HECM and Property Tax Relief for Seniors

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Abstract

In a recent paper examining default risk in the Home Equity Conversion Mortgage (HECM) program, Moulton, Haurin, and Shi (2015) found that property tax amount and tax burden (property taxes/income) are highly predictive of severe default on property taxes and insurance. Given the importance of the tax burden in predicting default, in this article we summarize state- and local-level property tax relief programs targeted toward seniors that could reduce property tax bills among HECM participants. We find the tax savings provided by these programs to be large enough to significantly reduce property tax liability. Our analysis highlights the importance of annual validation of tax accounts to ensure that individual HECM borrowers take full advantage of all tax relief programs. Validating tax accounts periodically, in turn, would reduce the tax burden and most likely reduce the probability of tax default among HECM participants.

Introduction

According to the 2014 actuarial review, an estimated 12 percent of active Home Equity Conversion Mortgage (HECM) loans were in technical default for the nonpayment of taxes and insurance (Integrated Financial Engineering, 2014). By contrast, CoreLogic, Inc., estimates the national tax delinquency rate to be 2.6 percent among properties with mortgages (Cannon, 2015). Recent research found the property tax amount and tax burden (property taxes/income) to be highly predictive of severe property tax and insurance default among HECM participants (Moulton, Haurin, and Shi, 2015).

The most common reasons that taxpayers cited for property tax delinquency were declining property value[1] or lack of money (Alm et al., 2016, 2014; Conrad and DeBoer, 1988; Lake and Fitzgerald, 1979). Because HECM borrowers extract equity up front, declining property values should not affect the decision to become delinquent. Instead, HECM borrowers may be unable to pay their tax bill on time due to liquidity constraints. Liquidity-constrained taxpayers generally would like to pay the delinquent balance at a later date. These taxpayers are, in effect, borrowing from the local government if the interest charged by the local government on delinquent tax bills is lower than the taxpayers' personal borrowing costs.[2]

Given the relatively high rate of property tax delinquency for HECM properties relative to properties with a mortgage, an important question to examine is whether HECM borrowers participate in property tax relief programs at the same rate as otherwise similar properties. These programs may be particularly important among HECM borrowers for several reasons. Under the HECM program, senior citizens extract the equity from their homes while maintaining ownership. The Federal Housing Administration (FHA) has an age requirement of 62 years of age or older to be eligible for a HECM loan. Eligible borrowers also must own the home outright or have a low mortgage balance that can be paid off at closing with proceeds from the reverse loan. Two important requirements for HECM participation directly affect property tax bills and property tax delinquency. To be more specific, the homeowner must continue making payments on property taxes, and she or he must live in the home. The occupancy and age requirements qualify HECM participants for many property tax relief programs offered by local governments, which can significantly reduce tax liabilities and the likelihood of tax default.

One concern is that some HECM participants who take reverse mortgages at age 62 never apply for property tax exemptions that they later qualify for at age 65. Under FHA rules, homeowners must receive counseling to learn about the program before they obtain a loan. An important step in the counseling process is that HECM participants understand they must continue making payments on property taxes. It is not clear, however, to what extent any followup occurs with borrowers to validate that all tax relief programs are applied to their tax bill.

Another concern is that, even when HECM participants become delinquent, state and local governments provide an array of programs to senior citizens that reduce the cost of property tax delinquency and keep seniors in their homes. Unless these programs are used, however, a foreclosed property with a tax lien can be very costly to taxpayers who cover the losses when the sale proceeds of a HECM property are less than the loan balance issued by lenders.

In this article, we examine property tax relief programs for the 50 U.S. states and summarize programs that are particularly targeted toward seniors. We find that such programs provide significant tax breaks for many elderly homeowners. One plausible approach to reducing the likelihood of tax default is to ensure that HECM homeowners are counseled on all tax relief programs, with annual reviews validating that they are receiving these benefits.

[1] Evidence from the mortgage default literature suggests that households with negative home equity and those that are wealth and liquidity constrained are more likely to default on forward mortgages (Elul et al., 2010).

[2] In a simple illustrative example, a taxpayer may become delinquent and pay 7 percent interest on the delinquent tax bill rather than pay the bill on a credit card that charges 20 percent interest.

Summary of Property Tax Relief Programs

Property taxes represent the largest source of own revenue for local governments. The basic guidelines on how property is assessed and taxed are set at the state level. States also outline provisions about types of relief programs offered through the property tax system. Nearly every state surveyed in the current analysis provides some type of relief to taxpayers. In addition to the availability of state-mandated programs, a plethora of local-level relief programs are available to property owners. Exemptions, credits, circuit breakers, tax and assessment freezes, and tax deferral programs are an important part of the tax system and offer significant tax breaks or short-term relief for many property owners. Although many states offer varying tax benefits to taxpayers, the focus of this discussion are HECM participants, who would largely benefit from programs targeted at homeowners and seniors. This discussion focuses on programs that determine eligibility based on age and whether the homeowner occupies the property as his or her primary residence. State benefits are summarized in exhibit 1.

The most common property tax relief programs include exemptions, credits, circuit breakers, tax and assessment freezes, and tax deferral programs. Exemptions reduce the taxable value of the property on which the tax is applied. Exemptions can be offered as a dollar amount or as a percent of the property taxable value. For example, on a property with an assessed value of $200,000, an assessment ratio of 0.5, and a property tax rate of 1.5 percent, the property tax bill would be $1,500 ($200,000 X 0.5 X 0.015). If a property receives an exemption of $40,000 this would reduce the assessed value to $160,000 and the tax bill to $1,200 ([$200,000 - $40,000] X 0.5 X 0.015). A 20 percent exemption would produce an identical reduction in the tax bill in this case.

