December 19, 2016

Steven Mnuchin
Donald J. Trump Transition Team
U.S. Treasury Secretary Nominee
721 5th Avenue
New York, NY 10022

Re: Mortgage Insurance Premiums

Dear Steven:

The U.S. Mortgage Insurers ("USMI") is an association by leading mortgage insurers ("MIs") in the U.S. dedicated to a housing finance system backed by private capital that enables access to mortgage finance for borrowers while protecting taxpayers.

USMI members have provided private capital to stand in front of the government sponsored enterprises (the "GSEs") and taxpayers for nearly 60 years. In fact, during the financial crisis, the private mortgage insurance (MI) industry covered more than $50 billion in claims to the GSEs—losses that would have otherwise been absorbed by taxpayers. Further, private mortgage insurance offers an effective way to prudently make mortgage credit available to those who do not have a large downpayment, helping tens of millions of low- to moderate-income individuals become homeowners, allowing these individuals to build equity and personal wealth. In the last year alone, MIs helped nearly 800,000 homeowners purchase or refinance a mortgage and importantly, nearly half of these individuals were first-time homebuyers.

One important way that federal law currently supports mortgage insurance is a provision in the Internal Revenue Code that allows a deduction for mortgage insurance premiums paid on qualified residence interest.[1] The deduction is targeted towards those who need it the most: low- and moderate-income taxpayers who have managed their finances responsibly and have earned strong credit ratings, but nonetheless may not have the resources to afford a large initial down payment to buy a home (and begin to build equity). The deduction phases out for upper-income taxpayers, and is set to expire on December 31, 2016 (it is one of the so-called "tax extenders").

The deduction for mortgage insurance premiums has proven to be an important tool in lowering the cost of homeownership for the low- and moderate-income homebuyers to whom the deduction was limited. The provision has resulted in significant savings for families striving to afford a home. In 2014, the most recent year for which IRS data is available, the deduction for qualified mortgage insurance premiums was claimed on 4.2 million tax returns. *All* filers claiming the deduction were low- and moderate-income taxpayers. Over four-fifths of these taxpayers had incomes between $30,000 and $100,000 and over two-fifths of these taxpayers had incomes under $75,000.

[1] 26 U.S.C. § 163(h)(3)(E).

As a tax policy matter, mortgage insurance premiums are economically equivalent to mortgage interest, and should receive equitable treatment. Mortgage insurance protects lenders and the GSEs in scenarios where the homebuyer is not able to provide a significant down payment. While lenders wish to lend to as many potential homebuyers as possible, without mortgage insurance they cannot accept the risk of extending credit to certain individuals—particularly at an interest rate that these persons could afford. Thus, homebuyer-paid mortgage insurance, like interest, GSE guaranty fees, and lender-paid mortgage insurance, is part of the consideration required by lenders in exchange for providing a mortgage loan.

The Internal Revenue Code should retain the deduction for qualified mortgage insurance premiums, and the provision should be extended or made permanent for amounts paid or accrued beyond December 31, 2016. As has been noted above, in the years that the deduction has been in effect, the deduction has proven to be an important tool for making homeownership more affordable for the low- and moderate-income homebuyers to whom it was limited. Furthermore, extension of the mortgage insurance premium deduction also is supported by tax policy considerations.

We look forward to being able to work closely with you on supporting this important policy issue.

Very truly yours,

Lindsey Johnson
President, USMI