Radian Guaranty Inc.

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The Honorable Sam Johnson
Chairman
Real Estate Working Group
Committee on Ways and Means
U.S. House of Representatives
1211 Longworth House Office Building
Washington, DC 20515

The Honorable Bill Pascrell, Jr.
Vice-Chairman
Real Estate Working Group
Committee on Ways and Means
U.S. House of Representatives
2370 Rayburn House Office Building
Washington, DC 20515

Dear Congressman Johnson and Congressman Pascrell:

Thank you for your leadership on the House Ways and Means Committee Tax Reform Working Group on Real Estate and for your work on the important issue of tax reform.

Radian Guaranty Inc. ("Radian") is one of the nation's leading private mortgage insurers. Private mortgage insurance ("MI") helps promote and preserve the tradition of homeownership while protecting taxpayers from default-related losses on residential mortgages. For the past 50 years, private MI companies like Radian have helped over 25 million families achieve the American dream of homeownership.

As the Working Group on Real Estate, the House Ways and Means Committee, and Congress consider the important subject of tax reform, we urge you to consider tax policies that support the real estate market, the health of which is critical to the strength of the overall economy. In particular, we urge you to make permanent the MI deduction.

PRIVATE MI AND THE MI DEDUCTION

For many families, the most common hurdle to homeownership is saving enough money for a down payment. Even for Americans that have managed their finances responsibly and earned strong credit ratings, the traditional 20% down payment is a hardship for many and an impossibility for others. Private MI enables borrowers with less than a 20% down payment – typically first-time and modest-income borrowers – to achieve the dream of homeownership. In doing so, private MI relies on private capital to protect lenders, Fannie Mae and Freddie Mac, and ultimately, taxpayers, from the losses that result in the event of borrower default.

Accordingly, the MI deduction was intended to safely and responsibly foster homeownership by making owning a home more affordable and accessible to first-time homeowners and families of modest incomes. The MI deduction was first enacted in 2006 on a temporary basis, with broad, bipartisan support. Under Section 163(h) of the Internal Revenue Code, premiums paid or accrued for qualified MI by a taxpayer in connection with acquisition indebtedness on a qualified residence of the taxpayer are treated as interest that is qualified residence interest and thus deductible. The amount allowable as a deduction is phased out ratably.

Internal Revenue Service data shows that 4.2 million taxpayers benefited from the MI deduction in 2010, making it one of the most utilized temporary tax policies for individuals. Moreover, the majority of taxpayers claiming the deduction had incomes less than $60,000.

THE NEED FOR PERMANENCE

Unlike the mortgage interest deduction, the MI deduction is temporary and has been extended several times since its initial enactment, most recently through 2013 as part of the American Taxpayer Relief Act of 2012 (Pub. L. No. 112-240). As part of tax reform, the MI deduction should be made permanent.

As discussed above, the MI deduction was enacted to foster homeownership by enabling first-time homeowners and families of modest incomes to purchase homes with less than a 20% down payment. Thus, the MI deduction is important because it assists in offsetting the cost of private MI, *and* the phase-out of the MI deduction assures that the benefit of the deduction accrues to those who need it the most.

In so doing, the MI deduction plays a vital role in stabilizing the housing market in a responsible way. Private MI is critical to ensuring that borrowers can buy homes to reduce the nation's excess housing inventory during times of recovery, which is necessary to facilitate a return to a vibrant housing market. As a result, the private MI deduction also offers significant benefits to the broader economy.

Moreover, private MI premiums are the economic equivalent of mortgage interest. Therefore, treating them equally for tax purposes by making both private MI and mortgage interest deductible on a permanent basis is the appropriate policy. Paying mortgage insurance premiums has a direct and quantifiable impact on interest expense. Without the insurance purchased by those premiums, interest charges would be much higher as a consequence of the increased credit risk. Additionally, the MI deduction disincentivizes the use of riskier piggyback or second loans and effectively provides some parity to those homeowners who must rely on MI by offsetting some of the costs with those homeowners that have the means to make a 20% down payment.

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CONCLUSION

Radian strongly urges the House Ways and Means Committee Tax Reform Working Group on Real Estate to support permanent extension of the MI deduction as part of comprehensive tax reform.

We greatly appreciate the opportunity to submit these comments. We are pleased to serve as a resource to the Congress and the Committee on these and related matters, and we look forward to working together with you on these important issues. Thank you.

Sincerely,

Teresa Bryce Bazemore

Teresa Bryce Bazemore
President