

July 26, 2006

Regulations Division  
Office of General Counsel, Room 10276  
U.S. Department of Housing & Urban Development  
451 7<sup>th</sup> Street SW  
Washington, DC 20410-0500

Subject: Docket No. FR-4679-N-11  
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 many of the key FHA multifamily programs, including those for senior assisted residential and healthcare facilities. **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 sets the MIP for a specific program at a level sufficient to protect the integrity of the insurance fund without overcharging borrowers. Our organizations appreciate HUD's willingness to work with the industry to refine its model. The practice historically has been that the MIPs for the FHA Section 221(d)(4) and most other programs are set at roughly break even levels.

**Many of the MIPs HUD has announced for FY 2007 are a significant departure from past practice and would provide funds far in excess of that needed to operate the programs.** This is particularly true for the Section 221(d)(4) program which is a key vehicle that supports construction of affordable multifamily units. HUD has proposed to increase the MIP for the Section 221(d)(4) program from 45 to 77 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 Section 221(d)(4) 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.**

**The Proposed Increases Will Have an Adverse Impact on HUD Multifamily Programs and Households 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 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. Analysis by industry experts shows that the premium increase will result in an average rent increase of about five percent, which will undermine the capacity of the program to serve low- and moderate-income families. Under some circumstances, the transaction may not be feasible leaving the developer to seek financing elsewhere, re-position the property to a higher income property or not build the project at all.

**As a consequence, there will be a reduction in the number and quality of the loans coming into the FHA Section 221(d)(4) portfolio, undermining support for the production of affordable rental housing and creating higher risk to the Guaranteed Insurance/Special Risk Insurance (GI/SRI) fund.**

**Congress Has Asked HUD for Full Rule-Making and an Assessment of the Impact of the Proposed Increases Before Implementation**

The House and Senate Appropriations Committees, in their respective reports with recommended FY 2007 budget levels for HUD programs, express strong opposition to the proposed MIP increases. The Committees state that there is no merit in the argument that the MIPs should be increased because the programs do not provide a public purpose. HUD is directed to undertake a full notice and comment rulemaking as the only appropriate mechanism to pursue the proposal.

In addition, the Committees direct HUD to submit to the appropriate Committees of Congress a thorough assessment of the potential adverse effects of the proposed premium structure, including the evaluation of alternatives such as using negative credit subsidy and program revenues to cover administrative costs, before proceeding with implementation of the fee increases proposed in the budget.

**Our organizations support the direction given to HUD by Congress to conduct an assessment of the proposed premium structure and to conduct a full notice and comment rulemaking before any MIP increases are implemented.**

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

A policy that increases the cost of producing affordable housing, assisted living and health care facilities will impede the production of needed housing for seniors and 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 elderly, disabled, and/or low and moderate income households 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  
Committee on Healthcare Financing  
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  
The Real Estate Roundtable