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W I S C O N S I N

THE VOICE OF THE WISCONSIN HOMEOWNER

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## Voices From the Kitchen Table

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WWW.HOMEOWNERSALLIANCE.ORG

The Wisconsin Homeowners Alliance is a 501(c)(4) organization dedicated to representing the interests of Wisconsin homeowners and protecting Wisconsin's quality of life one home at a time.

## Homeowners reflect diversity and shared commitment to home ownership

### Most say mortgage interest deduction should be left alone

**Editors Note:** The Wisconsin Homeowners Alliance has commissioned a series of statewide public opinion surveys designed to help us understand what homeowners are thinking and talking about. In designing the questionnaires, we have taken a hard look at the research conducted by the Wisconsin REALTORS® Association's Wisconsin Quality of Life initiative and talked with a lot of Wisconsin homeowners. In the process, we realized that much of what people had to say sounded like the things we were talking about with our families when we gathered around our own kitchen tables. Here's what we heard on our latest visit to Wisconsin's kitchen tables. Grab a cup of coffee and join us.

It should come as no surprise to anyone that who we are and how we live affects how we react to a variety of different issues. That's true for homeowners as well as for everybody else. What is surprising, however, is that despite these differences, when it comes to issues related to home ownership, homeowners display striking similarities.

#### Wisconsin homeowners are a diverse group

Approximately 81 percent of Wisconsin residents own their homes. We live in smaller homes – about 25 percent of us live in homes with less than 1,500 square feet – and larger homes – another third (36%) live in homes with less than 2,000 square feet and nearly one in five (19%) live in homes with less than 2,500 square feet. Just 3 percent of us live in homes with more than 3,500 square feet. Half of us have only owned one home, while the rest have owned two or more homes.

As you might expect, those of us making more than \$80,000 a year are more likely to be living in bigger homes. Interestingly, household income correlates with the size of the home and with length of residence. Nearly half of homeowners with household incomes between \$20,000 and \$60,000, but less than one in four making more than \$80,000 annually have lived in their homes for more than 15 years. Conversely, while 42 percent of upper income homeowners have lived in their homes for five years or less, only 32 percent making between \$20,000 and \$60,000 bought their homes within the past five years.

Folks making between \$20,000 and \$40,000 a year may live in smaller homes, but more of them own their homes outright than the folks living in those bigger houses. Half of the homeowners with annual incomes between \$20,000 and \$40,000 tell us their homes are paid for. On the other hand, 82 percent of those

homeowners making more than \$80,000 annually tell us they still have a mortgage.

Most of us with mortgages are either carrying a traditional 15-year (33%) or 30-year (38%) fixed rate mortgage. About 10 percent tell us they have an adjustable rate mortgage and the rest report some other sort of financing arrangement. Fewer than one in five (16%) have a second mortgage and a little more than a quarter (27%) say they have a home equity loan. A little less than half of those with mortgages (45%) escrow their property taxes and half of these folks indicate that they spend \$1,000 or less a month on their mortgage and property taxes. Fifty-two percent do not escrow and two-thirds report that they spend \$1,000 or less a month on their mortgage. Roughly a third have less than 10 years left on their mortgage, another third have 10 to 20 years left; and the remaining third have more than 20 years left on their mortgages.

#### Homeowners stand together on key issues

Despite the amazing diversity among Wisconsin's homeowners, their attitudes about issues related to home ownership are surprisingly similar. Surveys conducted on behalf of the Wisconsin REALTORS® Association over the past decade, for example, reveal similar attitudes about, among other things, satisfaction levels with local services, concerns about rules and regulations that adversely affect property rights, commitment to environmental quality and the need for affordable housing.

When asked in this most recent Wisconsin Homeowners Alliance survey about barriers and incentives to home ownership in Wisconsin, three out of four homeowners agree that having tax-deductible interest on mortgages and the quality of local schools and local services are all incentives to ownership.



Seventy-one percent say the amount of property taxes they would have to pay was an important factor in deciding whether or not to buy their home and 72 percent agree the cost of property taxes is a barrier to ownership.

Similarly, nearly two-thirds (62%) of all homeowners said they are opposed to the recent recommendation of a federal study commission that would eliminate the federal tax deduction for interest paid on home mortgages. [See related story on page 4.] Seventy-two percent of those making between \$40,000 and \$80,000 a year are opposed to eliminating this deduction. Despite the fact that only 27 percent of homeowners have a home equity loan, more than two-thirds of all Wisconsin homeowners (69%) are opposed to a commission recommendation that would eliminate the interest deduction on home equity loans.

