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Property Tax Deferral Loan Program

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Property Tax Deferral Loan Program

Those interested in applying for a property tax deferral loan should contact the Wisconsin Housing and Economic Development Authority at 1-800-755-7835.

Introduction

The Wisconsin property tax deferral loan program, administered by the Wisconsin Housing and Economic Development Authority (WHEDA), allows low-income elderly homeowners and veterans to convert home equity into cash to pay property taxes. In the 2021-22 program year (tax year 2021) ending June 30, 2022, eight persons or households received a total of $24,500 in loans averaging $3,059.

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

The principal and interest due for tax deferral loans do not have to be repaid until the ownership of the property transfers or the loan recipient no longer lives in the home. Upon transfer of ownership of the property, or when the participant ceases to live in the residence, the total loan, with interest, is repaid from the proceeds of the estate or sale of the property. The interest rate on loans made in 2023 for taxes levied in 2022 is 7.25%.

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

The following section provides background information on the program. Next, a summary of eligibility requirements is presented with other current provisions of the property tax deferral loan program. A description of the characteristics of 2022 program applicants follows. For a history of the program, see previous versions of this paper available on the Legislative Fiscal Bureau website.

Background

The property tax deferral loan program was created to assist elderly homeowners who have resided in their homes for a substantial period of time and whose current incomes are insufficient to cover property taxes. The program is seen as a way to keep the elderly in their homes by converting equity in their home to cash to pay property taxes. U.S. Census data indicate an estimated 524,000, or 31%, of the approximately 1.67 million owner-occupied households in Wisconsin are headed by persons 65 years of age and older. Further, Census data report 78% of Wisconsin households headed by persons of at least age 65 are owner-occupied, while 12% are renter-occupied. Additionally, Census data report 24% of households headed by persons 65 years of age or older have income less than $25,000, and 11.4% have income less than $15,000, although lower-income households have lower owner-occupancy rates than the general population. (U.S. Census data in this section are reported from the U.S. Census Bureau American Community Survey 2021 Estimates.)

Eligibility Requirements

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

Veterans, as defined under s. 45.01(12) of the statutes, may participate in the program regardless of age. WHEDA has authority to establish alternative repayment terms for veterans younger than 65. This allowance is intended to keep program loan funds revolving, rather than being allocated to relatively younger participants for potentially abnormally long periods. While veterans under 65 are eligible for the program, none under the age of 65 have ever been approved for a loan through the 2022 cycle.

Loan Purpose. The loan must be for property taxes and special assessments due on a single-family home, condominium, or unit in a multi-unit dwelling of four or fewer units in Wisconsin. The applicant may apply for a loan of up to $3,525 for all or part of the previous year's property taxes and special assessments payable in that year. Participants are liable for interest and penalty charges on delinquent taxes, but the principal amount requested may include the amount of these charges. To avoid late penalties, the applicant may pay the property taxes and special assessments and then receive a reimbursement loan from WHEDA upon proof of payment and approval of the loan. If the taxes and assessments have not yet been paid in full, WHEDA makes the loan check co-payable to both the participant and the appropriate municipal treasurer. Taxes and assessments on up to one acre of land surrounding the home may be included.

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

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

Household Income. Applicants' prior year household income may not have exceeded $20,000. This amount was established at the program's inception in 1986 and has not changed since. This limit has restricted participation over time due to inflationary pressure. (Adjusted for inflation, $20,000 in 1986 would be equivalent to $54,000 in 2022.) Household income includes sources listed under s. 71.52(5) of the statutes for the homestead tax credit, and includes all income that is taxable for Wisconsin income tax purposes, plus nontaxable income such as Social Security, supplemental security income, and pensions. The Appendix provides a complete listing of the income sources included in the definition of household income under this program.

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

Application Deadline. Applications for property tax deferral loans must be filed with WHEDA by June 30 of the year in which the taxes are due. For example, applications filed by June 30, 2023, if approved, would receive loans for 2022 property taxes payable in 2023. Receipt of a property tax deferral loan does not affect an applicant's eligibility for farmland preservation or homestead tax credits. WHEDA begins accepting applications approximately each December 1 for property taxes due beginning on the succeeding January 31.

