U.S. MORTGAGE INSURERS

Statement for the Record
from
U.S. Mortgage Insurers

Hearing on
"The Role of Tax Incentives in Affordable Housing"

U.S. Senate Committee on Finance

July 20, 2022

U.S. MORTGAGE INSURERS

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The Honorable Ron Wyden
Chairman
Committee on Finance
United States Senate
221 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate
239 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Wyden and Ranking Member Crapo:

U.S. Mortgage Insurers (USMI) appreciates the opportunity to submit this letter for the record for the Committee on Finance's hearing titled *The Role of Tax Incentives in Affordable Housing*. We are very pleased that the committee held a hearing on this important topic and USMI believes that there are tax policies that can be improved in order to help American family achieve the American Dream of homeownership. More specifically, we strongly support S. 3590, the *Middle Class Mortgage Insurance Premium Act of 2022*, a bipartisan bill introduced by Senators Maggie Hassan and Roy Blunt.

By way of brief background, USMI is a trade association comprised of the leading private mortgage insurance (MI) companies in the U.S. and represents an industry dedicated to a housing finance system backed by private capital that enables access to prudent and affordable mortgage finance for borrowers while protecting taxpayers.[1] The private MI industry is focused on ensuring that homeready borrowers continue to have access to affordable and sustainable mortgages within a well-functioning U.S. housing finance system. The private MI industry has a 65-year track record of underwriting and actively managing single family mortgage credit risk in order to facilitate access to low down payment conventional mortgages. Since 1957, private MI has helped more than 37 million families purchase a home or refinance an existing mortgage, including nearly 2 million families in 2021 alone.

Low down payment mortgages are critical for many families, most notably first-time, lower wealth, and minority homebuyers, to secure mortgage financing. Affordability remains a persistent barrier to homeownership across the country and MI helps bridge the down payment gap for borrowers who lack the resources for large down payments. In 2021 alone, approximately 4.6 million families obtained mortgages with some form of MI, including nearly 2 million conventional mortgages with private MI, nearly 1.4 million mortgages insured by the Federal Housing Administration (FHA), and nearly 1.3 million

[1] USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.

mortgages guaranteed by the U.S. Department of Veterans Affairs (VA). Further, the vast majority of borrowers with MI are first-time homebuyers, traditionally the driving force of the housing market. For purchase mortgages originated in 2021, nearly 60% of mortgages with private MI, 85% of FHA-insured mortgages, and 50% of VA-guaranteed loans went to first-time homebuyers.[2]

In order to make homeownership more affordable, USMI has long supported the tax provision allowing a deduction for MI premiums paid in connection with a mortgage on a qualified residence (MI Deduction). Since 2007, the MI Deduction has been a powerful tool in prudently promoting homeownership for low- and moderate-income (LMI) families. The provision has been extended several times with broad bipartisan support, including most recently in the *Further Consolidated Appropriations Act of 2020*. The MI Deduction expired on December 31, 2021 and, absent congressional action, 2022 will be the first time in more than 15 years that qualifying taxpayers cannot claim a deduction that has promoted access and affordability in the housing finance system. During the time period when MI premiums have been deductible, millions of hardworking LMI households have benefited from the MI Deduction. For 2019, the most recent tax year for which detailed Internal Revenue Service (IRS) data is available, approximately 1.4 million households claimed the MI Deduction, for an average tax deduction of nearly $2,100.[3] Prior to the doubling of the standard deduction as part of the *Tax Cuts and Jobs Act of 2017*, more than 4 million households annually benefitted from the MI Deduction and utilization will likely return to those levels when the doubling of the standard deduction expires at the end of 2025.

