



November 7, 2007

Regulations Division
Office of General Counsel, Room 10276
U.S. Department of Housing & Urban Development
451 7th Street SW
Washington, DC 20410-0500

Subject: Docket No. FR-4679-N-13
Changes in Certain Multifamily Mortgage Insurance Premiums
Notice

Dear Sir or Madam:

On behalf of the 235,000 member firms of the National Association of Home Builders (NAHB), I would like to respond to the U.S. Department of Housing & Urban Development's (HUD's) request for comments on the above-referenced Notice on Changes in Certain Multifamily Mortgage Insurance Premiums.

NAHB Opposes the Proposed Increases in the Mortgage Insurance Premiums

NAHB strongly opposes the proposed increase in the mortgage insurance premiums (MIP) for Sections 221(d)(4); 207/223(f); and 223(a)(7) as unnecessary, burdensome and untimely. NAHB is focusing its comments on the Section 221(d)(4) program, since the proposed change there will have the greatest impact on our members' efforts to produce affordable rental housing. The Notice states that the MIP for the Section 221(d)(4) program will increase from the current 45 basis points to 61 basis points, with an exception for projects financed with Low Income Housing Tax Credits.

The FHA Section 221(d)(4) mortgage insurance program is designed to support the construction and rehabilitation of affordable rental units and, therefore, changes to the program affect millions of Americans in need of such housing. Increases in the cost of mortgage insurance for this program require higher rents. In markets where higher rent levels are not possible, building plans may be abandoned, reducing new production of affordable housing. **For these reasons, NAHB believes that it is extremely important that any increase in the mortgage insurance premium be supported and preceded by a careful analysis of the need and impact of the change. HUD's Notice provides no analysis of the need and impact of the proposed increase on borrowers, lenders or renters who live in properties insured under the programs.**

HUD's Basis for the Proposed Increase is a Significant Deviation from Current Policy

Currently, the MIP is set at a level where the Section 221(d)(4) program will break even (i.e., no credit subsidy is required). This level is established based on an economic model that takes into account the risks and costs of the program. HUD has never used the MIP to raise revenue beyond that needed to cover expected credit losses and associated program costs. The MIP announced for FY 2008 would provide funds in excess of that needed to operate the programs.

Several years ago, the industry worked with then-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 so that the MIP would be set at a level sufficient to protect the integrity of the Guaranteed Insurance/Special Risk Insurance fund (GI/SRI). Currently, virtually all of the FHA multifamily insurance programs cover all their costs.

The Office of Management and Budget's (OMB) program assessment of the multifamily FHA programs 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. The MIP was reduced in FYs 2004, 2005 and 2006, based on this model. The MIPs for FY2007 were left unchanged, due to significant opposition to HUD's unjustified proposal to increase them from 45 to 77 basis points.

The Proposed Increase Will Negatively Impact Borrowers and Renters

NAHB believes that the proposed increase will significantly impair the capacity of the FHA multifamily mortgage insurance programs to address the nation's critical need for affordable rental housing. From the borrower's perspective, an increase from the current 45 basis points to the proposed 61 basis points will substantially change the mortgage amount and equity requirement. In the example below, an increase in the MIP from 45 to 61 basis points results in a decrease in the maximum permitted mortgage amount of \$133,552 or 2.2 percent. If the developer cannot raise an additional \$133,552 in equity, rents would have to increase by 2.6 percent. This is not an insignificant rent increase to low and moderate income renters.

This deal may not be feasible using FHA mortgage insurance at the higher MIP. The borrower has several choices: not to develop the housing at all; seek financing elsewhere in the market; or re-orient the rental housing to a higher-income market. None of these options have a positive impact on the FHA mortgage insurance programs.

MIP ANALYSIS		
Interest Rate	6.2500%	6.2500%
40 Year Amortization	0.5629%	0.5629%
MIP	0.4500%	0.6100%
Debt Service Constant	7.2629%	7.4229%
DEBT ANALYSIS		
Assumed NOI for Debt Service	500,000	500,000
Maximum Mortgage	6,195,894	6,062,341
Loss in Mortgage		133,552
As a %		2.2%
ALTERNATIVE RENT ANALYSIS		
NOI to Hold Mortgage		511,015
Additional Income Required		11,015
Add Back Mgmt Fee @ 5%		580
Add Back Required Coverage		1,288
Additional Rental Income Required		12,883
% Increase in Rents Required to Maintain Mortgage		2.6%
Result is that Owner has additional equity requirement of:		2.2%
Or rents need to be increased by:		2.6%

FHA Programs Provide a Strong Public Purpose

For FY 2008, according to the Administration’s proposed budget documents, the MIP is being increased to offset administrative costs of the programs because the affected programs do not serve a “public purpose.” NAHB strongly disagrees with this conclusion, which was presented without any supporting evidence. The FHA multifamily mortgage insurance 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. This survey consists of about 70,000 properties identified in the 2000 Census and collects information first from the owners of the properties and then, for those with a mortgage, from the mortgage lender. NAHB analyzed data on properties where the lender reported that the mortgage was FHA-insured. In order to protect respondent confidentiality, the Census Bureau restricts the geographic detail on the public use RFS data set. The data set identifies the state where the property is located only for the twelve most populous states in the country.

To constrain the analysis to cases where FHA insurance was not used with any subsidies, properties were excluded if they reported benefiting from low-income or other federal income

tax credits, a government-sponsored below-market interest rate mortgage, a government rental subsidy such as project-based or tenant-based Section 8, a government grant, property tax relief, accelerated income tax depreciation for low and moderate income properties, or a subsidy from a non-profit.

