Alberta Darling
Wisconsin State Senator
Co-Chair, Joint Committee on Finance

TESTIMONY BEFORE THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT, COMMERCE, AND LOCAL GOVERNMENT

Senate Bill 726

February 15, 2018

Thank you Chairman Feyen and committee members for holding a public hearing today on Senate Bill 726. As a member of the Wisconsin Housing and Economic Development Authority (WHEDA) board and at the request of the agency, I introduced an omnibus bill to address three priority issues for WHEDA. These issues include technical changes to Chapter 234, expanding the use of the Housing Rehabilitation Loan Funds to include Down Payment Assistance Program, and adjustments to the Transform Milwaukee Initiative program to better suit the program's needs.

The Wisconsin Legislature created WHEDA in 1972 to meet an increasing need for affordable housing financing. WHEDA works closely with lenders, developers, local government, nonprofits, community groups, and others to implement its low-cost financing programs. The agency is an independent authority, not a state agency, and receives no tax dollars for its programs and operations. As a lender, WHEDA has over $3 billion in assets.

The first important change included in the bill is modernizing current state statutes that pertain to WHEDA. SB 726 deletes obsolete dates and references in current law, amends current law to reflect accurate renewal dates, and updates mortgage loan language in statutes to reflect current federal IRS Code requirements.

The second change in SB 726 expands the use of the Housing Rehabilitation Loan Fund to include the Down Payment Assistance (DPA) Program. The Housing Rehabilitation Loan Fund is a revolving fund that has seen little activity over the past several years. Many homeowners have found a private sector home equity loan or line of credit more desirable for remodeling and renovation. Currently, WHEDA is experiencing an increased usage of its single-family mortgage loan products from low and moderate income first-time home buyers. One of the largest obstacles for first-time home buyers in the low to moderate income range is securing funds for a down payment. Because WHEDA is projecting a shortage of DPA funds, which would significantly limit WHEDA's ability to serve this demographic of buyers, SB 726 permits WHEDA to utilize the Housing Rehabilitation Loan Fund dollars for the DPA program. This change would not delete the Housing Rehabilitation Loan Fund but only expand the use of the funds.

Lastly, SB 726 alters the Transform Milwaukee Initiative Rehabilitation Pilot. The Transform Milwaukee Initiative Rehabilitation Pilot was originally intended as a purchase-only program, not a refinancing tool for current mortgages. In its current form, only one loan has actually closed in this program. One reason this program has not seen the success originally intended is the lack of interest in buying a property for rehabilitation while the surrounding properties are still run down. Surrounding property owners may have the adequate credit and income stream to support servicing a rehab loan, but traditional lenders cannot make the loan-to-value factor work to approve a home equity or construction loan. SB 726 authorizes WHEDA to issue a homeownership mortgage loan to a homeowner for the refinancing of the homeowner's existing mortgage if the homeowner does not qualify for a mortgage loan through other lenders and the homeownership mortgage loan WHEDA issues <u>is</u> used in part to finance the rehabilitation of the eligible property. In order to be eligible, the property must be located in the targeted neighborhoods within the Transform Milwaukee Zone. This change will help the program address the needs of neighborhoods with extreme devaluation.

I want to thank Representative Loudenbeck for her work on this bill and Executive Director Winston for his continued leadership and success at WHEDA. Thank you committee members for holding a hearing on SB 726. The Assembly recently passed the bill on a voice vote.

I hope to have your support for this legislation.

Amy Loudenbeck

REPRESENTING WISCONSIN'S 31ST ASSEMBLY DISTRICT

Testimony before Senate Committee on Economic Development, Commerce and Local Government
Assembly Bill 809 and Senate Bill 726
Rep. Amy Loudenbeck
February 15, 2018

Thank you, Mr. Chairman and committee members for the opportunity to testify in favor of these bi-partisan bills, Assembly Bill 809 and Senate Bill 726. These bills are omnibus bills that addresses three priority issues for WHEDA.

At this time, I will provide a brief summary of the bill and allow WHEDA and other interested parties to explain the provisions and their importance in greater detail.

The first part of AB 809/SB 726 contains several technical changes to Chapter 234 deleting obsolete dates and references in current law.

AB 809/SB 726 also creates flexibility by expanding the use of the Housing Rehabilitation Loan Fund reserves to include the Down Payment Assistance (DPA) Program. The Housing Rehabilitation Loan Fund is a revolving fund that has seen little activity over the past several years. Many home owners have found a private sector home equity loan or line of credit more desirable for remodeling and renovation. WHEDA is projecting a shortage of DPA funds which would significantly limit WHEDA's ability to serve this demographic of buyers. The bill would permit WHEDA to utilize the Housing Rehabilitation Loan Fund dollars for the Down Payment Assistance Program. This change would not delete the Housing Rehabilitation Loan Fund but only expand the use of the funds.