Twenty-one states and the District of Colombia currently provide tax benefits on a homeowner's primary residence through the homestead exemption (Nikaj, 2013). HECM participants would qualify for and likely already carry homestead exemptions, given that the occupancy requirement under HECM also satisfies the requirement for eligibility under nearly all homestead benefit programs. Additional or more generous exemptions are offered to those older than age 65. Today, 22 states provide homestead benefits that are directly targeted at seniors. With few exceptions, most programs designate the age of 65 as the age at which the homeowner becomes eligible for the additional benefits. For example, Hawaii extends the benefit to individuals as young as age 60, where the homestead exemption for seniors is two times the basic homestead exemption. In Alaska and Colorado, the senior homestead exemption reduces the assessed values by $150,000 and $100,000, respectively. Many local-level taxing jurisdictions extend additional benefits to homeowners age 65 and older in the form of local-level or school district exemptions. For example, the State of Texas provides an additional $10,000 exemption to those older than age 65 from school taxes. This benefit is in addition to the $25,000 exemption offered to all homeowners. Many exemptions are offered by or apply to different taxing districts. In Georgia, eligible taxpayers receive an exemption of $4,000 from all state and county property taxes and a $10,000 exemption from assessed value for school tax.

Other states provide the benefit in the form of a credit. Credits are applied to a homeowner's tax bill after the tax has been calculated and are offered as either a lump sum dollar amount off the

Exhibit 1

State and Local Government Programs Targeting Seniors (1 of 6)

State	Type of Benefit	Description of Benefit
Alabama	Exemption (with local option)	**Exemption:** Eligible individuals are 100 percent exempt from state ad valorem taxes. For senior homesteads at less than an income of $12,000, up to $5,000 in assessed value is exempt for county and school district taxes. For those above the income limit, the exemption is $2,000 for county taxes only. No exemption exists for school district taxes. At local option, an additional exemption of up to $2,000 in assessed value may be available at the higher income level. The exemption is limited to $5,000 and applies to school district taxes and county taxes.
Alaska	Exemption (with local option), tax deferral	**Exemption:** The first $150,000 is exempt from taxation. By local option, municipalities may provide for exemption in addition to the first $150,000. **Tax deferral:** A full or partial local option deferral of all property taxes (interest free).
Arizona	Credit, tax deferral, assessment freeze	**Credit:** The benefit is a refundable credit to income tax bill for property taxes accrued. The benefit is income based and ranges from $56 to $502. **Tax deferral:** Applicants must be at least 70 years of age, with incomes below $10,000 and property values below $150,000, with additional residency requirements of 6 to 10 years. **Assessment freeze:** Assessment freeze based on income limitations.
Arkansas	Assessment freeze	**Assessment freeze:** For this program, residential property shall be assessed based on the assessed value when the person becomes eligible or on a later value, whichever is less.
California	Circuit breaker, tax deferral (with local option)	**Circuit breaker:** Applicants must be at least age 62. For homeowners, the benefit is a payment of a percentage of tax on the first $34,000 of full value; the percentage is based on income. **Tax deferral:** Homeowners can postpone payment of property taxes on their residence until their property is sold or title is transferred.
Colorado	Exemption, tax deferral, circuit breaker, property tax work-off program	**Exemption:** This program exempts 50 percent of a property's actual value, up to a maximum of $200,000 from taxation. **Tax deferral:** Deferrals constitute a lien and interest accrues over time. The cumulative amount of the deferral plus interest must not exceed the market value of the property less the value of any liens. **Circuit breaker:** The benefit covers the property taxes owed and depends on household income. The maximum allowable benefit is $600, and it is reduced with income. **Property tax work-off program:** Allows the taxpayer to perform work for the taxing entity in lieu of the payment of any real property taxes due.
Connecticut	Exemption (with local option), circuit breaker, tax freeze (with local option), other	**Exemption:** Property tax exemption of $1,000. Municipalities may provide an additional $1,000 exemption. **Circuit breaker:** The amount of the credit is determined by income and marital status. The maximum benefit for married applicants is $1,000 and $1,250. **Tax freeze:** Elderly homeowners age 70 or older, who have lived in the state for at least 1 year and meet the income limits for the circuit breaker. Municipalities may permanently freeze property taxes of eligible homeowners. **Other:** Municipalities may provide additional relief as long as the total relief the municipality provides does not exceed 10 percent of the total value of the property.
District of Columbia	Tax deferral, credit, circuit breaker	**Tax deferral:** Three programs are offered in DC. The programs either remove tax liability for low-income seniors or slow the growth of tax liability year over year. **Credit:** This benefit reduces a qualified property owner's property tax by 50 percent. **Circuit breaker:** The benefit is a refundable income tax credit equal to the amount by which real property taxes paid on claimant's principal place of residence for the taxable year exceed a percentage and depends on income.

Exhibit 1

State and Local Government Programs Targeting Seniors (2 of 6)

