November 17, 2022

The Honorable Richard Neal
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Neal and Ranking Member Brady:

The undersigned organizations, representing a diverse coalition of stakeholders in the housing finance system of lenders, real estate professionals, homebuilders, mortgage insurers, and affordable housing advocates, are writing regarding the tax treatment of mortgage insurance premiums. We appreciate the opportunity to provide our collective perspective on this important tax provision and encourage congressional action to support existing homeowners and prospective homebuyers by modifying current law to make the mortgage insurance premium tax deduction permanent and increase its income phaseout. The tax deduction for mortgage insurance premiums has long enjoyed bipartisan support and, as Congress considers any year-end tax package, our organizations firmly believe this deduction is both good tax policy and housing policy.

Affordability remains a persistent barrier to homeownership across the country due to rising interest rates, strong home price appreciation, and limited housing supply.[1] Since this time last year, the average interest rate for a 30-year fixed-rate mortgage has more than doubled and currently stands at nearly 7%,[2] the most recent CoreLogic Home Price Index shows nationwide prices rose 11.4% from September 2021 to September 2022,[3] and, while housing inventory has improved from a historical low point, the current 3.2 months of supply[4] is still well below pre-pandemic and long-term historical levels. Despite these challenges, each year mortgage insurance helps bridge the down payment gap for millions of borrowers who lack the resources for a 20% down payment or have less than perfect credit. Low down payment mortgages – including conventional mortgages with private mortgage insurance and loans insured or guaranteed by 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, low- and moderate-income (LMI), and minority homebuyers to secure financing and attain the American Dream of homeownership. Using low down payment mortgages allows families to buy homes sooner than they otherwise would be able and to reap the benefits of

[1] Mortgage Bankers Association Purchase Applications Payment Index (PAPI). The national median payment was $1,941 in September 2022, a 40% increase since the beginning of the year.
[2] Freddie Mac Primary Mortgage Market Survey (PMMS) for 30-Year Fixed-Rate Mortgages, 3.10% for the week ending Thursday, November 18, 2021, and 6.61% for the week ending Thursday, November 17, 2022.
[3] CoreLogic "U.S. Home Price Insights – November 2022" (November 1, 2022).
[4] National Association of Home Builders (NAHB), New Existing Home Sales, Updated October 26, 2022, for data through September 2022.

homeownership, including financial stability and building intergenerational wealth.

In 2021 alone, approximately 4.6 million families obtained mortgages with some form of mortgage insurance, including nearly 2 million conventional loans with private mortgage insurance, nearly 1.4 million FHA-insured mortgages, and nearly 1.3 million VA-guaranteed mortgages.[5] Further, the vast majority of borrowers with mortgage insurance are first-time homebuyers, traditionally the driving force of the housing market.[6] Low down payment lending options are critical for these first-time homebuyers, as evidenced by the fact that in recent years approximately 80% of first-time homebuyers relied on low down payment options to purchase homes.[7]

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).[8] During the time period that mortgage insurance premiums have been tax deductible, millions of LMI homeowners have benefited from this provision of the tax code. Based on the most recent estimate from the Internal Revenue Service (IRS), more than 1.3 million households benefited from the mortgage insurance deduction for tax year 2020 for an average deduction of more than $2,100.[9] As you know, the *Tax Cuts and Jobs Act of 2017* (TCJA)[10] modified numerous aspects of the tax code and doubled the standard deduction. Prior to the enactment of the TCJA, more than 4 million taxpayers claimed the deduction each year and the number of households eligible to benefit from the deduction are sure to increase upon the expiration of the TCJA individual tax policies at the end of 2025.

Our organizations have long supported the mortgage insurance premium tax deduction as a means to support homeownership for LMI households, but two key aspects of the current tax code hamper its effectiveness: (1) its temporary nature; and (2) its relatively low AGI phaseout and status as the only itemized deduction subject to an AGI cap and/or phaseout. The current AGI phaseout represents a burdensome eligibility criterion for American families to claim the mortgage insurance deduction and many more hardworking families would benefit from a permanent extension that increases the AGI phaseout. The AGI cap has remained the same since the deduction took effect in 2007 and an increase is warranted to account for the natural erosion of the value of the dollar with the passage of time.

Representatives Ron Kind and Vern Buchanan have introduced HR 6109, the *Middle Class Mortgage Insurance Premium Act of 2021*, and we encourage the Committee on Ways and

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[5] GSE Aggregate Data, HUD quarterly reports to Congress on the "Financial Status of the Mutual Mortgage Insurance Fund," and VA Lender Loan Volume Reports.
[6] For purchase mortgages originated in 2021, nearly 60% of mortgage with private mortgage insurance, approximately 85% of FHA-insured mortgage, and 50% of VA-guaranteed loans went to first-time homebuyers. GSE Aggregate Data and eMBS.
[7] Enact MI First-Time Homebuyer Market Reports.
[8] 26 USC 163(h)(3)(E).
[9] Internal Revenue Service (IRS), SOI Tax Stats: Table 2.1 (Estimates Based on Samples for Tax Year 2020). 1,344,179 tax returns that claimed the mortgage insurance premiums deduction for an aggregate amount of $2,834,901,000.
[10] Pub. L. 115-97 (December 22, 2017).

Means to consider this bipartisan legislation for inclusion in any final 2022 tax package. Thank you for your consideration of our recommendation that the tax deduction for mortgage insurance premiums be made permanent and that the AGI phaseout be increased. We welcome the opportunity to further engage on this important issue to support access to affordable and sustainable homeownership for American families.

Very truly yours,

American Bankers Association
Asian Real Estate Association of America
Community Home Lenders of America
Housing Policy Council
Independent Community Bankers of America
Leading Builders of America
Manufactured Housing Institute
Mortgage Bankers Association
National Association of Federally-Insured Credit Unions
National Association of Hispanic Real Estate Professionals
National Association of Home Builders
National Association of REALTORS®
National Housing Conference
U.S. Mortgage Insurers