Other Requirements

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

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

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

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

Broker Price Opinion. Because borrowers' homes serve as collateral on loans, WHEDA requires a broker price opinion (BPO) to ensure sufficient value in the home. BPOs are similar to appraisals, but less rigorous and about half the price of an appraisal. BPOs are required every third year. BPO fees are refundable if a title search proves an applicant does not meet requirements for outstanding obligations on the property. These fees are not refundable if a BPO occurred but the loan otherwise does not close.

Table 1 shows the application and other fees payable by property tax deferral loan program borrowers by their year of participation.

Table 1: Property Tax Deferral Loan Program Fees

Fee Type	First Year	Subsequent Years
Application/Title Search Fee	$75	$75
Broker Price Opinion	120	0/120*
Recording Fee	30	0
Total	$225	$75/$195

*A broker price opinion is required every third year.

Phone Consultation. First-time borrowers complete a phone consultation to inform them of the loan process and their obligations under the program. WHEDA also answers participant questions as they are received.

Interest Rates

The WHEDA Executive Director sets the loan interest rate by October 15 of each year. By law, the rate must be 1% over the prime lending rate established by the Federal Reserve at the time the rate is set. For 2023 loans, the interest rate is set at 7.25%. WHEDA exercises its discretion to charge simple interest on loans issued in 2012 and later, providing terms that are more favorable for borrowers.

Repayment of the Loan

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

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

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

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

3. Condemnation or involuntary conversion of the dwelling unit.

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

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

Participants also may make early payments on loans. However, repayments mostly occur as a result of property sale or the participant's passing, while earlier repayments are less common. If a participant in the program ceases to meet the eligibility requirements, WHEDA may request full or partial repayment of the loan, or may allow the participant to continue in the program but be ineligible for additional loans.

Revenue received from repayment of property tax deferral loans issued by WHEDA is returned to the Authority's general reserves. Table 2 shows repayments made by fiscal year since 2012-13 for property tax deferral loans. The number of loans represents individual loans each year, and may include multiple loans made over multiple years to a single property. As of July 1, 2022, WHEDA has established an encumbrance of $1,685,000 in its general reserves to support the program.

Table 2: Property Tax Deferral Loan Repayments

Fiscal Year	Number of Loans Repaid in Full	Repaid Amount
2012-13	60	$282,800
2013-14	92	391,800
2014-15	91	289,200
2015-16	86	467,400
2016-17	27	74,500
2017-18	41	152,800
2018-19	25	82,200
2019-20	37	224,700
2020-21	11	48,500
2021-22	10	29,200
Total	480	$2,043,100

Factors such as the initial property tax rate, growth in the property tax rate, appreciation in home value, and interest rate charged on loans all affect the borrower's level of equity in a home on which a lien is secured. Also, it should be noted that while median home values have generally increased during the program's existence, in many cases the value of an elderly homeowner's property may increase more slowly than average due to its location, or because it may be older and not receiving needed repairs on a timely basis. Therefore, elderly borrowers who receive consecutive property tax deferral loans could lose equity during participation in the program.

Characteristics of Participants

Table 3 shows the number of participants, total amount of loans received and the average loan amount received for each year since the property tax deferral loan program began in 1986. Since the program's inception, 6,693 loans have been issued totaling $11.3 million. As shown in the table, the annual average loan amount has increased by 176% between 1986 and 2022. In the 2022 program year, two participants received a maximum loan of $3,525. (An administrative error resulted in one loan being issued for $3,623.) As of June 30, 2022, WHEDA reports 127 loans were outstanding with total balances of $714,500.

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

In 2022, no county had multiple participants, and there was one participant each in Columbia, Dane, Dunn, Juneau, Marathon, Pierce, Racine, and Washington Counties. Most loans in recent years have customarily gone to repeat participants in the program. WHEDA reports no borrowers were first-time participants in 2020, three borrowers were first-time participants in 2021, and no borrowers were first-time participants in 2022.