State	Type of Benefit	Description of Benefit
Delaware	Exemption (with local option), credit	**Exemption:** The benefit is a $5,000 exemption. This exemption is not to include municipal property taxes. Municipalities may offer local-level exemptions. **Credit:** The local school board allows for a credit against school taxes imposed against principal residence that is the lesser of 50 percent of taxes remaining after homestead and other exemptions are taken, or $500.
Florida	Exemption (with local option), tax deferral	**Exemption:** Owner-occupiers age 65 years and older with a household income of less than $27,994 (in 2014) are entitled to an additional $50,000 exemption if approved by the municipal governing authority. **Tax deferral:** For a claimant age 65 or older with a household income of less than $27,994 (in 2014), all property taxes can be deferred. For those with incomes above this limit, taxes in excess of 3 percent of their income can be deferred.
Georgia	Exemption (with local option, school tax, state), tax deferral, assessment freeze	**Exemption:** Eligible taxpayers receive an exemption of $4,000 from all state and county property taxes, a $10,000 exemption from assessed value for school tax, and an additional exemption of property taxes levied by the State of Georgia. **Tax deferral:** Eligible applicants must be at least 62 years old and entitled to claim a homestead exemption and have a gross household income of less than $15,000. The total amount of deferred taxes, interest plus, and unsatisfied liens cannot exceed 85 percent of the fair market value. An interest rate of .75 percent per month accrues on all deferred property taxes. **Assessment freeze:** An exemption is provided for the value of the homestead that exceeds the value when the exemption is first granted.
Hawaii	Exemption (with local option)	**Exemption:** Taxpayers between ages 60 and 69 receive an exemption from assessed value equal to 2 times the basic home exemption. Taxpayers age 70 years and older receive an exemption equal to 2.5 times the basic home exemption. Counties have the option of increasing the value of this exemption through local option.
Idaho	Circuit breaker, tax deferral	**Circuit breaker:** The benefit is a reduction in property taxes and depends on income. The benefit ranges from a maximum benefit of $1,320 for incomes less than $11,550 to a benefit of $150. **Tax deferral:** The benefit is a deferral of property tax. During the period of deferral, interest accrues at 6 percent annually.
Illinois	Assessment freeze, tax deferral, exemption, credit (with local option)	**Assessment freeze:** This exemption allows senior citizens to maintain the equalized assessed value (EAV) of their homes at the base year EAV and prevent any increase in that value due to inflation. **Tax deferral:** The benefit permits eligible people to defer payment of all or part of their real estate taxes or special assessment on a principal residence up to 80 percent of equity. The state pays the taxes and files a lien on the property to ensure repayment. **Exemption:** This program exempts up to $5,000 of equalized assessed value from property taxes. **Credit:** A city, village, or incorporated town can refund any part of real property taxes it levies and collects in residential real property.
Indiana	Exemption, circuit breaker	**Exemption:** An individual may obtain a deduction from the assessed value equal to the lesser of 1/2 the assessed value of the real property or $12,480. Circuit breaker: The credit is the amount that the current year’s tax liability exceeds a 2-percent increase of the previous year’s liability after application of this credit.
Iowa	Circuit breaker	**Circuit breaker:** The benefit is based on income and ranges from 25 to 100 percent of property taxes paid.

Exhibit 1

State and Local Government Programs Targeting Seniors (3 of 6)

State	Type of Benefit	Description of Benefit
Kansas	Circuit breaker, credit	**Circuit breaker:** Benefit is a tax refund and depends on income. The maximum credit is $700. **Credit:** Applies to low-income seniors and refunds 75 percent of property and ad valorem taxes paid.
Kentucky	Exemption, assessment freeze	**Assessment freeze:** Assessed value remains fixed at the value of property the first year that the owner qualifies for and receives the homestead exemption. **Exemption:** A homestead exemption of $36,900 applies to the assessed value.
Louisiana	Assessment freeze	**Assessment freeze:** The assessed value remains fixed at the value of property the first year the owner qualifies for and receives the special assessment.
Maine	Credit, tax deferral (with local option), circuit breaker	**Credit:** Program provides property tax relief up to $750 for voluntary service provided by homeowners. **Tax deferral:** Local option deferral of all property taxes due. Deferrals constitute a lien on the property with interest accruing at a rate of 6 percent. **Circuit breaker:** The benefit is a refundable credit based on property tax. The benefit is 40 percent for that portion of property tax owed that exceeds 10 percent of income. The maximum payment is $300 or $400 for people older than age 70.
Maryland	Tax deferral (with local option), credit (with local option)	**Tax deferral:** Local governments determine the eligibility requirements and the provisions of the deferral. **Credit:** Baltimore City and each county and municipal corporation may grant a property tax credit. Income limitations apply.
Massachusetts	Exemption, circuit breaker	**Exemption:** The benefit is the greater of a $2,000 exemption of taxable property value or a $175 credit on the property tax bill for elderly age 70 or older with wealth less than $20,000. **Circuit breaker:** The benefit is a refundable credit to the income tax bill equal to the amount by which real estate tax payments exceed 10 percent of income. The maximum credit for 2014 was $1,050.
Michigan	Tax deferral, circuit breaker	**Tax deferral:** The benefit defers special assessments. The minimum deferral, exclusive of interest, is $300. Taxpayer's income in 2013 could not exceed $22,682. **Circuit breaker:** The tax credit for eligible applicants with incomes of less than $21,000 is 100 percent. The credit is phased out by 4 percent for each $1,000 above $21,000. Maximum income for eligibility is $50,000.
Minnesota	Tax deferral	**Tax deferral:** Taxpayers receive a property tax deferral equal to 3 percent of their total household income for the preceding year. The maximum allowable deferral is equal to 75 percent of the assessor's estimated market value.
Mississippi	Exemption	**Exemption:** Eligible applicants qualify for an exemption of $7,500 from the assessed value of their homestead.
Missouri	Circuit breaker	**Circuit breaker:** The amount of the benefit varies with both income and property tax paid. The maximum benefit is $1,100 disbursed through the income tax system.
Montana	Circuit breaker	**Circuit breaker:** The program provides a refundable credit on paid property taxes. The maximum benefit is $1,000.
Nebraska	Circuit breaker	**Circuit breaker:** The eligible value of the homestead considered for relief will be reduced by 10 percent for every $2,500 in excess of either $95,000 or 200 percent of the average assessed value of single-family residential property in the particular county, whichever is greater. Homesteads that are $20,000 over the assessed value limit are not eligible for this program. Benefit varies with income and property value.
Nevada	No programs administered on the basis of age.	