Nearly everyone in Wisconsin believes that it is either very important (80%) or somewhat important (17%) that “families have an opportunity to own their own homes.” The universal support for home ownership is not surprising, but it warrants noting because there is some concern here about the difficulty, not of buying a home, but of owning a home in Wisconsin. Nearly three out of every four of us (70%) say that owning a home in Wisconsin is either very (16%) or somewhat (54%) difficult.

These findings suggest that as Wisconsin thinks about how to attract and keep the skilled workers and new economy businesses needed to keep our economy strong, making it easier to own a home in Wisconsin should be a top priority.



# Optimism in short supply among Wisconsin's older homeowners

## As homeowners age 65 and older begin to sell, the nature, supply and location of available housing will change

Approximately one of every five adults in Wisconsin is age 65 or older.

The good news about the men and women who contributed so much to Wisconsin's prosperity over the past half century is that most of them were able use their hard-earned wages to buy a piece of the American dream. More than 80 percent of those in this population own their own home. Equally impressive, 80 percent of those who own their home tell us that their home is paid for.

The bad news is that despite the high level of outright home ownership, most of these men and women are not well off financially and are less optimistic about the future than the population as a whole. For example, more than half of this population (55%) report household income of less than \$40,000. One in four reports less than \$20,000 in annual household income, while only about 10 percent report incomes in excess of \$60,000. And, while 38 percent of the rest of the population believe things will get better for them in the next year, only 16 percent of those age 65 and older see things improving and one in four thinks things actually will get worse.



These stark statistics matter for a variety of reasons and could affect both the political dialogue and the housing market in our state. On the political side of the equation, two trends are worth noting. First, there has been a steady decline since 2003 in the percentage of people who believe things will improve in Wisconsin in the next 12 months. It is now clear that the bulk, if not all, of the decline in confidence is coming from this older population. These men and women tend to vote in higher percentages than most other age groups and how they feel about things in Wisconsin could affect electoral outcomes in a number of important races.

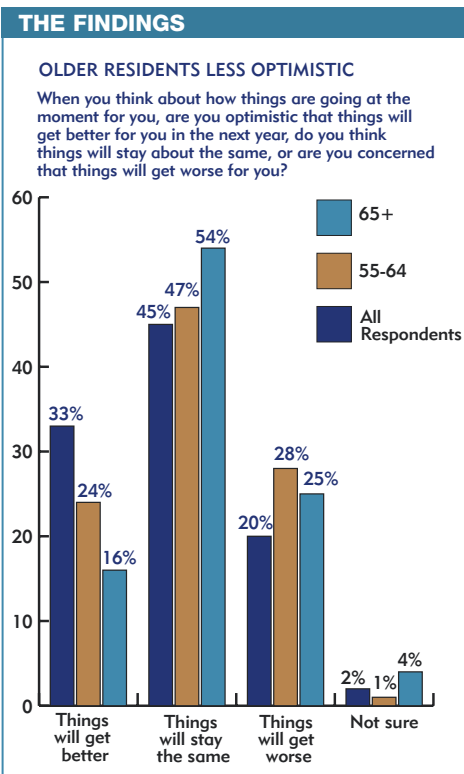
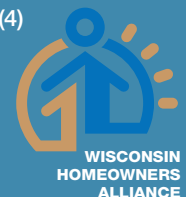
Second, these folks are feeling financially stressed. Fixed incomes and lower household incomes make them particularly vulnerable to price changes (think higher gasoline, heating and insurance prices) and 90 percent agree strongly (61%) or somewhat (29%) that the cost of basic items is more expensive now than it was a year ago. In this sort of economic environment, this population will be particularly sensitive to any potential additional cost increases (think property taxes, fees and other government items). And, given the fact that 80 percent of them are homeowners, they are likely to respond to any issues that affect the costs associated with home ownership.

How this population fares and the decisions they make over the next two decades likely will affect Wisconsin's housing market. Two factors – the number of homes likely to come

on the market as a result of this population aging and the location and nature of the homes owned by this population – are worth noting. Assuming there are slightly more than 1.4 million privately-owned homes in Wisconsin, as those age 65 and older sell their homes, nearly 300,000 homes are likely to come on the market over the next 20 years. Even at minimal prices, movement of this volume will entail billions of dollars flowing from one group to another and will affect, among others, REALTORS®, financial service specialists, remodelers, retailers, schools and local governments.

