or rehabilitation of low-income rental housing. The Authority must set aside 10% of each year's allocation of credits for projects sponsored by qualified non-profit organizations. By executive order of the Governor, WHEDA has been responsible for dispersing the state's annual allocation, which is approximately \$42 million in tax credits for qualifying low-income rental units in 2009 and approximately \$44 million for 2010. Total state allocations are \$1.75 per resident as of 2003, but the figure adjusts annually for inflation. 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 federal Emergency Economic Recovery Act of 2008 allocated an additional \$30 million for disaster relief efforts after severe flooding in parts of Wisconsin in mid-2008. Table 7 indicates the amount of federal tax credits applied in this state since the program's inception and the number of low-income housing projects and units funded.

The three categories of eligible projects are: (1) new construction or rehabilitation of existing housing when rehabilitation expenditures are at least \$3,000 per unit or 10% of the value of the project's depreciable assets, whichever is greater; (2) new construction or rehabilitation financed by a subsidized federal loan or a tax-exempt bond; and (3) acquisition costs of existing housing, including rehabilitation work of at least \$3,000 per unit or 10% 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

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	<u>11,389,965</u>	<u>30</u>	<u>1,356</u>	<u>8,400</u>
Total	\$194,150,986	1,023	39,326	\$4,937

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.

Several restrictions remain in place for 15 years after receiving a tax credit. 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 qualify-

ing 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.

Housing Choice Voucher Program

Under this federal program, formerly known as the Family Self-Sufficiency Housing Voucher Program, WHEDA was budgeted 1,263 vouchers per month for January through March, 2008. The allocation increased to 1,279 vouchers per month for April through December, 2008, and total federal assistance for 2008 is \$5,072,300. This amount goes to low-income households in 37 counties in the state. The program requires families that are eligible for federal rental vouchers under the federal Public Housing Act's Section 8 program to develop a financial plan leading to economic independence at the end of a contract period. Eligibility for a rental voucher, and thus the self-sufficiency program, 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 Stabilization Program

The federal government created the Neighborhood Stabilization Program (NSP) within HUD as part of the Housing and Economic Recovery Act enacted in July, 2008. The program is intended to

provide emergency assistance for redevelopment of abandoned and foreclosed homes and residential properties.

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. As of December, 2008, WHEDA plans to use \$4 million to support a loan loss reserve escrow account to assist qualifying borrowers with the purchase, rehabilitation, and occupation of foreclosed or abandoned single-family homes. WHEDA would use the remaining \$1.8 million to provide permanent interest-rate buy downs on mortgages for qualifying homebuyers.

Commerce anticipates HUD approval of the Wisconsin NSP allocation plan in January, 2009. Commerce also anticipates NSP funds will be available for distribution to local governments in the spring of 2009. Funds would have to be spent by grantees during 2009 and 2010.

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 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 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: (1) the business is more than 50% owned or controlled by minority group members or women; (2) the gross annual sales of the business are less than \$500,000; (3) the business employs 25 persons or fewer at the time of application; (4) the loan proceeds will be used to purchase or improve land, buildings, and/or equipment located in the state; and (5) 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 2008-09 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.

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. Under the program, WHEDA is allowed

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*	<u>5</u>	<u>294,300</u>
Total	223	\$12,044,411

*Through June 30.

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 may finance activities to increase the number of flights to and from the airport or to encourage airlines that do not offer flights to and from the airport to offer such flights. As of December, 2008, WHEDA had not issued any loans under the program.

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.

As of June 30, 2008, WHEDA had issued \$8,641,800 in bonds and made 68 loans to beginning farmers. Total loan value for the program was \$10,179,500. A total value of \$3,135,500 in bonds was still outstanding. WHEDA staff indicates that in recent years beginning farmers eligible for this program have instead 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. Loans totaling \$166,898,000 have been issued through the BDB program, \$93 million of which carried WHEDA's general obligation. As of June 30, 2008, of the \$93 million in loans that had WHEDA's general obligation, \$4.2 million were outstanding.

Guarantee Programs

The Authority also 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: the agricultural production loan fund (CROP fund), the drought assistance and development loan fund, and 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, 2008, approximately \$33.5 million in loan guarantees were outstanding, leaving \$16 million in guarantee authority remaining.

