Testimony of

Suzanne Hutchinson

Executive Vice President
Mortgage Insurance Companies of America

In support of

H.R. 1018

Legislation to amend the Internal Revenue Code of 1986 to make permanent the deduction for mortgage insurance premiums

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Subcommittee on Select Revenue Measures

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Chairman Tiberi, Ranking Member Neal, and members of the Subcommittee, thank you for the opportunity to testify in support of H.R. 1018, legislation introduced by Congressman Nunes and Congressman Crowley to amend the Internal Revenue Code of 1986 to make permanent the deduction for mortgage insurance premiums.

My name is Suzanne Hutchinson, and I am executive vice president of the Mortgage Insurance Companies of America, on whose behalf I am testifying.

The deduction for mortgage insurance premiums has proven to be a critical tool in lowering the cost of homeownership for the low and moderate income homebuyers to whom the deduction is limited, and in making mortgage insurance more affordable. The provision has resulted in an average of approximately $350 in annual savings per family, a very significant sum for families of limited means struggling to afford their piece of the American Dream.

Moreover, according to the Internal Revenue Service, in 2009, the mortgage insurance premium deduction was claimed on 3.6 million tax returns. Of those taxpayers, the majority had incomes *under* $60,000. In fact, of all the tax provisions which expired at the end of 2011, only the AMT patch and the deduction for state and local sales taxes benefited significantly more individuals, and no expired provisions limited to low and moderate income individuals, as the deduction for mortgage insurance premiums was, provided a bigger financial boost to taxpayers.

By acquiring mortgage insurance, low and moderate income homebuyers are much better positioned to obtain the loans needed to purchase homes for their families. In turn, that mortgage insurance provides much needed support to our mortgage markets, and greatly facilitates the origination and marketing of mortgage loans.

The deduction for mortgage insurance premiums was first enacted, on a temporary basis, in 2006. Lawmakers from across the political spectrum have since recognized the policy merits of this provision. As a result, it has since been extended multiple times with broad bipartisan support, most recently by the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010" enacted at the end of the 111th Congress. However, the deduction for mortgage insurance premiums expired at the end of last year, thus risking further disruption in already fragile housing markets. It is critical that we provide needed certainty to homebuyers and lenders alike, and make the mortgage insurance premium deduction permanent.

H.R. 1018 would extend permanently Internal Revenue Code section 163(h)(3)(E). The legislation would continue the expired law as it had been written, and retain important limitations which make the mortgage insurance premium deduction available only to low and moderate income homebuyers. Under the recently expired law, certain premiums paid or accrued for qualified mortgage insurance by a taxpayer in connection with acquisition indebtedness on a qualified residence are treated as interest that is qualified residence interest and thus deductible. The amount allowable as a deduction is phased out ratably by 10 percent for each $1,000 by which the taxpayer's adjusted gross income exceeds $100,000 ($500 and $50,000, respectively, in the case of a married individual filing a separate return). Thus, the deduction is not allowed if the taxpayer's adjusted gross income exceeds $110,000 ($55,000 in the case of married individual filing a separate return). Each of those provisions would remain unchanged by H.R. 1018; only the effective date would be changed so that the deduction would be made permanent.

The deduction for mortgage insurance premiums merits further extension because of the crucial assistance it provides to millions of low and moderate income homeowners, the key role it plays in reviving housing markets, and its importance in permitting the private sector, not the federal government, to bear the risk of insuring millions of residential mortgages. Also, further extension is supported by compelling tax policy considerations.

Because the mortgage interest deduction has benefited so many millions of homebuyers, most of whom would not be able to obtain home loans without mortgage insurance, the deduction has played a critical role in helping revive housing markets. The deduction has provided millions of homebuyers of limited means crucial support in being able to afford mortgage insurance, without which millions of buyers would have been, and would continue to be, shut out of residential real estate markets. Without those additional buyers, those already troubled markets would be in far worse condition.

The mortgage insurance premium deduction also would help facilitate the return of private sector capital to the mortgage market, a goal endorsed by both Congress and the Administration. In today's mortgage market, investors strongly favor government guaranteed mortgages over private mortgages and even those mortgages acquired by government-sponsored entities such as Fannie Mae and Freddie Mac. This puts U.S. taxpayers on the hook for a far larger share of the mortgage market than is desirable. While premiums for both FHA mortgage insurance and private mortgage insurance would be deductible if section 163(h)(3)(E) was extended, making insured mortgages affordable to more potential homeowners would expand the size of the total mortgage market. That expanded market would, in turn, help draw increased amounts of private capital. On the other hand, failure to extend the mortgage insurance deduction would reduce the size of the mortgage market and discourage the commitment of private capital. With less private capital deployed, there would be a corresponding increase in the role—and the potential liabilities—of the federal government in the mortgage market.

Finally, extension of the mortgage insurance premium deduction is supported by compelling tax policy. Mortgage insurance premiums are the economic equivalent of interest payments because obtaining mortgage insurance reduces interest costs. Paying premiums on mortgage insurance has a direct and quantifiable impact on interest expense. Without the insurance purchased by those premiums, interest charges are much higher as a consequence of the much higher credit risk. Because mortgage insurance premiums and interest payments are economically equivalent, they also should be treated similarly by the Internal Revenue Code, as the mortgage insurance premium deduction did.

For all these reasons, I strongly urge the members of the Subcommittee and full Committee to join with Congressman Nunes and Congressman Crowley and support enactment of H.R. 1018 and permanent extension of the mortgage insurance premium deduction.

Thank you.