In addition, 61 percent of this population tell us they have lived in their current home for 20 years or more, which means that the bulk of this housing stock is located in established neighborhoods. Most of these homes also are less than 2,000 square feet in size and one must assume that many of them have smaller kitchens and fewer bathrooms than are popular with most buyers today. Whether or not first-time buyers or others looking to relocate in established urban and suburban areas will turn to these homes is anybody's guess, but who buys these homes certainly will have an impact on local governments and businesses.

In recent years, numerous public opinion research projects have examined perceptions about the quality of life here in Wisconsin. A review of the data reveals that for most of us, quality of life issues are those that touch home and family most directly. The Wisconsin Homeowners Alliance aims to ensure that the voices of state homeowners continue to be heard in discussions about preserving and protecting Wisconsin's quality of life. The Wisconsin Homeowners Alliance is a 501 (c)(4) tax-exempt organization. For more information, please visit [www.homeownersalliance.org](http://www.homeownersalliance.org).



## Wisconsin residents could be hit by proposed federal tax changes

No one likes to pay taxes, but when it comes to the federal code, at least one bright spot for homeowners has been the deductibility of mortgage interest payments.

Now, a proposal to eliminate the deduction has been put forward, and Wisconsin homeowners could be hit especially hard. Strong levels of home ownership as well as Wisconsin's state and local tax structure mean the proposal could be particularly harmful to property values here.

For years, the mortgage interest deduction has been a major incentive to home ownership and has enjoyed the support of groups such as the NATIONAL ASSOCIATION OF REALTORS®, the National Association of Home Builders, neighborhood organizations and small business owners.

In November, the President's Advisory Panel on Federal Tax Reform proposed phasing out the mortgage interest deduction over five years as part of a larger attempt to simplify the tax code. The popular deduction would be replaced with a tax credit equal to 15 percent of the interest paid on mortgages for principal residences of average market value.

Also under the recommendations:

- No credit or deduction would be available for interest paid on mortgages for second homes or home equity loans. Current rules allow for interest to be deducted on mortgage debt of up to \$1.1 million including \$100,000 for home equity loans.
- Deductions for property taxes, as well as state and local taxes, would be eliminated. This provision would have the greatest impact on residents of states such as Wisconsin, with above average income and property taxes.

Based on data from the Internal Revenue Service, mortgage interest was the top deduction on individual returns for 2002, with homebuyers claiming \$337 billion in tax benefits.

As a result, the advisory panel's recommendations were harshly criticized by homeowners, trade associations and legislative leaders.

David Lereah, chief economist for the NATIONAL ASSOCIATION OF REALTORS®, described the mortgage interest proposal as "irresponsible" and capable of creating "severe damage across the board" to the housing market. Loss of the deduction could result in home values declining by 15 percent, the group estimated.

Nationwide opposition to the tax advisory panel's recommendations is echoed among Wisconsin residents in a recent survey by the Wisconsin Homeowners Alliance. According to the survey, 62 percent of state residents said they oppose eliminating the mortgage interest deduction. [See related story on page 1.]

In addition to eliminating the deductions for mortgage interest payments and property taxes, the advisory panel recommended a reduction in the number of tax brackets to four (15 percent, 25 percent, 30 percent and 33 percent) with a slightly lower rate for the top bracket. The panel also proposed elimination of the Alternative Minimum Tax.

Due to harsh criticism from Wisconsin and other states, it appears there's little chance the recommendations of the president's advisory group will be adopted as a whole. Yet the tax reform debate – including discussions about the mortgage interest deduction – will gain momentum as the Bush Administration attempts to lay the groundwork for fundamental change in 2007 or 2008.

To express concerns about the tax reform proposal, contact a member of Wisconsin's Congressional delegation.

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The deductibility of mortgage interest was created to promote home ownership, which strengthens families, neighborhoods, schools and communities. Understanding the debate over tax reform will be critical for homeowners in Wisconsin, who stand to lose more than most in the shifting political landscape.

For more information, contact the Wisconsin REALTORS® Association at 608-241-2047 or e-mail [wra@wra.org](mailto:wra@wra.org). For proposal details, visit [www.taxreformpanel.gov](http://www.taxreformpanel.gov).