Exhibit 1

State and Local Government Programs Targeting Seniors (4 of 6)

State	Type of Benefit	Description of Benefit
New Hampshire	Exemption (with local option), tax deferral (with local option)	**Exemption:** Local option exemption for elderly, the amount of which is established by adopting cities and towns, but which is to be no less than $5,000. **Tax deferral:** Local option deferral of all or part of taxes due in cases in which assessing officials think the tax burden imposes undue hardship or a possible loss of property. The interest rate on deferred taxes is 5 percent per year.
New Jersey	Circuit breaker, credit, tax freeze	**Circuit breaker:** Benefits are based on property taxes paid in 2006 up to a maximum of $10,000. Benefits for homeowners age 65 and older with gross incomes of less than $100,000, tax relief is 10 percent of property taxes and 5 percent for those with incomes between $100,001 and $150,000. **Credit:** A reduction on their property tax bill in the amount of $250. **Tax freeze:** The state reimburses to the taxpayer the difference between the amount of property tax paid in the first year of meeting all eligibility requirements and the amount paid in the current year.
New Mexico	Assessment freeze, circuit breaker	**Assessment freeze:** This exemption allows senior citizens to maintain the equalized assessed value (EAV) of their homes at the base year EAV and prevent any increase in that value due to inflation. **Circuit breaker:** The benefit is a refundable credit to the income tax bill. The benefit is the amount of property tax paid each taxable year that exceeds the maximum property tax liability. The maximum property tax liability ranges from $20 for income below $1,000 to $180 for incomes from $15,000 to $16,000. The tax rebate will not exceed $250 per return.
New York	Exemption (with local option, school taxes)	**Exemption:** Local governments and school districts have the option of providing an exemption of taxable value of residential property to senior citizens. For the 50-percent exemption, the law allows each county, city, town, village, or school district to set the maximum income limit at any figure between $3,000 and $29,000. Localities have the further option of giving exemptions of less than 50 percent to seniors whose incomes are more than $29,000 but less than $37,400. Real property is exempt from taxation for school purposes with two variations known as the Basic STAR exemption and an Enhanced STAR exemption for eligible senior citizens. The amount of the basic exemption is $30,000 and the amount of the enhanced exemption in 2013 is $63,300.
North Carolina	Exemption, circuit breaker	**Exemption:** Exemption from assessed value equal to the greater of $25,000 or 50 percent of the appraised value of the residence. **Circuit breaker:** The program allows for deferment based on income eligibility requirements.
North Dakota	Circuit breaker	**Circuit breaker:** Residents are eligible for an exemption of taxable value that varies by income. The exemption varies by income and cannot exceed a maximum reduction of $450.
Ohio	Exemption	**Exemption:** The benefit is a flat exemption of $25,000 of the market value of an eligible homestead.
Oklahoma	Circuit breaker, assessment freeze	**Circuit breaker:** The refundable credit relieves property taxes exceeding a threshold of 1 percent of income if income is $12,000 or less. The maximum benefit is $200. The benefit is disbursed as an income tax credit or as a direct rebate if the claimant is not required to file an income tax return. **Assessment freeze:** For eligible applicants, the benefit is a freeze of the taxable value of the homestead.

Exhibit 1

State and Local Government Programs Targeting Seniors (5 of 6)

State	Type of Benefit	Description of Benefit
Oregon	Tax deferral	**Tax deferral:** This program is available to people age 62 and older. The benefit is a deferral of property taxes with a 6-percent interest rate per annum. The state pays the county the property taxes, and the property owner owes the money to the state.
Pennsylvania	Circuit breaker	**Circuit breaker:** The benefit, determined by income, ranges from $250 to $650. In Philadelphia, Pittsburgh, and Scranton, the maximum benefit can reach $975.
Rhode Island	Circuit breaker, assessment freeze, credit, tax deferral	**Circuit breaker:** This program provides a refundable tax credit based on property taxes in excess of income. The maximum credit is $305. **Assessment freeze:** The state has authorized assessment freezes for eight towns. **Credit:** The state has authorized credits for six towns. The credit is $500 in Bristol, Cumberland, and Newport. **Tax deferral:** The state has authorized deferrals in seven towns. Eligibility requirements for assessment freeze, credit, and tax deferral vary by town.
South Carolina	Exemption	**Exemption:** Eligible applicants receive an exemption of $50,000 from the assessed value of county, municipal, school, and special assessment property taxes.
South Dakota	Circuit breaker, assessment freeze	**Circuit breaker:** The benefit is a refund for sales or property taxes and depends on income and family structure. No limit on benefits exists, but refunds vary between 11 and 55 percent of taxes paid. The municipal tax circuit breaker program is a percent reduction in property taxes between 16 and 55 percent based on income and family structure. **Assessment freeze:** The assessment is held constant at the value recorded in the year the property owner becomes eligible for the program.
Tennessee	Credit (with local option), tax freeze	**Credit:** The state program provides a credit for taxes on the first $25,000 of market value. Local option may provide for an additional credit, not to exceed total taxes. **Tax freeze:** The benefit is a property tax freeze. Property taxes are held at the lesser of the value recorded in the year the property owner becomes eligible for the program, or the current level. The taxpayer must apply annually.
Texas	Exemption (with local option), school taxes), tax freeze	**Exemption:** Exemption is $10,000 for school taxation. At local option, a governing body may adopt for all homesteads a percentage exemption up to 20 percent of the appraised value. If the percentage produces an exemption of less than $5,000 for a particular property, a minimum exemption of $5,000 is applied. **Tax freeze:** The tax ceiling provides that school taxes on residential homesteads will not increase above the amount of the taxes imposed when the homeowner qualified.
Utah	Tax deferral (with local option), credit (with local option), circuit breaker, credit	**Tax deferral:** Local option, the county may defer up to all taxes. **Credit:** At local option, county may provide relief of either the maximum low-income credit for that year, which in 2014 is $924, or 50 percent of taxes due, whichever is less. **Circuit breaker:** Benefit depends on income. The benefit is disbursed as a property tax credit for homeowners, with maximum relief in 2014 at $924. **Credit:** For eligible homeowners, a credit equal to the tax on 20 percent of the market value. Eligibility depends on income.
Vermont	No programs administered on the basis of age.	
Virginia	Exemption or tax deferral (with local option)	**Exemption or tax deferral:** Exemption, deferral, or a combination of the two, on property tax to eligible claimants. The amount exempted or deferred on the tax is the portion of tax liability from when the claimant becomes age 65 or from the year they apply.

