

March 13, 2006

The Honorable Thad Cochran, Chairman
The Honorable Robert C. Byrd, Ranking Member
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Chairman Cochran and Ranking Member Byrd:

As you begin consideration of the FY 2007 Budget, we are writing to express our opposition to proposed increased fees in the Administration's FY 2007 Department of Housing and Urban Development (HUD) budget. In particular, we strongly oppose the budget proposal to nearly double the mortgage insurance premium (MIP) on most FHA multifamily mortgage insurance programs. This increase would inflate the cost of housing for low and moderate income families and individuals across the country, including those who are elderly or disabled.

FHA insurance programs help finance the construction, rehabilitation and improvement of rental housing and healthcare facilities in communities across the nation. The FHA multifamily programs are at the heart of the Federal government's efforts to help meet the housing needs of low and moderate income families and communities and are among the most effective federal domestic programs to produce affordable housing and healthcare facilities with proven results. According to HUD, FHA insured 903 housing developments and assisted almost 109,000 households in FY 05, including more than 85,000 families in rental housing and over 23,000 units in healthcare facilities. FHA insurance is critical to the provision of housing for the elderly and handicapped ranging from independent living to skilled nursing care properties.

Increasingly, these programs also are a vital mechanism for ensuring decent, safe and affordable apartments for the many teachers, nurses and municipal workers who cannot afford homeownership and provides the first step on the ladder to those families hoping to one day own their own home.

According to the budget documents, the mortgage insurance premium was increased to offset administrative costs of the programs because the affected programs do not serve a "public purpose." However, the budget proposal includes an exemption from the fee increase for properties with low income housing tax credits because these provide affordable housing. To suggest that only tax credit-assisted properties are affordable and provide a public purpose is misguided. The FHA programs have a strong public purpose, providing a key source of affordable rental housing for individuals and families throughout the country.

This position is supported by statistics collected by the 2001 Residential Financial Survey (RFS), which is sponsored by HUD and conducted by the Census Bureau. The National Association of Home Builders (NAHB) has performed an analysis of that data which is attached. In summary, looking at only

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those properties financed with FHA insurance and where no subsidies are involved, in all but one of the twelve states for which data is available, more than 70% of FHA-insured rental housing is affordable to households at 60 percent of area median income. In fact, the FHA mortgage insurance programs are serving a wide range of households in need – including very-low income families where, in six of the twelve states, over 25% of the units serve families at less than 30% of median income.

Several years ago, the industry worked with FHA Commissioner John Weicher to implement improvements to the economic model used to determine the MIPs every year. Every effort was made to ensure the model captured all of the direct costs as well as the risk factors appropriate to the programs and would therefore be set at a level sufficient to protect the integrity of the Guaranteed Insurance/Special Risk Insurance fund (GI/SRI). OMB's program assessment acknowledges the work HUD has done to improve the models used to determine the MIPs and says the program has increased its efficiency by lowering the cost of the FHA guarantee while maintaining or increasing loan volume. For each of the past three years we have seen reductions in the MIPs for most programs based on this model. Absent the proposed deviation from current policy in an effort to raise funds, those MIPs would be reduced again in FY 2007.

Virtually all of the FHA multifamily insurance programs already have a negative credit subsidy and therefore cover all their costs. Increasing the current mortgage insurance premiums will, according to the HUD budget proposal, generate approximately \$150 million in additional revenue. We believe this new tax will cause fewer properties to be built or rehabilitated and actually result in significantly lower income than projected. And for those properties that will continue in the FHA programs, the result will be a 5 percent increase in rents.

Raising revenue through higher rents on low and moderate income families and the elderly should be rejected out of hand.

American Association of Homes and Services for the Aging
Committee on Healthcare Financing
Institute of Real Estate Management
Mortgage Bankers Association
National Affordable Housing Management Association
National Apartment Association
National Association of Home Builders
National Association of Realtors
National Housing Conference
National Leased Housing Association
National Multi Housing Council

Attachment