Capital Funding, LLC

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 regarding the proposal to increase mortgage insurance premiums in the healthcare programs of the Federal Housing Administration (Docket No. FR–5634–N–01, "Changes in Certain Multifamily Housing and Health Care Facility Mortgage Insurance Premiums for Fiscal Year (FY) 2013." This proposed rule, if adopted, would increase insurance premiums in FHA healthcare programs by 5 to 20 basis points.

Capital Funding, LLC (formerly known as Capital Funding Group Inc.) has been involved in the Section 232 program for more than three decades. We are one of the largest participants in the program with a Section 232-insured portfolio exceeding $2 billion yet we have never had a loan cause a claim against FHA's General Insurance/Special Risk Insurance fund. We are extraordinarily proud of this accomplishment.

We are keenly aware of the challenges the program has faced and the extraordinary efforts FHA staff have undertaken to support and grow the program. The recent shift to the LEAN processing model, for instance, has been a benefit to our industry, but more importantly it has been a tremendous benefit to the facilities we serve by giving them more effective and efficient access to capital markets.

The Section 232 program has been an invaluable resource to long-term care facilities across the country and by extension to the hundreds of thousands of seniors who live in these facilities. The program is a financial benefit to the federal government in two ways. First, by reducing interest rates paid by healthcare facilities the Section 232 program reduces the reimbursements facilities receive under Medicare and Medicaid. This is a major benefit to taxpayers at a time when healthcare costs to the federal government continue to increase. Second, the program produces substantial negative credit subsidy, meaning it generates more in insurance premiums than it pays in claims. This is vital to the success of FHA overall as you and your team continue to deal with the fallout of the mortgage lending crisis in FHA's Mutual Mortgage Insurance fund.

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The Section 232 program also has substantial programmatic benefits, including the creation of construction and long-term healthcare jobs and improving the quality of care for our nation's seniors. I am concerned that an increase in insurance premiums could negatively affect the program and in fact FHA as a whole if it were to diminish the credit-worthiness of applicants into the program. This proposal to raise additional funds for FHA could actually cost FHA substantially.

Furthermore, the department seems to believe that this increase is not substantial and can easily be absorbed by the facilities participating in the program. This is not entirely accurate. 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.

A proposal we would ask the department to consider as an alternative would be to engage in more specific risk-based premium pricing. Simply stated, lenders who produce riskier loans should pay higher premiums, while lenders like Capital Funding, LLC who have a long track record of underwriting loans without ever causing a default should pay lower premiums.

This would more effectively mitigate risk by charging those who put the fund at greatest risk. It would also encourage lenders to improve underwriting procedures themselves in order to avoid the higher fees that their greater risk category would cause for facilities, making them less competitive. 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 senior care facilities and their caregivers as a source of funds to cover losses in other parts of FHA.

Thank you for your attention to this matter and please do not hesitate to contact me or my staff with any questions.

Sincerely,

Deborah A. Spangenberg

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