Exhibit 1

State and Local Government Programs Targeting Seniors (6 of 6)

State	Type of Benefit	Description of Benefit
Washington	Circuit breaker, assessment freeze / exemption, tax deferral	**Circuit breaker:** The benefit is an exemption of valuation from regular property tax based on income. The benefit varies between 35 and 60 percent of the value of the home, with some benefit limitations. **Assessment freeze/exemption:** Those with incomes of $35,000 or less are exempt from all excess levies and the assessment for regular levies is frozen at the lesser, current value or the value when the homeowner became eligible. **Tax deferral:** Eligible homeowners may defer payment of property tax or special assessments. The deferred amounts may not exceed 80 percent of the claimant's equity in the residence.
West Virginia	Exemption, credit, circuit breaker	**Exemption:** The program exempts the first $20,000 from ad valorem property taxes for senior citizens. **Credit:** Senior citizens eligible for the homestead exemption receive a refundable credit equal to the taxes on $20,000 of assessed value in excess of the homestead exemption. **Circuit breaker:** This program grants relief that ranges from 75 percent of property tax liability for gross household incomes of $500 or less to 30 percent of the taxes that exceed 4.5 percent of income for gross household incomes ranging from $4,001 to $5,000. The maximum taxes considered are $125.
Wisconsin	Tax deferral	**Tax deferral:** Participants apply for a loan equal to the amount of property taxes and special assessments levied.
Wyoming	Circuit breaker, tax deferral	**Circuit breaker:** The benefit ranges from $100 to $900, depending on income. **Tax deferral:** The benefit is a deferral of the up to one-half of any real estate ad valorem taxes owed by the property owner on his principal residence. Interest accrues at 4 percent a year. Income eligibility rules apply.

Sources: Lincoln Institute of Land Policy and George Washington Institute of Public Policy (2015); local governments

tax bill or as a percent reduction of the homeowner's tax liability. For example, the District of Columbia offers a 50 percent credit to senior homeowners. On the other hand, New Jersey offers a $250 credit toward a senior citizen's tax liability. In Illinois, a local option allows municipalities to refund any part of the levy (Lincoln Institute of Land Policy and George Washington Institute of Public Policy, 2015).

Elderly homeowners are also protected through other programs such as tax freezes or assessment freezes. Fifteen states have property tax or assessment freeze programs. Tax freezes bar property tax increases for senior taxpayers beyond the tax liability in the year the homeowners turned 65 or when she or he submits an application with the assessor's office. In Texas, the tax freeze (ceiling) is set at the amount paid in the year the applicant qualifies for the benefit, but the tax may go up if the homeowner undertakes improvements on the property. Assessment freeze programs cap the value of the property to the one recorded in the year the property owner becomes eligible for the program (NCSL, 2012). Although the age of the homeowner is the primary determinant of assessment or tax freezes, in some states, eligibility also depends on income (that is, in South Dakota and Washington).

An alternative to the programs already discussed is a circuit breaker. Circuit breakers provide benefits based on family income and reduce the burden of taxation for low- and moderate-income households. Although many circuit breaker programs are available for those under age 65,[3,4] most programs are targeted at seniors (Bowman et al., 2009). Under circuit breaker programs, if the tax bill exceeds a given percent of a family's income, then the taxpayer receives a rebate of all or part of the bill above a threshold. The rebate is usually issued after the tax bill has been paid (Lyons, Farkas, and Johnson, 2007). For example, Massachusetts provides a credit equal to the amount by which the property tax bill exceeds 10 percent of income. Missouri on the other hand, uses a multitiered benefit program, in which the credit depends both on income and property tax. Rebates are usually administered either as separate programs, through the income tax system, or through the property tax system. Whereas most circuit breakers use most sources of income, some states remove Social Security benefits from the calculations of income eligibility. One benefit of circuit breakers is that they provide relief when it is most needed—during times of economic hardship. Another benefit in states that extend circuit breakers to all homeowners is that HECM participants under age 65 would also qualify.

Tax deferrals allow senior property owners to postpone but not cancel their property taxes. Twenty-one states offer a tax deferral program for seniors. Deferred taxes do not become payable until the property is transferred. Most states' deferral programs usually will charge interest that accrues until the deferred taxes become payable. The interest charged on deferred taxes in all cases is lower than the interest and penalties of property tax delinquency (Anderson and Miller, 2015; Miller, 2013). Alaska is an exception to the rule; municipalities in Alaska may not charge interest on deferred taxes.

In many states, the amount of deferred taxes and interest and any liens on the property cannot exceed a percentage of home equity. In Illinois, eligible people may defer payment of all or part of their real estate taxes or special assessment on a principal residence up to 80 percent of equity. The state pays the taxes and files a lien on the property to ensure repayment. In Oregon, the state pays the county the property taxes, and the property owner owes the money to the state. A lien is placed against the property, and deferred tax bills are assessed an interest rate of 6 percent per year. The Oregon program is unique because it does not allow seniors with a reverse mortgage to partake in the tax deferral program.