The consolidated reserves available in the

Table 9: WHEDA Loan Guarantee Program Authority as of June 30, 2008

Loan Guarantee Program	Amount Outstanding	Loans Made	Loans Defaulted	Default Rate
Agribusiness	\$592,516	31	5	16.1%
CROP	13,191,871	14,681	192	1.3
FARM	5,719,651	278	8	2.9
Small Business	13,650,711	353	15	4.2
Discontinued Programs	<u>327,334</u>	<u>---</u>	<u>---</u>	<u>---</u>
Total	\$33,482,083	15,343	220	1.4%

WDRF were approximately \$10.3 million on June 30, 2008, 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, 2008, the actual leverage factor was 4.8:1 for available guarantee authority. Further, based on actual loan guarantee activity through June, 2008, WHEDA has a 3.24:1 ratio. That is, for every \$3.24 in outstanding loans actually 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 \$10.3 million as of June 30, 2008, which is below the statutory requirement of \$11 million. The WDRF effective guarantee maximum is therefore \$46.4 million (rather than the \$49.5 million authorized level) as of June 30, 2008. Table 10 shows the condition of

Table 10: Wisconsin Development Reserve Fund Condition

	2003-04	2004-05	2005-06	2006-07	2007-08
Opening Balance	\$12,287,100	\$11,759,400	\$11,640,600	\$10,994,900	\$10,711,200
Revenues	364,900	647,200	519,000	917,800	877,130
Expenses	<u>892,600</u>	<u>766,000</u>	<u>1,164,700</u>	<u>1,201,500</u>	<u>1,249,300</u>
Closing Balance	\$11,759,400	\$11,640,600	\$10,994,900	\$10,711,200	\$10,339,000

the WDRF since 2003-04.

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. In addition, the Authority continues to service and maintain loans backed by the WDRF under previous loan guarantee programs, for which statutory authority for issuing additional guarantees has ended.

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. WHEDA announced in December, 2008, that the maximum loan amount under CROP will be 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, and as of November, 2008 is set at the prime lending rate plus one percentage point. If this rate exceeds 10%, WHEDA uses monies in the WDRF to subsidize each loan by paying 2% of the loan principal to the

lender. WHEDA also deposits to the WDRF revenues from an application fee of \$300 for aggregate loan amounts of less than \$40,000, and \$500 for aggregate loan amounts of \$40,000 and greater.

To be eligible for CROP, Wisconsin farmers must meet four conditions: (1) 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; (2) the amount of the farmer's debts totals at least 40% of the amount of the farmer's assets; (3) 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 (4) 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 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, 2008, WHEDA had 373 outstanding guarantees totaling \$13,191,900. Table 11 provides information on the CROP program for each year that the program has been in 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

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*	329	14,159,979	43,039	N.A.
Total	27,429	\$425,900,888	\$15,527	N.A.

*Through June 30.

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 finance: (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. 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, 2008, 278 loans with guarantees worth \$15.4 million had been made. Outstanding guarantees totaled \$5,719,700. Table 12 provides information on the history of 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	1,189,101	56,624
1998	10	1,578,000	394,500	39,450
1999	33	5,780,519	1,445,130	43,792
2000	39	7,840,833	1,746,414	44,780
2001	26	6,773,216	1,457,364	56,052
2002	26	7,338,251	1,631,063	62,733
2003	24	4,662,878	1,100,220	45,843
2004	25	6,477,289	1,597,490	63,900
2005	22	5,394,254	1,227,276	55,785
2006	23	6,162,945	1,431,736	62,249
2007	15	6,299,167	1,415,638	94,376
2008*	<u>15</u>	<u>6,198,843</u>	<u>1,355,486</u>	<u>90,366</u>
Total	284	\$69,642,600	\$16,081,418	\$56,625

*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 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, 2008, WHEDA is guaranteeing \$327,300 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, 2008, WHEDA has guaranteed 360 loans for \$37.6 million.

Under section 234.83(4) of the statutes, individual loans for fixed assets, permanent working capital and inventory may be guaranteed

Table 13: Small Business Loan Guarantee Program

Calendar Year	Number of Loans Guaranteed	Guarantee Amount	Average Guarantee Amount
1997	6	\$561,290	\$93,584
1998	30	2,604,087	86,803
1999	32	3,215,980	100,499
2000	52	5,560,364	106,930
2001	33	3,160,116	95,761
2002	38	4,966,512	130,698
2003	22	2,974,271	135,194
2004	25	2,400,749	96,030
2005	25	2,529,165	101,167
2006	41	4,544,915	110,852
2007	39	4,025,246	103,211
2008*	<u>17</u>	<u>1,084,261</u>	<u>63,780</u>
Total	360	\$37,626,956	\$104,519

*Through June 30.

at 80% or \$200,000, whichever is less. Revolving working capital may be guaranteed at the lesser of 80% or \$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 and were estimated as \$19,500 in 2007 and \$23,400 in 2008 (through June 30).

