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E-NAHMAnalysis 2006-0706: Proposed FY 2007 Federal Housing Administration (FHA) Multifamily Mortgage Insurance Premiums (MIPs)

Effective Date

On June 28, HUD published a notice in the *Federal Register* announcing changes in the mortgage insurance premiums (MIP) for Federal Housing Administration (FHA) multifamily mortgage insurance programs whose commitments will be issued or reissued in Fiscal Year 2007. The effective date for these changes is October 1, 2006; they affect multifamily housing commitments issued or reissued on or after October 1, 2006.

Summary

As we feared, *substantial* increases are proposed for the multifamily MIPs when the projects do not have equity resulting from the sale of Low Income Housing Tax Credits. President Bush proposed these increases earlier this year as part of his FY 2007 HUD Budget request.

Increases in the MIP rate will apply to the following insured loans without LIHTCs:

- Section 207 Manufactured Home Parks and New Construction/ Substantial Rehabilitation (NC/SR): The MIP will increase from 50 to 77 basis points.
- Section 221(d)(4) NC/SR: The MIP will increase from 45 to 77 basis points.
- Section 232 NC/SR Health Care Facilities: The MIP will increase from 57 to 80 basis points.
- Section 220 Urban Renewal Housing: The MIP will increase from 50 to 77 basis points.
- Section 231 Elderly Housing: The MIP will increase from 50 to 77 basis points.
- Section 207/223(f) Refinance or Purchase of Apartments: The MIP will increase from 45 to 77 basis points.
- Section 232/223(f) Refinance or Purchase of Health Care Facilities: The MIP will increase from 50 to 80 basis points.
- Section 223(a)(7) Refinance of Apartments: The MIP will increase from 45 to 77 basis points.
- Section 223(a)(7) Refinance of Health Care Facilities: The MIP will increase from 50 to 80 basis points.

- Section 241(a) Improvements/Additions for Health Care Facilities: The MIP will increase from 57 to 80 basis points.
- Section 242 Hospitals: The MIP will increase from 50 to 80 basis points.
- Section Title XI--Group Practice: The MIP will increase from 50 to 80 basis points.

MIP rates are unchanged for the following insured loans:

- For all sections of the Act where the mortgagor equity is produced from the proceeds of the sale of LIHTCs, the MIP remains at 45 basis points.
- Insured loans without LIHTC under:
    - Section 213 Cooperative Housing remains at 50 basis points,
    - Section 221(d)(3) Nonprofit/Cooperative mortgagor remains at 80 basis points,
    - Section 223(d) Operating Loss Loans for apartments and health care facilities remain at 80 basis points and
    - Section 241(a) improvements/Additions for apartments only remain at 80 basis points.
- Premiums for risk sharing applications under sections 542(b) and 542(c) of the Housing and Community Development Act of 1992 remain at 50 basis points. The 50 basis points applies to all risk-sharing loans whether or not they have LIHTC.

Concerns

Industry advocates, including NAHMA, regard these changes as revenue raisers for the government which are not warranted based on the state of these programs. Furthermore, these increased costs are likely to result in less use of FHA multifamily mortgages and higher rents for low and moderate income tenants. NAHMA signed onto a March 13 industry coalition letter (spearheaded by the Mortgage Bankers Association and the National Association of Homebuilders) which noted,

> "Virtually all of the FHA multifamily insurance programs already have a negative credit subsidy and therefore cover all their costs. Increasing the current mortgage insurance premiums will, according to the HUD budget proposal, generate approximately $150 million in additional revenue. We believe this new tax will cause fewer properties to be built or rehabilitated and actually result in significantly lower income than projected. And for those properties that will continue in the FHA programs, the result will be a 5 percent increase in rents.
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> Raising revenue through higher rents on low and moderate income families and the elderly should be rejected out of hand."

Additionally, NAHMA feels HUD is in disagreement with itself over the LIHTC program's role in HUD properties. While LIHTC properties are exempted from the increased MIPs, some HUD field offices have instructed owners and management agents that project funds may not be used for payment of annual LIHTC compliance fees assessed by state agencies. On the one hand, HUD's budget documents recognize that such mixed subsidy properties provide affordable housing and serve a public purpose. On the other hand, the field offices' position on LIHTC compliance fees creates a disincentive to using tax credits on HUD affordable properties and further complicates the regulatory challenges in combining these programs. NAHMA has asked Assistant Secretary for Housing Brian Montgomery to issue clarification stating that LIHTC compliance fees are an eligible project expense. We are following up on this request.

NAHMA's Position

As one of the 11 signatories to the March 13, 2006 industry coalition letters to the House and Senate Appropriations Committee chairmen and ranking members, NAHMA is on record opposing these MIP changes.

Comments on these MIP changes are due at HUD on July 28, 2006. NAHMA will work through its Regulatory Affairs Committee and in consultation with industry partners to determine our response. For more information, please see: http://hudclips.org/sub_nonhud/cgi/pdf/5866a.pdf.