The preceding discussion provides an indepth but not exhaustive overview of property tax relief programs available to elderly homeowners. Given the complexity and dynamic nature of the local property tax system, we recognize that property tax payers may be eligible for other programs not discussed in our analysis. Although a wide range of information regarding property tax relief programs is available, little is known about how local governments administer property payments and property tax delinquency among those people age 65 and older.[5] For example, the State of Texas can collect taxes from certain groups of homesteaders (that is, seniors and disabled veterans)

[3] Limiting our study to those age 65 or older removes from our analysis the State of Vermont, which offers one of the most generous circuit breaker programs among the 50 states.

[4] Many states offer the same benefit to renters in addition to homeowners. Renters implicitly pay property taxes through their monthly rent payment. Oregon offers the benefit only to renters.

[5] For a summary of property tax delinquency policies among the 50 U.S. states, see Anderson and Miller (2015).

under installment payments. Property tax is payable in one installment for most homeowners.[6,7] Senior homeowners are allowed to pay their tax bill in four equal installments to be received before January 31, March 31, May 31, and July 31.[8] This smoothing of tax expenditures may reduce the burden of payment shock, when homeowners switch from a forward to a reverse mortgage and taxes are no longer included in the monthly mortgage payment through an escrow account.[9] Previous research found that increasing the number of payments reduces property tax delinquency by a significant and nontrivial amount (Waldhart and Reschovsky, 2012). Furthermore, if delinquency does happen in intermediate steps, only the smaller amount of the tax bill is charged the statutory interest and penalty. Thus the penalties that senior homeowners face are smaller than those that other taxpayers face. Provided that state and local governments administer property taxes differently for seniors, additional benefits may be available that our analysis does not summarize.

Property Tax Relief Programs and Tax Liability

Senior tax relief programs can provide eligible homeowners a sizeable reduction in their property tax bill. In this section, we perform two illustrative calculations. First we estimate expected tax bills for HECM participants for all U.S. states using state-level mean and median property values for HECM participants. To demonstrate the magnitude of the tax reductions that senior tax relief programs generate, we provide examples of different tax relief regimes for five cities across the United States.

An important predictor of property tax default is the tax burden that homeowners face. In exhibit 2, we summarize the tax bill that HECM participants across the 50 U.S. states could face. We use the mean and median property value of properties endorsed for a HECM loan in 2015. Mean and median home prices are summarized in columns three and four of exhibit 2 and reflect the housing market conditions of the places where HECM participants are located. To be more specific, Washington, D.C., and states like California, Hawaii, and New York have high mean and median property values. The lowest median home values are in Kansas and West Virginia.

Property tax systems vary significantly across states and often within states. Assessment rates and practices and what comprises taxable value differ between states. Local jurisdictions in Illinois, for example, assess real property at 33.3 percent of fair cash value outside of Cook County (Chicago), whereas, in Idaho, the standard assessment is 100 percent of market value. These local-level rules also affect how benefits from property tax relief programs are calculated. To facilitate comparisons across states we use tax data from the most recent *50-State Property Tax Comparison Study* of the

[6] Homeowners who become delinquent on their taxes may partake in an installment plan administered by counties to pay their delinquent taxes. A split payment method is available to taxpayers who can pay the tax liability in two installments.

[7] Most bills go out in October of a given year, and they are payable by January 30 of the subsequent year. By February 1 all accounts that have not received payment are considered delinquent. Taxpayers are assessed 6-percent interest and 1-percent interest for each month they are delinquent. If the tax bill is delinquent after June 30, the taxpayer incurs an additional 20-percent processing fee—in Dallas County—which turns the bill over to a legal team that pursues collection. The maximum amount of interest on a tax bill at 1 year of delinquency is 44 percent.

[8] See Texas Property Tax Code at https://comptroller.texas.gov/taxes/property-tax/.

[9] Related work by Anderson and Dokko (2011) found that delays in receiving a tax bill, if the bill is not paid through an escrow account, reduces the probability of default.