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 authority to guarantee up to 90% of principal loan amounts but currently guarantees 80% of loans or \$600,000, whichever is less. 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 term is 15 years for fixed assets or seven years for inventory and permanent working capital. 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 \$1,000 in 2007 and \$1,300 for 2008 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 2007 and \$6,000 for the first half of 2008 (through June 30), and 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.

WHEDA has authority under this program to guarantee loans up to \$5,000,000 in total principal amount. As of June 30, 2008, \$592,500 in guarantees was outstanding. Table 14 portrays annual program activity.

Table 14: Agribusiness Loan Guarantee Program

Calendar Year	Number of Loans Guaranteed	Guaranteed Amount
1991	5	\$1,170,750
1992	5	1,757,500
1993	4	467,360
1994	1	178,500
1995	1	450,000
1996	0	0
1997	0	0
1998	2	1,200,000
1999	0	0
2000	1	600,000
2001	2	164,640
2002	2	478,580
2003	0	0
2004	2	699,846
2005	0	0
2006	0	0
2007	2	482,400
2008*	<u>0</u>	<u>0</u>
Total	27	\$7,649,576

*Through June 30.

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 (a) eliminate interest on the loan, (b) defer payment of \$6.5 million in principal until January, 1999, and (c) require principal payments over a 20-year period on \$1.1 million.

A large portion of the Commission 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 \$492,200 on the remaining \$1,122,200 in disbursements, with \$630,000 in guaranteed principal remaining outstanding on June 30, 2008.

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 2008, 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 and the contractors 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% or \$750,000 of principal 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 and two years for a loan for 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 totaling \$11,000 were collected related to this program in 2007, and revenues totaling \$9,400 were collected in the first half of 2008 (through June 30).

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	5	2,329,665
2005	2	1,312,489
2006	4	1,358,271
2007	2	998,199
2008*	<u>1</u>	<u>546,329</u>
Total	18	\$8,469,951

*Through June 30.

Contractors Loan Guarantee Program. Under this program, 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 two loans under this program: (1) for \$100,000 in 2005 at an 80% guarantee; and (2) for \$242,000 in 2006 also at 80%.

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 three NMTC allocations: (1) \$100 million in 2004; (2) \$120 million in 2007, of which \$60 million had been allocated as of June 30, 2008; and (3) \$100 million in 2008. As of January 1, 2009, WCDLF was forming an allocation plan for the 2008 award.

APPENDICES

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

- Appendix I details the 2008-09 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 2008-09

Activity	Amount
Home Ownership	\$1,900,000
Multifamily Housing	1,500,000
Small Business and Economic Development	150,000
Housing Grants and Services	1,450,389
Commerce Housing Grants and Loans*	<u>3,000,000</u>
Total	\$8,000,389

*2007 Act 20 requires WHEDA's 2008-09 "Dividends" plan to provide \$3,000,000 to the Department of Commerce for housing-related grants and loans.

Source: WHEDA 2008-09 "Dividends for Wisconsin" plan submitted September, 2008.

APPENDIX II

Estimated 2008 Median Household Income by County

County	Median Income	County	Median Income
Adams	\$46,800	Marathon	\$64,000
Ashland	47,600	Marinette	50,800
Barron	52,200	Marquette	49,000
Bayfield	47,700	Menominee	33,900
Brown	62,900	Milwaukee	67,700
Buffalo	52,800	Monroe	52,900
Burnett	48,300	Oconto	56,100
Calumet	68,600	Oneida	53,100
Chippewa	59,900	Outagamie	68,600
Clark	49,300	Ozaukee	67,700
Columbia	63,600	Pepin	54,100
Crawford	49,600	Pierce	80,900
Dane	77,600	Polk	58,300
Dodge	60,800	Portage	65,100
Door	58,200	Price	50,900
Douglas	58,900	Racine	64,600
Dunn	57,000	Richland	50,200
Eau Claire	59,900	Rock	63,500
Florence	48,500	Rusk	45,900
Fond du Lac	62,500	Sauk	58,900
Forest	47,300	Sawyer	46,800
Grant	52,600	Shawano	52,700
Green	60,600	Sheboygan	64,000
Green Lake	56,700	St. Croix	80,900
Iowa	60,300	Taylor	55,500
Iron	44,100	Trempealeau	54,700
Jackson	52,800	Vernon	49,200
Jefferson	62,400	Vilas	49,100
Juneau	49,800	Walworth	64,800
Kenosha	68,700	Washburn	48,600
Kewaunee	62,900	Washington	67,700
La Crosse	63,400	Waukesha	67,700
Lafayette	52,700	Waupaca	58,600
Langlade	49,900	Waushara	51,400
Lincoln	57,500	Winnebago	64,400
Manitowoc	62,000	Wood	59,600

Source: U.S. Department of Housing and Urban Development, 2008.