Lastly, AB 809/SB 726 makes changes to the Transform Milwaukee Initiative Pilot by authorizing WHEDA to refinance an existing mortgage under a very specific and limited set of circumstances. Originally intended as a purchase-only program, the Transform Milwaukee Initiative pilot program has been underutilized in its current form. There is a need to make adjustments to the program to address neighborhoods with extreme devaluation and help support lending to current home owners who meet all customary refinance eligibility criteria, except the loan-to-value factor, and seek to improve their properties.

These bills makes rather limited changes while providing necessary flexibilities for WHEDA to continue to work closely with lenders, developers, local units of government, nonprofits, community groups, and others to meet an increasing need for affordable housing financing options.

Thank you for the opportunity to testify on these bills today. After WHEDA has the chance to explain the bills in greater detail we would be happy to answer questions from committee members.

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WHEDA

TOGETHER WE BUILD WISCONSIN

Testimony on AB 809 & SB 726

Debi Towns, Ass't. Deputy Director

Mr. Chairman and Members of the Committee –

Thank you for your interest in the WI Housing & Economic Development Authority's (aka: WHEDA) mission and work. WHEDA's mission is to stimulate the state's economy & improve the quality of life for WI residents by providing affordable housing and business financing products. Our work is to provide a unique set of tools to help home owners, business and communities across the state.

The identical bills before you today – AB 809 & SB 726 – represent a combination of requests from WHEDA. There are several technical updates which would serve to bring WHEDA's practices back in sync with the Federal IRS regulations as well as renew some expiring deadlines. My colleague, Sherry Gerondale, Director of Finance, will speak to the details of these changes shortly.

The bill also includes the adjustment or 'tweaking' of a couple of WHEDA's lending programs.

The first request is to expand the use of the Housing Rehabilitation Loan Fund reserves to include the Down Payment Assistance program.

The Housing Rehabilitation Loan fund is established in §234.50. This fund is used for loans for home rehabilitation. The fund is a revolving fund, i.e. dollars are lent out and paid back with interest. In recent years, the fund has seen little activity. Many owners have found that the private sector home equity loan or line of credit are more desirable for remodeling and renovation. As a result, the dollars in this fund are not being recycled through the market and are not being used to help home owners.

During a similar period of time, WHEDA has experienced a robust growth in the use of its single family mortgage loan products to low and moderate-income first-time home buyers. The largest obstacle for first-time home buyers in the low to moderate-income range is funds for a down payment even when the borrower's income is adequate to support a mortgage. WHEDA's Down Payment Assistance program provides a shorter term second mortgage (in addition to WHEDA holding the first mortgage) to help cover the down payment requirement. This has been a very popular program and has contributed to increased home ownership across the state. As a result of this increased activity, WHEDA is projecting there will be a shortage of DPA funds in the next fiscal year. Limiting DPA funds would significantly impact WHEDA's ability to serve this demographic of buyers.

So, WHEDA is requesting that the Housing Rehabilitation Loan fund dollars could also be used for the DPA program. This modification would ensure that dollars could be used for both home improvement and home ownership.

The second lending program WHEDA is requesting modification to is the Transform Advantage program. This is a program created several years ago focusing on specific targeted neighborhoods in Milwaukee. This program was intended to entice home buyers to purchase properties in severely discounted neighborhoods in hopes they would renovate them. This is a purchase-only program and to date, has only closed one loan. Other variables outside of WHEDA's control may have inhibited the use of this loan product, including the lack of interest in buying a property to rehab while the surrounding properties are still run down. The values of many of the properties in the areas targeted by this program are suffering from extreme de-valuation – in part, because of their physical condition.

Surrounding property owners may have adequate credit and income stream to support servicing a rehab loan, but traditional lenders cannot make the loan-to-value factor work to approve a home equity or construction loan.

So, there is a need to make adjustments to this program to address the negative influence of depreciated neighborhood properties. WHEDA is asking for a modification to the Transform Advantage program which would allow the refinance of stable mortgages for current homeowners who are eligible in every respect except that their appraised property loan-to-value does not allow these borrowers to be eligible for traditional private sector home equity financing to make repairs. In part, the reason for their discounted appraised value is the neighborhood location.

I appreciate your attention to this request -- & will turn the testimony over to my colleague – after which we are happy to answer any questions you might have.