Exhibit 2

HECM Average Property Tax Bills by State for Mean and Median Home Values

State	City	Mean Value ($)	Median Value ($)	Mean Bill ($)	Median Bill ($)
Alabama	Birmingham	150,067	129,000	1,035	890
Alaska	Anchorage	297,197	276,000	3,754	3,486
Arizona	Phoenix	253,193	214,750	3,109	2,637
Arkansas	Little Rock	153,753	119,000	1,736	1,344
California	Los Angeles	497,422	445,000	5,845	5,229
Colorado	Denver	320,524	290,000	2,122	1,920
Connecticut	Bridgeport	315,879	250,000	8,575	6,787
District of Columbia	Washington	501,389	511,500	3,510	3,581
Delaware	Wilmington	267,162	240,000	3,497	3,142
Florida	Jacksonville	255,143	213,000	3,876	3,235
Georgia	Atlanta	196,429	156,000	2,679	2,128
Hawaii	Honolulu	621,112	595,000	1,870	1,791
Idaho	Boise	222,858	185,000	1,847	1,534
Illinois	Aurora	217,841	177,000	8,093	6,576
Illinois	Chicago	217,841	177,000	3,453	2,805
Indiana	Indianapolis	153,252	128,500	1,646	1,380
Iowa	Des Moines	150,680	131,000	3,639	3,164
Kansas	Wichita	141,767	126,000	1,830	1,627
Kentucky	Louisville	160,296	135,350	2,058	1,738
Louisiana	New Orleans	188,419	158,000	1,796	1,506
Maine	Portland	223,174	184,000	4,417	3,641
Maryland	Baltimore	292,006	250,000	6,094	5,218
Massachusetts	Boston	364,143	321,500	1,821	1,608
Michigan	Detroit	168,918	136,000	6,434	5,180
Minnesota	Minneapolis	226,411	190,000	3,601	3,022
Mississippi	Jackson	138,654	122,000	2,482	2,184
Missouri	Kansas City	163,151	135,500	2,594	2,154
Montana	Billings	257,059	230,000	2,224	1,990
Nebraska	Omaha	151,535	132,000	3,043	2,651
Nevada	Las Vegas	269,017	229,000	3,043	2,590
New Hampshire	Manchester	273,361	226,500	6,470	5,361
New Jersey	Newark	322,924	275,000	9,836	8,377
New Mexico	Albuquerque	236,647	182,500	3,013	2,323
New York	Buffalo	436,001	390,000	8,454	7,562
New York	New York City	436,001	390,000	4,905	4,388
North Carolina	Charlotte	204,888	160,000	2,381	1,859
North Dakota	Fargo	183,331	177,500	2,259	2,187
Ohio	Columbus	157,927	130,000	2,969	2,444
Oklahoma	Oklahoma City	146,579	130,000	1,741	1,544
Oregon	Portland	284,435	255,000	6,516	5,842
Pennsylvania	Philadelphia	197,981	165,000	2,097	1,747
Rhode Island	Providence	267,888	216,000	4,672	3,767
South Carolina	Columbia	220,578	176,000	1,685	1,345
South Dakota	Sioux Falls	178,587	158,000	2,197	1,943
Tennessee	Memphis	173,056	141,750	3,179	2,604
Texas	Houston	201,905	163,000	3,560	2,874
Utah	Salt Lake City	293,849	275,000	2,507	2,346
Vermont	Burlington	251,208	201,000	5,843	4,675
Virginia	Virginia Beach	261,678	207,000	2,407	1,904
Washington	Seattle	333,920	287,750	2,898	2,498
West Virginia	Charleston	148,742	134,000	1,136	1,024
Wisconsin	Milwaukee	191,769	155,000	5,130	4,146
Wyoming	Cheyenne	257,752	195,500	1,681	1,275

HECM = Home Equity Conversion Mortgage.

Notes: Tax bills were calculated using effective tax rates from the 50-State Property Tax Comparison Study *(Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, 2016). Effective tax rates account for homestead exemptions and credits but exclude special property tax provisions that arise because of a taxpayer's circumstances and attributes, such as a taxpayer's age.*

Lincoln Institute of Land Policy and Minnesota Center for Excellence (2016). The data facilitate comparisons in tax rates among homestead properties for the most populous city in each state for all U.S. states.[10] Most taxpayers are subject to several taxing jurisdictions at once, leading to many tax rates within a city. Such analysis can be both prohibitively costly and confusing. One benefit of using Lincoln Institute of Land Policy tax data is that the report uses the most prevalent total local tax rate to generate the representative tax bills. In addition, the report accounts for general credits or benefits that apply to most taxpayers and, therefore, is able to provide an effective tax rate of the true tax burden borne by homesteaders in these jurisdictions.[11] The tax rates used account for homestead exemptions and credits but exclude special property tax provisions that arise because of a taxpayer's circumstances and attributes, such as a taxpayer's age. These estimates provide an upper bound of property tax bills that HECM participants faced.

Property tax bills are highest in areas like Aurora, Illinois; Baltimore, Maryland; Bridgeport, Connecticut; Burlington, Vermont; Manchester, New Hampshire; Newark, New Jersey; and Portland, Oregon. High property values could explain, to some degree, the difference in tax bills. These cities, however, also tend to have high effective tax rates relative to the rest of the comparison cities. For example, Bridgeport, Connecticut, has the highest effective tax rate, at 3.88 percent (Lincoln Institute of Land Policy and Minnesota Center for Fiscal Evidence, 2016). The lowest property tax bills are in places like Birmingham, Alabama; Cheyenne, Wyoming; Columbia, South Carolina; and Little Rock, Arkansas.

Exhibit 3 summarizes property tax relief programs for seniors in five cities. Our demonstration compares a typical property tax bill with full application of senior tax exemptions and credits applied with other tax bills without these exemptions. We selected the cities based on the straightforward nature in which the taxes are calculated and the ease of comparison across tax relief regimes.

Exhibit 3

Five-City Comparison in Benefits

City	State	Home Value ($)	No Relief ($)	Homeowner Relief ($)	Homeowner and Senior Relief ($)	Homeowner and Senior Relief Savings ($)	Homeowner and Senior Relief Savings (%)	Senior Relief Savings ($)	Senior Relief Savings (%)
Anchorage	Alaska	297,197	4,119	3,842	1,763	2,356	57.2	2,079	54.1
Charleston	South Carolina	220,578	3,262	1,194	946	2,316	71.0	248	20.8
Dallas	Texas	201,905	10,886	8,647	4,477	6,410	58.9	4,171	48.2
Fort Collins	Colorado	320,524	2,327	NA	1,601	NA	NA	726	31.2
Indianapolis	Indiana	153,252	3,375	1,675	1,650	1,725	51.1	25	1.5

NA = Not applicable.

[10] The report includes two cities from Illinois and New York. Assessment ratios in Chicago and New York City are sufficiently different from the rest of Illinois and New York. The next two largest cities within the states are also included.

[11] We used the effective tax rate for the median property in the jurisdiction for most cities. The 50-state comparisons also provided effective tax rates for properties valued at $150,000 and $300,000. When the HECM home values were closer to $150,000 and $300,000, we used those effective tax rates.

As a starting point for our comparison, we assume the state median home value for HECMs originated in 2015 as provided in exhibit 2. Then we assume a representative property tax from the selected city. Finally, we apply the maximum senior tax relief available and assume all age and income requirements are met.

