STATEMENT FOR THE RECORD

OF

TERESA BRYCE BAZEMORE
PRESIDENT,
RADIAN GUARANTY INC.

FOR THE HEARING ON

"BENEFITS OF PERMANENT TAX POLICY FOR AMERICA'S JOB CREATORS"

BEFORE

THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS & MEANS

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1601 Market Street, Philadelphia, Pennsylvania 19103
800.523.1988 ▪ teresa.bryce@radian.biz

Thank you for the opportunity to submit this statement for the record. I am Teresa Bryce Bazemore, and I am submitting this testimony on behalf of Radian Guaranty Inc. ("Radian"), one of the nation's leading private mortgage insurers. For the past 50 years, private mortgage insurance ("MI") companies like Radian have helped over 25 million families achieve the American dream of homeownership.

Radian applauds the Committee for its leadership on tax reform and for convening this hearing to explore the issue of expired business tax provisions that were proposed for extension in Chairman Camp's tax reform discussion draft released on February 26, 2014.

Although outside the specified focus of the hearing, we wanted to take this opportunity to urge Congress to extend the deduction for MI premiums ("MI deduction"), which expired on December 31, 2013 and has important implications for individual taxpayers. As part of the Committee's consideration of expiring tax policies, the MI deduction should be made permanent, along the lines of the bipartisan S. 688 in the 113th Congress and H.R. 1018 and S. 3470 in the 112th Congress. This would be consistent with and advance the objectives of tax reform and break the constant cycle of expiration and extension. Until it is made permanent, the MI deduction should be extended seamlessly and expeditiously to provide taxpayers with certainty.

PRIVATE MI

For many families, the most common hurdle to homeownership is saving enough money for a down payment. The traditional 20 percent down payment is a hardship for many and an impossibility for others. Private MI enables borrowers with less than 20 percent down – typically first-time and low- and moderate-income borrowers – to achieve the dream of homeownership. For example, it could take over 15 years for the average firefighter or schoolteacher to save a typical 10 percent down payment (Center for Responsible Lending).

When a borrower places less than 20 percent down to purchase a home, the lender is required to obtain private MI in order for that loan to be eligible to be subsequently sold to Fannie Mae or Freddie Mac ("the GSEs"). Lenders are willing to make low down payment loans, and the GSEs are willing to purchase them, because in the event of a homeowner's default on the mortgage, the private MI company pays a claim to the owner of the loan an amount that is typically 25-35 percent of the value of the loan – meaning lenders and investors are at risk for only the remaining 68 percent of the loan amount. This practice of requiring private MI to insure roughly one third of the amount of the loan reflects the GSEs' prudent determination that this amount of coverage has historically been sufficient to cover costs associated with defaulted loans and any losses resulting from reselling the property for less than the outstanding mortgage loan balance.

Importantly, placing the MI company's private capital at risk in a "first loss" position after the borrower means that both the insurer and the borrower have a vested interest in home loans that are affordable and sustainable not only at the time of purchase, but throughout the years of homeownership. Having their own capital at risk also means that mortgage insurers have clear incentives to work with lenders, investors, and community groups to help delinquent borrowers stay in their homes.

Over the past four years, private mortgage insurers have paid approximately $43 billion in claims to the GSEs that would have otherwise been paid by taxpayers. Moreover, private mortgage insurers are projected to pay approximately $55 billion in total to cover losses from this unprecedented housing downturn.

The private MI model has stood the test of time. Looking ahead, private mortgage insurers stand ready to play a critical role in the future of housing finance by continuing to safely and soundly enable first-time and lower income families to purchase homes.

THE MI DEDUCTION

The MI deduction was first enacted in 2006, on a broadly-supported and bipartisan basis. Under Section 163(h) of the Internal Revenue Code ("IRC"), 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, therefore, deductible. The amount allowable as a deduction is phased out ratably.

Although the legislation first proposing the MI deduction would have made the provision permanent, the MI deduction was enacted on a temporary basis. Consequently, unlike the mortgage interest deduction, the MI deduction regularly expires and must be regularly extended. The provision was most recently extended as part of the American Taxpayer Relief Act of 2012 (Pub. L. No. 112-240) after it had lapsed for a year. The MI deduction expired on December 31, 2013.

Notably, Internal Revenue Service data shows that 4.5 million taxpayers benefited from the MI deduction in 2011, making it one of the most relied upon tax extenders. Moreover, the deduction is phased-out for those taxpayers with incomes above $110,000, ensuring that the benefit of the deduction accrues to those who need it the most. 67 percent of taxpayers claiming the deduction have incomes under $75,000.

NEED FOR PERMANENCE

Permanently extending the MI deduction is consistent with tax reform and advances the objectives of increasing harmonization of tax policy, reducing risks in the housing market, and increasing access to the housing market.

Harmonization. The MI deduction increases the fairness of the tax code by harmonizing the tax treatment of MI with that of mortgage interest (note that interest paid on a mortgage <u>is</u> deductible). MI premiums are the economic equivalent of mortgage interest. Paying MI 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 result of the much higher credit risk. Consequently, the MI deduction effectively provides a degree of 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 percent down payment.

Decrease Risk. The MI deduction disincentivizes riskier "piggy-back" or second lien loans, where the borrower is given two mortgages to cover the acquisition of a house with an effectively zero-cash down payment or even a negative down payment. From a tax perspective, in the case of a piggy-back loan, the interest on both the first lien and the second lien is deductible.

An inherent danger of the piggy-back loan is the lack of accountability in the underwriting. When low down payment loans are made, MI companies separately assess the ability of the homeowner to repay the loan. MI companies are incentivized to ensure that homeowners can afford to maintain their mortgage payments and stay in their homes.

During the last housing crisis, not all lenders were similarly incentivized to ensure that homeowners could sustain their mortgages. These higher risk loans were often adversely selected for the piggy-back option because they could not meet prudent underwriting standards promulgated by MI. Many of these loans defaulted and left the GSEs with inadequate protection against losses.

The value of the second look by MI companies, combined with the fact that MI business interests align with sustainable homeownership, means that MI is a better option for the safety and soundness of the housing finance system. The MI deduction puts the tax treatment of MI premiums on par with the tax treatment of piggy-back or second lien loans, thus leveling the playing field and introducing independent verification of prudent underwriting standards for low down payment lending.

Increase Access. The MI deduction helps families of modest means offset the cost of monthly or annual MI premiums. Maintaining homeownership incentives for these borrowers is important to ensuring continued access to the housing market.

Moreover, it is important not to overlook the impact of the private MI deduction on the housing market, which is currently still undergoing a fragile recovery. With the grave state of the housing sector in recent years, extensions of the provision have ensured that there continue to be provisions aimed at stabilizing and strengthening the housing market in a responsible way. Maintaining incentives for this population of borrowers to access the housing market is crucial to reducing the nation's excess housing inventory and facilitating a full recovery of the housing market.

CONCLUSION

Our strong hope is that the MI deduction is made permanent as part of the Committee's process to review and make some expiring tax policies permanent; in the interim, the MI deduction should be extended as soon as possible.

Radian greatly appreciates the opportunity to submit this statement. We are pleased to serve as a resource to the Congress and the Committee on these and related matters. We look forward to our continued work together on these important issues.