November 6, 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 our respective organizations, we are submitting comments on the above-referenced Notice, which announces increases in the mortgage insurance premiums (MIPs) for several of the key FHA multifamily programs. **Our organizations are strongly opposed to the proposed increases**. In light of the importance of this issue to the housing industry, most of our organizations are also submitting individual comment letters.

The Proposed Increases Undermine the Purpose of the MIP and are a Departure From Current Policy

The purpose of charging a MIP to borrowers of FHA-insured loans is to collect sufficient sums to insure that, in the case of defaults, the government can cover the cost of paying off its financial obligation to the lenders. The Federal Credit Reform Act (FCR) of 1990 directs government agencies to provide a realistic picture of the cost of government loans and guarantees. To comply with the FCR in determining the costs of the FHA multifamily mortgage insurance programs, HUD uses an economic model that takes into account the risks and costs of each program and has traditionally set the MIP for a specific program at a level sufficient to protect the integrity of the insurance fund without overcharging borrowers. The practice, since 2003, has been that the MIPs for the FHA Section 221(d)(4) and most other programs are set at roughly break even levels.

The MIPs HUD has announced for FY 2008 are a significant departure from past practice and would provide funds in excess of that needed to operate the programs. HUD has proposed to increase the MIP for the Section 221(d)(4), Section 207/223(f); and Section 223(a)(7) programs from 45 to 61 basis points, except for projects financed with Low Income Housing Tax Credits (LIHTCs). HUD provides no evidence of a change in the status of the FHA multifamily loan portfolio that would warrant such an increase in the MIP to cover increased risk or a higher default level. **We can only surmise that the increase in the MIP is being proposed as a means to increase federal revenues, something HUD has not done in the past and, in fact,**

rejected last year after its proposal to raise the MIP from 45 to 77 basis points was uniformly opposed by industry groups and members of Congress.

The Proposed Increases Will Have an Adverse Impact on HUD Multifamily Programs and Families Who Live in FHA-Insured Rental Housing

The proposed premium increases will lead to higher costs for borrowers and renters who are served by the FHA multifamily programs. A key example is the FHA Section 221(d)(4) program where the higher MIP will raise the required borrower debt service and/or equity contribution, resulting in a lower mortgage amount at a higher rate of interest. These higher costs would be passed along to the low- and moderate-income families who use the program in the form of higher rents or could result in properties not being built or rehabilitated because of the higher equity contribution required.

For those properties in stronger markets or with stronger borrowers, there are alternative financing options. However, the resulting reduction in the number and quality of the loans coming into the FHA Section 221(d)(4) portfolio will undermine support for the production of new affordable housing and the rehabilitation of existing affordable rental housing and create higher risk to the Guaranteed Insurance/Special Risk Insurance (GI/SRI) fund.

Members of Congress Do Not Support the Proposed Increase in the MIP

On July 24, 2007, Representative Gary Miller (R-CA) delivered the following colloquy before the House as the HUD appropriations bill was being debated:

Congressman Gary Miller Colloquy with Chairman Olver
FHA Multifamily MIP
July 24, 2007

Mr. Miller: I would like to engage the Chairman of the Transportation, HUD Appropriations Subcommittee in a colloquy concerning an important FHA multifamily housing issue currently under consideration at HUD.

I have serious concerns about the Administration's proposal to increase the Federal Housing Administration multifamily mortgage insurance premium by 35 percent for Fiscal Year 2008.

The Administration proposed a similar increase last year and rescinded it after hearing from Members of Congress and those in the industry most affected.

I believe we, again, do not have sufficient information about the impact of this proposal on affordable rental housing for America's workforce.

The Chairman of the Financial Services Committee, Mr. Frank, and I are currently circulating a letter to HUD among our colleagues opposing the increase in the premium.

As of Monday, we have 106 Members of Congress on record opposing this increase. A similar letter to HUD was recently signed by 38 Senators.

We believe an increase in the premium will impact the communities where housing would be built as well as tenants in those projects.

HUD needs to perform a full assessment of the likely impact of such a premium increase on the volume of multifamily rental housing development, and the consequential effects of higher financing costs on rents to be borne by moderate income residents.

This thorough assessment of the potential adverse effects of the proposed premium increase needs to be submitted to the appropriate Congressional Committees, giving Congress the opportunity to evaluate the proposal.

This would need to happen before allowing the increase to go into effect by simple notice.

Mr. Olver: I look forward to working with you further on this issue.

Our organizations support Mr. Miller's suggestion that HUD conduct an assessment of the proposed premium structure and to conduct a full notice and comment rulemaking before any MIP increases are implemented. Thirty-eight Senators and 117 Congressmen have expressed their opposition to the proposed increase to the HUD Secretary.

Further evidence of Congress' opposition to the proposed increase is found in H.R. 1852, the Expanding American Homeownership Act of 2007. The bill 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.

Conclusion: Increasing the Costs of Producing Affordable Housing is Bad Public Policy and Should be Rejected

A policy that increases the cost of the FHA multifamily insurance programs will impede the production and preservation of needed housing for low and moderate income families. This is a significant change in policy, which, at a minimum, merits a full comment and rulemaking period with housing industry stakeholders. We also believe that HUD's 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. It is bad public policy to raise revenue for the federal government at the expense of low and moderate income households, including the elderly and disabled, who are in need of affordable rental housing. **We strongly urge HUD to refrain from implementing the proposed increases and to maintain the MIPs at the current levels.**

Sincerely,

American Association of Homes and Services for the Aging
Institute of Real Estate Management
Mortgage Bankers Association
National Affordable Housing Management Association
National Apartment Association
National Association of Home Builders
National Association of Realtors
National Housing Conference
National Leased Housing Association
National Multi Housing Council