However, two key aspects of the current MI Deduction diminish its effectiveness: (1) its temporary nature; and (2) its relatively low Adjusted Gross Income (AGI) phaseout. H.R. 6109 would modify current law to make the deduction permanent and expand taxpayer eligibility by raising the income level at which the phaseout begins, specifically increasing the income phaseout trigger to $200,000 for joint filers and $100,000 for single filers. This would be the first AGI adjustment for the MI Deduction since it took effect in 2007 and be a welcome statutory change to take into account the natural erosion of the value of the dollar with the passage of time. The MI Deduction is a sound and targeted tax policy that provides meaningful benefits to hardworking families across the country and should be a permanent part of the U.S. tax code. Homeownership remains the primary vehicle for families to enter the middle class and build long-term generational wealth, and the MI Deduction is an important tool for policymakers to support homeownership opportunities for more Americans.

S. 3590 is included as **Annex A** and bipartisan companion legislation, H.R. 6109, has been introduced by Representatives Ron Kind and Vern Buchanan. A June 2021 joint letter of support for making the deduction permanent and entirely eliminating the AGI phaseout from the Mortgage Bankers Association (MBA), National Association of Home Builders (NAHB), National Association of REALTORS® (NAR), National Housing Conference (NHC), and USMI is attached as **Annex B**.

USMI thanks you for devoting needed attention to the extremely important issue of housing, especially around policies that promote affordable and sustainable homeownership, and stands available as a

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[2] GSE aggregate data, VA Lender Loan Volume Reports, and HUD quarterly reports to Congress on "Financial Status of the Mutual Mortgage Insurance Fund."
[3] IRS, Individual Complete Report (Publication 1304), Table 2.1, Tax Year 2019. Available at https://www.irs.gov/pub/irs-soi/19in21id.xls.

resource to the committee. We appreciate the opportunity to discuss the MI Deduction, a tax policy that has long enjoyed bipartisan support, and requests for additional information may be directed to Brendan Kihn, USMI's Senior Director of Government Relations, at bkihn@usmi.org or 202-280-1820.

Very truly yours,

Adolfo Marzol
Chairman
U.S. Mortgage Insurers

Annex A

117TH CONGRESS
2D SESSION

S. 3590

To amend the Internal Revenue Code of 1986 to increase the income cap with respect to the mortgage insurance premium deduction, and to make such deduction permanent.

IN THE SENATE OF THE UNITED STATES
FEBRUARY 7 (legislative day, FEBRUARY 3), 2022

Ms. HASSAN (for herself and Mr. BLUNT) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to increase the income cap with respect to the mortgage insurance premium deduction, and to make such deduction permanent.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Middle Class Mortgage Insurance Premium Act of 2022".

SEC. 2. INCREASING THE INCOME CAP FOR AND MAKING PERMANENT THE MORTGAGE INSURANCE PREMIUM DEDUCTION.

(a) IN GENERAL.—(1) Section 163(h)(3)(E) of the Internal Revenue Code of 1986 is amended—

(1) in clause (ii), by striking "$100,000 ($50,000" and inserting "$200,000 ($100,000", and

(2) by striking clause (iv).

(b) EFFECTIVE DATE.—The amendments made by this Act shall apply to taxable years beginning after December 31, 2021.

Annex B

MORTGAGE BANKERS ASSOCIATION | National Association of Home Builders | NATIONAL ASSOCIATION OF REALTORS® | NATIONAL HOUSING CONFERENCE | U.S. MORTGAGE INSURERS

June 17, 2021

The Honorable Ron Wyden
Chairman
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden:

The undersigned organizations are writing in regard to the current tax treatment of mortgage insurance premiums. Our organizations represent a diverse coalition of stakeholders in the housing finance system, including lenders, real estate professionals, homebuilders, and mortgage insurers, and we appreciate the opportunity to provide our collective perspective on this important tax provision. As explained further below, to better support existing homeowners and prospective homebuyers, we urge you to modify current law to make the mortgage insurance premium tax deduction permanent and to eliminate its income phaseout.

