Statement for the Record

from

U.S. Mortgage Insurers

Hearing on

"Tax Policy's Role in Increasing Affordable Housing Supply for Working Families"

U.S. Senate Committee on Finance

March 7, 2023

U.S. MORTGAGE INSURERS

March 21, 2023

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

The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate
219 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 March 7th hearing titled "Tax Policy's Role in Increasing Affordable Housing Supply for Working Families." 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 families achieve the American Dream of homeownership. More specifically, we strongly support the tax deduction for qualified mortgage insurance (MI) premiums and USMI encourages Congress to reinstate and enhance the impact of this important middle class tax deduction.[1] Our industry applauds Senator Hassan for her work, including bipartisan legislation last Congress, the *Middle Class Mortgage Insurance Premium Act of 2022* (S. 3590), to make the deduction permanent and expand taxpayer eligibility.

USMI is a trade association comprised of the leading private 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.[2] Our member companies are focused on ensuring that home-ready borrowers have access to affordable and sustainable mortgages within a well-functioning U.S. housing finance system. The private MI industry has a 67-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 38 million families purchase a home or refinance an existing mortgage, including more than 1 million families in 2022 alone.[3]

[1] 26 USC 163(h)(3)(E). The tax deduction currently does not apply to amounts paid or accrued after December 31, 2021.
[2] USMI membership comprises: Enact Mortgage Insurance; Essent Guaranty, Inc.; Mortgage Guaranty Insurance Corporation; National Mortgage Insurance Corporation; and Radian Guaranty, Inc.
[3] GSE aggregate data.

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 due to rising interest rates, high home prices, and constrained housing inventory, and MI helps bridge the down payment gap for borrowers who lack the resources for large down payments. In 2022 alone, nearly 2.5 million families obtained mortgages with some form of MI, including more than 1 million conventional mortgages with private MI, more than 850,000 mortgages insured by the Federal Housing Administration (FHA), and nearly 600,000 mortgages guaranteed by the U.S. Department of Veterans Affairs (VA).[4] 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 2022, more than 60% of mortgages with private MI, 80% of FHA-insured mortgages, and 50% of VA-guaranteed loans went to first-time homebuyers.[5]

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. 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*.[6] During the time period when MI premiums have been deductible, the deduction was claimed over 43 million times by qualified homeowners for an aggregate $61.6 billion in tax deductions.[7] For 2020, the most recent tax year for which detailed Internal Revenue Service (IRS) data is available, nearly 1.4 million households benefited from the MI deduction, for an average tax deduction of more than $2,100.[8]

However, two key aspects of the MI deduction diminish its effectiveness: (1) its temporary nature; and (2) its relatively low Adjusted Gross Income (AGI) phaseout and cap. Bipartisan legislation last Congress from Senators Hassan and Blunt, the *Middle Class Mortgage Insurance Premium Act of 2022* (S. 3590), would have addressed both those shortcomings and expanded 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 reach of this deduction 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. In fact, data from the Federal

[4] GSE aggregate data, VA Lender Loan Volume Reports, and FHA Single Family Monthly Production Reports.
[5] GSE aggregate data and eMBS data.
[6] Pub. L. 116-94 (December 20, 2019).
[7] IRS, Statement of Income Tax Stats – Historical Table 2.
[8] *Id.*

Reserve indicates that the median net worth of a homeowner is more than 40 times that of a renter.[9]

Senator Hassan's bill from last Congress is included as Annex A and on March 7, 2023 Representatives Buchanan and Panetta reintroduced bipartisan legislation, H.R. 1384, in the House of Representatives. In addition, a November 2022 letter from 14 housing organizations to the Committee on Finance in support of Senator Hassan's bill is attached as Annex B.

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

Seth D. Appleton
President
U.S. Mortgage Insurers

[9] Federal Reserve, *2019 Survey of Consumer Finance (SCF)*. The median net worth of a homeowner was $254,900 in 2019 dollars compared to $6,270 for a renter.

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

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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 A

November 17, 2022

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

The Honorable Mike Crapo
Ranking Member
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

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.[10] 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%,[11] the most recent CoreLogic Home Price Index shows nationwide prices rose 11.4% from September 2021 to September 2022,[12] and, while housing inventory has improved from a historical low point, the current 3.2 months of supply[13] 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

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[10] 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.
[11] 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.
[12] CoreLogic "U.S. Home Price Insights – November 2022" (November 1, 2022).
[13] National Association of Home Builders (NAHB), New Existing Home Sales, Updated October 26, 2022, for data through September 2022.

(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 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.[14] Further, the vast majority of borrowers with mortgage insurance are first-time homebuyers, traditionally the driving force of the housing market.[15] 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.[16]

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).[17] 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.[18] As you know, the *Tax Cuts and Jobs Act of 2017* (TCJA)[19] 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

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[14] GSE Aggregate Data, HUD quarterly reports to Congress on the "Financial Status of the Mutual Mortgage Insurance Fund," and VA Lender Loan Volume Reports.

[15] 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.

[16] Enact MI First-Time Homebuyer Market Reports.

[17] 26 USC 163(h)(3)(E).

[18] 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.

[19] Pub. L. 115-97 (December 22, 2017).

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.

Senators Maggie Hassan and Roy Blunt have introduced S 3590, the *Middle Class Mortgage Insurance Premium Act of 2022*, and we encourage the Committee on Finance 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