The first city we compare across tax relief regimes is Dallas, Texas. A property with a value of $201,905 located in the city of Dallas with no exemptions would incur an annual property tax bill of $10,886, applying representative tax rates for all applicable taxing units. In Texas, a general homestead exemption of $25,000 is available to all owner occupants regardless of age or income with an option to increase the exemption up to 20 percent of the appraised value. Applying the general homestead exemption with the maximum local option would reduce the annual property tax bill to $8,647. Additional tax exemptions are available to homeowners age 65 and older as described in exhibit 1. Applying the general homestead exemption along with all available senior tax relief exemptions would further reduce the annual property tax bill to $4,477. Therefore, an annual tax bill with all senior tax relief programs applied represents a reduction of $6,410, or nearly 60 percent, from the tax bill with no exemptions and a reduction of $4,171, or nearly 50 percent, from the tax bill with only the general exemption applied.

The second city we examine across tax relief regimes is Indianapolis, Indiana. A property with a value of $153,252 located in the city of Indianapolis with no exemptions would incur an annual property tax bill of $3,375, applying representative 2016 tax rates. Applying the homestead deduction would reduce the assessed value by $45,000 and supplemental homestead deduction would reduce the assessed value by a further $37,888. The subsequent annual property tax bill with the general homestead exemptions applied would be $1,675. Applying the general homestead exemption along with the deduction for homeowners age 65 or older as described in exhibit 1 would further reduce the annual property tax bill to $1,650. Therefore, an annual tax bill with senior tax relief programs applied represents a reduction of $1,725, or slightly more than 50 percent, from the tax bill with no exemptions, and a further reduction of only $25 when compared with the tax bill with only the general exemptions applied.

The third city we compare tax bills across tax relief regimes is Anchorage, Alaska. A property with a value of $297,197 located in the city of Anchorage with no exemptions would incur an annual property tax bill of $4,119, with representative 2016 tax rates. Applying the residential exemption available to all primary residences regardless of age would reduce the assessed value by 10 percent, up to a maximum of $20,000. The annual property tax bill with the residential exemption applied would be $3,842. The senior exemption available to primary residents age 65 or older would reduce the assessed value by a further $150,000. Applying the residential exemption along with the senior exemption as described would result in reducing the annual property tax bill to $1,763. Therefore, an annual tax bill with senior and residential exemptions applied represents a reduction of $2,356, or 57 percent, from the tax bill with no exemptions, and a reduction of $2,079, or nearly 54 percent, from the tax bill with only the resident exemption applied.

The fourth city we compare tax bills across exemption regimes is Fort Collins, Colorado. A property with a value of $320,524 in the city of Fort Collins with no exemptions would incur an annual property tax bill of $2,327. The state offers a homestead exemption only to homeowners who are 65 years or older. The benefit exempts 50 percent of the first $200,000 of actual value for a maximum exemption of $100,000. Applying the senior tax exemption would result in an annual property tax bill of $1,601. Therefore, an annual tax bill with the senior tax exemption results in a reduction of $726, or 31 percent, from the tax bill with no exemptions.

The final city in which we compare tax bills across tax relief regimes is Charleston, South Carolina. A property with a value of $220,578 located in the city of Charleston with no exemptions would incur an annual property tax bill of $3,262. Applying the legal residence assessment ratio would reduce the annual tax bill to $1,194. The senior homestead tax exemption available to primary residents age 65 and older and surviving spouses age 50 and older reduces the first $50,000 from the fair market value of the property. Applying the legal residence assessment ratio and the senior homestead tax exemption would result in an annual property tax bill of $946. Therefore, an annual tax bill with the full set of benefits represents a reduction of $2,316, or 71 percent, from the tax bill with no exemptions and a reduction of $248, or nearly 21 percent, from the tax bill with only the residence assessment ratio applied.

Discussion

In a 2012 report to Congress, the Consumer Financial Protection Bureau described tax and insurance default as a risk to consumers with reverse mortgages (CFPB, 2012). Furthermore, the risk was substantiated in a 2014 actuarial review that found 12 percent of active HECM loans were in technical default for the nonpayment of taxes and insurance (Integrated Financial Engineering, 2014). Although no direct comparison exists, the rate of property tax delinquency for HECM borrowers appears to be much higher than that of the general population.

Two factors were found to be highly predictive of severe property tax and insurance default among HECM participants (Moulton, Haurin, and Shi, 2015): (1) property tax amount and (2) tax burden (property taxes/income). State and local tax relief programs that reduce tax burdens include exemptions, credits, circuit breakers, tax and assessment freezes, and tax deferral programs. In this article, we provide an overview of the types of programs available in each state. We then compare tax bills that HECM borrowers could face in all 50 states using the median appraised value for endorsements in 2015 and effective tax rate as provided by the Lincoln Institute of Land Policy. To demonstrate the magnitude of savings from the identified senior tax relief programs, we then select a handful of cities and compare annual property tax bills across tax relief regimes. We find substantial savings for homeowners taking advantage of these programs. For example, a HECM borrower in Dallas, Texas, could reduce his or her representative tax bill by more than $2,000, or more than 50 percent.

HECM borrowers ideally would receive information on senior tax relief programs through counselors. A potential disconnect may occur as HECM age eligibility is 62 years or older while most senior tax relief programs use an age threshold of 65 years and older.

By periodically verifying that HECM borrowers take advantage of all senior tax relief programs, FHA would reduce the tax burden and potentially reduce the instances of property tax default. One potential policy change that would increase the uptake of senior tax relief programs is to require that borrowers verify participation in these programs along with the annual occupancy verification already in place. Another potential policy change would be to require followup counseling for younger borrowers at age 65 years. This followup would provide an opportunity to remind HECM borrowers of senior tax relief programs available and verify participation.

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