COALITION FOR HEALTHCARE FINANCE

May 10, 2012

Regulations Division
Office of General Counsel
Department of Housing and Urban Development,
451 Seventh Street, SW
Room 10276
Washington, DC 20410–0500

RE: Docket No. FR–5634–N–01
Changes in Certain Multifamily
Housing and Health Care Facility
Mortgage Insurance Premiums for Fiscal Year (FY) 2013

I am writing to express strong opposition to the proposed premium increases for Federal Housing Administration (FHA) programs in the General Insurance/Special Risk Insurance (GI/SRI) fund.

The Coalition for Healthcare Finance is a newly-formed trade association representing the interests of healthcare facility owners and operators and related lending institutions. FHA healthcare programs have been a vital source of stable capital for thousands of healthcare facilities, particularly in recent years. In fact, while lending nationally has lagged since 2008, the Section 232 program has grown substantially as facilities nationwide have struggled with capital access. The challenging lending environment, combined with improvements in underwriting and application processes in Section 232, have increased loan volume and, based on the administration's calculation of credit subsidy rates, proven to be less risky. In fact, Section 232 loans are a source of stability for the FHA GI/SRI fund.

The success of the Section 232 program makes the proposal to raise rates on participants all the more baffling. While we understand that severe shortfalls in the Mutual Mortgage Insurance (MMI) fund have forced FHA to seek creative alternative methods of increasing revenues and therefore off-setting receipts, to do so at the expense of our nation's seniors and the institutions and people who support them is misguided.

While we have been told that the increase in premiums is "modest" and will have little impact on program participants, a quick calculation shows the real cost to institutions. The increase represents a 30% increase in annual MIP cost, which translates to a 2.70% increase in annual debt service costs, based on current market interest rate of 3.00%. The 20-basis point increase proposed on a typical Section 232 loan of $7 million would cost an institution more than $10,000 in the first year alone. It is important to note that this increase is not simply charged in the first year, however; premiums are assessed on an annual basis for the life of the loan.

Under this proposal, healthcare institutions that are already operating on paper-thin margins will be paying hundreds of thousands of dollars in additional fees over the life of a mortgage. This means that some other part of the institution's operations will have to suffer. The quality of care

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received by our nation's seniors, those who have served and struggled throughout their lives to support this country, should not be reduced as a way to cover single-family mortgage losses. Avoiding an increase in appropriations to cover MMI losses may be politically expedient, but to do so at the expense of our nation's seniors is inappropriate.

We would urge the administration to consider an alternative approach that would both increase revenues, but also incentivize better underwriting and improved operations: risk-based premium pricing. Those lenders who produce riskier loans should pay higher premiums, while those lenders who have a long track record of underwriting loans with little or even no default history, should pay lower premiums.

This way we would not only have more effective risk mitigation by charging those who put the fund at greatest risk the highest fees to off-set that risk, we would also encourage lenders to improve underwriting procedures themselves. Likewise, by evaluating the risk profiles of healthcare facility owners and operators, those with the most positive claim history would be rewarded while those with a history of claims would be incentivized to improve operations. This method would raise premiums on those who have shown they pose greater risks to the insurance fund and therefore to the taxpayers who ultimately stand to lose if the fund faces similar challenges as to what the MMI fund is currently experiencing.

Again, while we support FHA programs and the need for FHA to effectively manage risk across its entire portfolio with as little cost to the taxpayer as possible, we are firmly opposed to any proposal that unfairly targets seniors and their caregivers as a source of funds to cover losses in other parts of FHA.

We look forward to working with you and your team to find creative and effective ways to minimize risk while continuing to provide this vital service to the nation and its seniors. Thank you for your commitment to our nation's seniors and please let us know if we can provide you with any additional information.

Sincerely,

Brian Reynolds
Chairman

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