Table 3: Property Tax Deferral Loan History

Year*	Number	Amount	Average Loan
1986	295	$327,200	$1,109
1987	298	354,800	1,191
1988	313	393,400	1,257
1989	311	394,800	1,269
1990	307	407,300	1,327
1991	394	541,800	1,375
1992	464	628,300	1,354
1993	486	687,300	1,414
1994	438	778,900	1,778
1995	402	733,700	1,825
1996	356	663,900	1,865
1997	314	553,900	1,764
1998	276	498,500	1,806
1999	242	473,100	1,955
2000	217	417,300	1,923
2001	200	401,800	2,009
2002	179	365,900	2,044
2003	173	360,400	2,083
2004	173	360,600	2,084
2005	173	370,200	2,139
2006	158	338,300	2,139
2007	101	215,900	2,138
2008	76	164,900	2,169
2009	59	130,600	2,214
2010	59	129,800	2,200
2011	38	101,600	2,673
2012	38	104,000	2,738
2013	30	82,300	2,742
2014	24	63,100	2,629
2015	16	41,500	2,594
2016	16	41,000	2,563
2017	16	47,000	2,940
2018	16	48,000	3,002
2019	10	31,500	3,148
2020	8	24,600	3,080
2021	9	28,100	3,122
2022	8	24,500	3,059
Total	6,693	$11,329,800	$1,693

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

Table 4 provides data on participants in the 2021-22 program year. The age distribution, household income of participants, and value of participants' dwellings have all generally increased since the program began. In 1986, 36.2% of loan recipients were under age 70. This percentage was 25% in 2022. In contrast, 13.0% of recipients in 1986 were age 80 or older. This percentage was 25% of participants in 2022. The average participant age in 2022 was 76 years old. While average household income for loan recipients was $10,611 when the program began in 1986, the average income reported in 2022 was $11,025. The average reported value for 2022 was $163,575 compared to $51,812 when the program began in 1986. (Dwelling values reported may be either assessed values or broker price opinions, depending on which value is lower for a property.)

Table 4: 2022 Loan Data

Loan Amount	Recipient Age	Recipient Income	Dwelling Value
$2,299	92	$1,700	$84,300
2,400	68	12,900	97,000
2,986	85	11,500	231,100
3,107	75	15,000	139,400
3,175	77	9,900	173,100
3,354	74	12,500	181,800
3,525	70	13,600	221,600
3,623	66	11,100	180,300

APPENDIX

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

Household income means Wisconsin adjusted gross income plus the following amounts to the extent not included in Wisconsin adjusted gross income:

- Support money
- Cash public assistance (not including certain tax credits) and cash benefits paid under county relief programs
- Maintenance payments (except that foster care maintenance and supplementary foster care payments are excludable)
- Gross amount of any pension or annuity
- Railroad retirement benefits
- Social Security benefits
- Veterans disability pensions
- Nontaxable interest received from the federal government, or any of its instrumentalities
- Nontaxable interest received on state and municipal bonds
- Worker's compensation
- Unemployment insurance compensation
- Gross amount of "loss of time" insurance
- Compensation and other cash benefits received from the United States for service in the armed forces
- Scholarship, fellowship, or educational grants, gifts, or income
- Capital gains
- Gain on the sale of a personal residence that is excluded from taxable income
- Dividends
- Income of a nonresident or part-year resident who is married to a full-year resident
- Housing allowances provided to members of the clergy
- Amount by which a resident manager's rent is reduced
- Nontaxable income of a Native American
- Nontaxable income from sources outside this state
- Nontaxable deferred compensation
- Intangible drilling costs
- Depletion allowances and depreciation
- Amortization
- Contributions to individual retirement accounts
- Contributions to Keogh plans
- Net operating loss carry-forwards and carry-backs
- Capital loss carry-forwards
- Disqualified losses, which include net capital, business, and farm losses, except farm losses where the claimant's primary income is from farming and whose farming generates gross receipts of less than $250,000 in the year of the claim (under 2021 Act 1, a person's primary income is from farming if the person's gross income from farming for the year is greater than 50% of total gross income from all sources).