Affordability remains a persistent barrier to homeownership across the country and mortgage insurance helps bridge the down payment gap for borrowers who lack the resources for a 20 percent down payment or have less than perfect credit. Low down payment mortgages – including conventional mortgages with private mortgage insurance and loans with government mortgage insurance and loan guarantees through the Federal Housing Administration (FHA), U.S. Department of Veterans Affairs (VA), and U.S. Department of Agriculture Rural Housing Service (RHS) – have proven critical for many first-time, lower wealth, and minority homebuyers to secure financing and attain the American Dream of homeownership. Using low down payment mortgages allows families to buy home sooner than they otherwise would be able and to reap the benefits of homeownership, including financial stability and building intergenerational wealth. In calendar year 2020 alone, nearly 5 million families obtained mortgages with some form of mortgage insurance, including more than two million conventional loans with private mortgage insurance, nearly 1.4 million FHA-insured mortgages, nearly 1.4 million VA-guaranteed mortgages, and more than 140,000 RHS-guaranteed single-family mortgages.[4] Further, the vast majority of borrowers with mortgage insurance are first-time homebuyers, traditionally the driving force of the

[4] GSE aggregate data, HUD quarterly reports to Congress on "Financial Status of the Mutual Mortgage Insurance Fund," VA Lender Loan Volume Reports, and Housing Assistance Council Tabulations of RHS 205 Report Data.

housing market. Low down payment lending options are critical for these first-time homebuyers, as evidenced by the fact that more than 80 percent of first-time homebuyers relied on low down payment options to purchase their home in 2020.[5]

Since 2007, the tax code has treated mortgage insurance premiums as qualified residential mortgage interest and they have been tax deductible, subject to an income phaseout for taxpayers with adjusted gross incomes (AGI) over $100,000 ($50,000 if single or married filing separately).[6] The mortgage insurance premium tax deduction was enacted in 2006 to address affordability concerns and has been extended on several occasions, including most recently by the *Further Consolidated Appropriations Act of 2020*.[7] During the time period that mortgage insurance premiums have been tax deductible, millions of low- and moderate-income homeowners have benefited from this provision of the tax code. Based on publicly available data from the Internal Revenue Service (IRS), the average deduction for mortgage insurance premiums has been approximately $1,500.[8]

However, two key aspects of the current mortgage insurance premium deduction hamper its effectiveness: (1) its temporary nature; and (2) its relatively low AGI phaseout. Further, the mortgage insurance premium deduction is the only itemized deduction subject to an AGI cap and/or phaseout. As you know, the *Tax Cuts and Jobs Act of 2017* (TCJA)[9] modified numerous aspects of the tax code and doubled the standard deduction. While millions of households still claim this deduction, no doubt this change, in concert with the current AGI phaseout, has significantly reduced the number of homeowners who benefit from the deduction. Prior to the enactment of the TCJA, more than 4 million taxpayers claimed the deduction each year and estimates indicate that about 2.4 million taxpayers claim the deduction each year post-TCJA implementation.[10] The current AGI phaseout represents a burdensome eligibility criterion for American families to claim the mortgage insurance deduction and millions more homeowners would benefit from a permanent extension that eliminates the AGI phaseout.

Thank you for your consideration of our recommendation that the mortgage insurance premium tax deduction be made permanent and that the AGI phaseout be eliminated. We welcome the opportunity to further engage on this important issue to support access to affordable mortgage financing for American families.

Very truly yours,

Mortgage Bankers Association
National Association of Home Builders
National Association of REALTORS®
National Housing Conference
U.S. Mortgage Insurers

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[5] Enact MI First-Time Homebuyer Market Reports.
[6] 26 USC 163(h)(3)(E).
[7] Pub. L. 116-94 (December 20, 2019).
[8] For example, for tax year 2017 there were 2,285,440 returns that claimed the mortgage insurance premium deduction for a total amount of $3.376 billion, with an average deduction of $1,477.
[9] Pub. L. 115-97 (December 22, 2017).
[10] Analysis of IRS data for tax years 2012-2018.