RADIAN

STATEMENT FOR THE RECORD

OF

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FOR THE HEARING ON

"CERTAIN EXPIRING TAX PROVISIONS"

BEFORE

THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS & MEANS
SUBCOMMITTEE ON SELECT REVENUE MEASURES

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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. Private mortgage insurance ("MI") is designed to help promote and preserve the tradition of homeownership, while protecting taxpayers from default-related losses on residential first mortgages.

Radian applauds the Subcommittee and the Committee for its leadership on the important issue of tax extenders. Although these provisions are temporary in nature, they are nonetheless a critical aspect of tax policy.

We also commend Congressman Nunes and Congressman Crowley for their introduction of H.R. 1018, broadly-supported, bipartisan legislation that would make permanent the deduction for private mortgage insurance premiums (the "private MI deduction").

In the interim, we strongly urge the immediate and seamless extension of the private MI deduction, which expired on December 31, 2011. Until there is an opportunity to address tax policy in a long-term and comprehensive manner like H.R. 1018, extension of the private MI deduction is important to ensuring that there continue to be incentives aimed at stabilizing and strengthening the housing market, which is still undergoing a fragile recovery.

PRIVATE MORTGAGE INSURANCE

For many families, the most common hurdle to homeownership is saving enough money for the down payment. The traditional 20% down payment is a hardship for many and an impossibility for others. Private MI enables borrowers with less than 20% down – typically first time and low- and moderate-income borrowers – to achieve the dream of homeownership.

When a borrower places less than 20% 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 the owner of the loan a claim that is typically in the amount of 25-35% of the value of the loan.

This amount of MI generally covers costs associated with defaulted loans (interest charges during the delinquent and foreclosure periods, legal fees, home maintenance and repair costs, real estate brokers' fees, and closing costs) and any losses resulting from reselling the property for less than the outstanding mortgage loan balance.

Placing the MI company's private capital at risk in a "first loss" position after the borrower's equity means both the insurer and the borrower have a vested interest in making home loans that are affordable 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 very clear incentives to work with lenders, investors, and community groups to help borrowers in default stay in their homes. Also, private MI is automatically canceled when the loan reaches 78% of the original home value, and private MI may be canceled earlier, if an appraisal shows that the loan has reached 80% of the original home value.

Over the past four years, private mortgage insurers have paid approximately $30 billion in foreclosure losses that would have otherwise been paid by taxpayers. Private mortgage insurers are projected to pay approximately $45 to $50 billion in total to cover losses in the current, unprecedented housing downturn.

The history of the private MI industry proves that private mortgage insurers have paid their claims through good and bad economic cycles. This is because of the rigorous, countercyclical capital and reserve requirements imposed by state insurance commissioners. In fact, half of each premium dollar earned goes into a contingency reserve and generally cannot be touched by the mortgage insurer for 10 years. This ensures that significant capital reserves are accumulated during good times and then drawn upon to absorb losses during downturns.

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 while protecting taxpayers from losses that result from borrower default. Housing policies should encourage the return of private capital to the housing market and maintain a role for low down payment loans as long as they are prudently underwritten and insured by private MI.

PRIVATE MI DEDUCTION

The private 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 thus deductible. The amount allowable as a deduction is phased out ratably.

The private MI deduction was enacted in order to foster homeownership. Another key reason for the legislation was that borrowers were circumventing private MI, which was not tax deductible, by instead procuring a "piggyback" or second loan, which was deductible, to make up the difference between the amount they were able to put down and the 20% down payment required for purchase by the GSEs. The legislation aimed to put MI premiums on par with piggyback loan interest.

Although the legislation first proposing the private MI deduction would have made the provision permanent, the private MI deduction was enacted on a temporary basis. Consequently, unlike the mortgage interest deduction, the private MI deduction regularly expires and must be regularly extended. The provision was most recently extended as part of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act Of 2010 (Pub. L. No. 111-312). The private MI deduction expired on December 31, 2011.

NEED FOR EXTENSION

It is essential that the private MI deduction be extended. With the grave state of the housing sector in recent years, extensions of the provision have ensured that there continue to be incentives aimed at stabilizing and strengthening the housing market in a responsible way. There remains a need for the private MI deduction as the housing market continues its fragile recovery.

Moreover, the private MI deduction importantly expands access to homeownership. MI is a critical factor for low and moderate income families seeking to become homeowners, as it allows borrowers to qualify for a mortgage with less than the traditional 20% down payment. 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. Additionally, the private MI deduction effectively provides a degree of parity to those homeowners who must rely on mortgage insurance by offsetting some of the cost with those homeowners that have the means to make a 20% down payment. The phase-out of the private MI deduction also assures the benefit of the deduction accrues to low and moderate income families.

CONCLUSION

In order to strengthen the housing market and provide taxpayers with certainty, we strongly urge Congress to extend the private MI deduction seamlessly and expeditiously. H.R. 1018 is bipartisan legislation that would make the provision permanent, breaking the constant cycle of expiration and extension.

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