The results in Table 2 show that a majority 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 – from very-low income to those whose incomes exceed the limits for federal subsidy programs, such as Section 8 or the Low Income Housing Tax Credit, but who still need access to affordable rental housing. This was the intent of Congress as clearly spelled out in the law, which provides in Section 221 of the National Housing Act (12 U.S.C. 1715l(a)) that, “This section is designed to assist private industry in providing housing for low and moderate income families and displaced families.”

Table 2. Analysis of FHA Insured Properties with No Other Type of Subsidy

State	Median Family Income	Num. FHA Properties	Median Rent per Unit	FHA Properties with Affordable Rent per Unit							
				At 30% State MFI		At 50% State MFI		At 60% State MFI		At 80% State MFI	
				Affordable Rent	FHA Share Affordable	Affordable Rent	FHA Share Affordable	Affordable Rent	FHA Share Affordable	Affordable Rent	FHA Share Affordable
6 California	\$55,400	2,062	\$547	\$416	10.1%	\$693	81.0%	\$831	91.3%	\$1,108	96.3%
12 Florida	\$47,300	99	\$549	\$355	18.5%	\$591	56.0%	\$710	72.2%	\$946	89.1%
17 Illinois	\$60,300	926	\$385	\$452	50.0%	\$754	56.3%	\$905	57.2%	\$1,206	100.0%
25 Massachusetts	\$58,600	98	\$750	\$440	0.0%	\$733	0.0%	\$879	88.1%	\$1,172	96.0%
26 Michigan	\$55,400	198	\$471	\$416	44.9%	\$693	90.8%	\$831	90.8%	\$1,108	90.8%
34 New Jersey	\$66,600	317	\$408	\$500	81.1%	\$833	91.6%	\$999	98.8%	\$1,332	99.6%
36 New York	\$56,100	452	\$542	\$421	5.2%	\$701	71.8%	\$842	76.7%	\$1,122	96.7%
39 Ohio	\$51,900	875	\$389	\$389	71.1%	\$649	97.2%	\$779	97.4%	\$1,038	97.6%
42 Pennsylvania	\$47,100	83	\$618	\$353	15.8%	\$589	42.7%	\$707	74.4%	\$942	100.0%
48 Texas	\$47,600	360	\$485	\$357	29.4%	\$595	72.3%	\$714	93.2%	\$952	97.9%
51 Virginia	\$56,900	303	\$393	\$427	81.4%	\$711	96.0%	\$854	98.9%	\$1,138	98.9%
53 Washington	\$53,400	409	\$417	\$401	13.8%	\$668	64.8%	\$801	80.7%	\$1,068	100.0%
99 All Others		5,321	\$519								

2001 RESIDENTIAL FINANCE SURVEY
5+ MF PROPERTIES WITH FHA INSURANCE, SOME RESIDENTIAL BUT NO OFFICE RENT, AND VACANCY LOSS REPORTED
PROPERTIES WITH RENT PER UNIT BETWEEN \$200 AND \$3,000 PER MONTH ONLY
MEDIAN FAMILY INCOME IS BASED ON THE ESTIMATES INITIALLY PUBLISHED BY HUD WITH THE RELEASE OF THE SECTION 8 INCOME LIMITS FOR CY 2000

HUD’s Notice of the Increased MIPs is Premature

Congress has expressed opposition to the HUD’s proposed increases to the MIP. Thirty-eight Senators and 117 Congressmen wrote to the HUD Secretary opposing the increase. In addition, H.R. 1852, the Expanding American Homeownership Act of 2007, includes a provision that prohibits the HUD Secretary from raising the FHA mortgage insurance premiums higher than their FY 2007 levels unless an increase is justified by the economic models. The bill was passed by the House with strong bi-partisan support on September 18. The Senate Banking Committee passed a companion bill on September 19th that has a similar provision.

In addition, a provision identical to that included in the House bill was included in H.R. 2895, The National Affordable Housing Trust Fund Act of 2007, which was passed by the House in September.

The Mortgage Credit Markets Are Unsettled

Of critical importance at this time is the condition of the financial markets. HUD is fully aware of the credit crisis that began in August and which continues to linger. HUD is taking steps to help alleviate the lack of liquidity in the single-family mortgage markets and provide assistance to sub-prime borrowers faced with foreclosures. HUD should also consider the state of the multifamily financial markets. While multifamily lenders continue to stay cautiously positive about the multifamily rental markets, they have tightened underwriting criteria by increasing debt service coverage ratios and requiring higher amounts of equity, and they have also increased the cost of borrowing.

In failing to take into consideration the condition of the financial markets as it proposes a significant increase to the MIP for the Section 221(d)(4) program, HUD is not appropriately pursuing its mission. FHA supports affordable lending for the single family markets, and it should also support affordable lending to developers of rental housing for low and moderate income households.

Conclusion

NAHB believes the proposed MIP increase is misguided and sees no valid purpose in proceeding with implementing the increases in the Notice. Further, HUD is proposing this unjustified increase at a time when the multifamily financial markets are unsettled as a result of on-going credit market dislocations. A policy that increases the cost of producing affordable housing is contrary to the goal of serving more low and moderate income families and will significantly erode HUD's capacity to meet its mission in this area. Indeed, NAHB believes that such an action will set a dangerous precedent for all housing programs, leaving them vulnerable to the institution of or increases in fees to use the programs. NAHB does not believe that it is Congress' intent to raise revenue on the backs of affordable housing programs. We strongly urge HUD to refrain from implementing the proposed increases.

Sincerely,



David A. Crowe
Senior Staff Vice President
Regulatory and Housing Policy