APPENDIX III

Homeownership Mortgage Loan Program (HOME)

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

<u>Entire Counties</u>			<u>Entire Municipalities</u>
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

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

APPENDIX IV

Homeownership Mortgage Loan Program (HOME) Bonding Activity (as of June 30, 2008)

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
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

APPENDIX IV (continued)

Homeownership Mortgage Loan Program (HOME) Bonding Activity (as of June 30, 2008)

Bond Issue	Amount of Bonds Issued	Amount Available for Loans	Mortgage Rate
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	<u>190,000,000</u>	<u>185,901,840</u>	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)

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*	<u>1,786</u>	<u>195,274,444</u>
Total	108,837	\$6,762,223,920

*Through June 30.

APPENDIX V

Home Improvement Loan Program

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	<u>10,000,000</u>	<u>9,140,250</u>	8
Total	\$97,624,850	\$98,276,407	

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*	<u>8</u>	<u>126,101</u>
Total	15,282	\$103,635,858

*Program was suspended effective April, 2008.

APPENDIX VI
WHEDA PROGRAMS
Summary Information

Program	Purpose	Funding Source	Program Expenditures
Home Ownership Mortgage Loan Program (HOME)	Mortgage loans for the purchase of homes by low- and moderate-income households.	Revenue bond proceeds	In 2007, 4,705 loans totaling \$522,058,372 were made.
Home Improvement Loan Program	Housing rehabilitation loans to low- and moderate-income households. This program was discontinued in April, 2008.	Revenue bond proceeds	In 2007, 79 loans totaling \$1,002,996 were made.
Multifamily Loan Program	Financing to developers of multifamily projects for low- and moderate-income households.	Revenue bond proceeds	In 2007, 41 loans of \$91,488,304, were made, representing 32 projects and 1,974 units.
Easy Close Program	Deferred loans of up to \$4,000 for down payment or home mortgage closing costs.	WHEDA unencumbered reserves and revenue bond proceeds.	In 2007, 1,356 loans totaling \$12,916,767 were made in the HOME Plus Program. (Easy Close replaced HOME Plus in April, 2008.)
WHEDA Foundation Grant Program	Grants to nonprofit organizations for housing-related purposes.	WHEDA unencumbered reserves	In 2008, \$1,000,000 was allocated for Foundation grants to 50 organizations.
Property Tax Deferral Loan Program	Loans to low-income elderly homeowners for payment of property taxes.	WHEDA unencumbered reserves	In 2008, loans totaling \$159,040 were made to 78 homeowners.
Low-Income Housing Tax Credit Programs	Federal tax credits to developers of low-income rental housing.	Federal tax credits	In calendar year 2007, \$10,591,025 worth of 2007 tax credits were approved for 38 projects and 1,401 low-income units.
Housing Choice Voucher Program	Federal housing vouchers to low-income households which agree to develop financial plans leading to economic independence.	Federal funds	In 2008, WHEDA distributed \$5,072,300 in vouchers. WHEDA was allocated 1,263 vouchers per month for January through March, 2008 and 1,279 per month for April through December, 2008.
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 2007, 9 loans totaling \$595,900 were made.
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.
Credit Relief Outreach Program (CROP)	Guarantee agricultural production loans to farmers and provide subsidies on those loans. (Up to \$27 million in guaranteed principal when combined with FARM guarantees).	WDRF	In 2007, 373 loans were guaranteed for a total of \$12,496,563.

APPENDIX VI (continued)

**WHEDA PROGRAMS
Summary Information**

Program	Purpose	Funding Source	Program Expenditures
Farm Asset Reinvestment Management Loan Guarantee Program (FARM)	Guarantee for the acquisition of farm assets and/or improvements of agricultural facilities or land. (Up to \$27 million in guaranteed principal when combined with CROP guarantees).	WDRF	In 2007, 15 loans were guaranteed for a total of \$1,415,638.
Small Business Loan Guarantee Program	Guarantee loans for the acquisition or expansion of a business with less than 50 employees.	WDRF	In 2007, 39 loans were guaranteed for a total of \$4,025,246.
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 2007, two loans were guaranteed under this program for a total of \$482,400.
Neighborhood Business Revitalization Guarantee Program	Guarantee loans for the expansion or acquisition of small businesses or commercial real estate.	WHEDA unencumbered reserves	In 2007, two loans were guaranteed for a total of \$998,199.
Contractors Loan Guarantee Program	Guarantee loans to contractors for the completion of a contract.	WHEDA unencumbered reserves	No loans were guaranteed under this program in 2007. Two loans, one each in 2005 and 2006, have been guaranteed under this program for a total of \$273,600.