Federal Programs That Guarantee Mortgages

The federal government facilitates homeownership by providing guarantees against losses from defaults on mortgages made by private lenders—mainly through the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA). The Government National Mortgage Association in turn guarantees securities that are backed by those mortgages. Fannie Mae and Freddie Mac (government-sponsored enterprises that CBO treats as part of the federal budget) purchase mortgages from banks and other originators, pool the loans into mortgage-backed securities (which they guarantee against losses from default on underlying mortgages), and sell the securities to private-sector investors.

The budgetary treatment of FHA's and VA's mortgage guarantees follows the provisions of the Federal Credit Reform Act of 1990 (FCRA). The cost of federal credit activity for those programs in a budget year is the net present value of all expected future cash flows from guarantees and direct loans disbursed in that year. (Net present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. That number depends on the discount rate, which is used to translate future cash flows into current dollars.) Under FCRA, the discount rate matches the rate on Treasury securities that have the same terms of maturity as the cash expenditure or receipt. For example, a payment received in year five would be discounted at the projected interest rate on five-year Treasury securities. For loan guarantees, cash inflows consist primarily of fees charged to insured borrowers, and cash outlays consist mostly of payments to lenders to cover the cost of loan defaults. The discounted loss (or gain) is the estimated budgetary cost or subsidy value of the loans guaranteed or issued during a budget year.

The budgetary treatment of Fannie Mae and Freddie Mac's mortgage guarantees follows fair-value accounting methods: The subsidy cost of providing credit either corresponds to or approximates the market price of that credit. Under fair-value accounting, when the net present value of future cash flows is calculated, a premium is added to the discount rate to account for market risk. The purpose is to more fully incorporate the cost to the government (and, by extension, taxpayers) of the risks inherent in federal credit transactions.

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	By Fiscal Year, Millions of Dollars										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
BUDGET INFORMATION											
Dollar Volume of Mortgage Originations[a]	3,182,000	2,575,000	2,832,000	3,257,000	3,167,000	2,867,000	2,889,000	3,168,000	3,429,000	3,636,000	3,838,000
Fannie Mae and Freddie Mac											
Dollar Volume of Annual Loans	1,750,000	1,288,000	1,359,000	1,466,000	1,425,000	1,290,000	1,300,000	1,426,000	1,543,000	1,636,000	1,727,000
Share of Originations (Percent)	55.0	50.0	48.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Cash Receipts[b]	-5,700	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Annual Subsidy Costs[c]	n.a.	3,900	6,400	7,400	6,300	4,300	3,200	2,800	2,700	2,900	3,500
Subsidy Rate (Percent)	n.a.	0.31	0.47	0.50	0.44	0.33	0.25	0.20	0.18	0.18	0.20
Federal Housing Administration MMI Program[d,e]											
Dollar Volume of Annual Loans	312,000	278,000	320,000	368,000	358,000	324,000	326,000	358,000	387,000	411,000	434,000
Share of Originations (Percent)	9.8	10.8	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3	11.3
Annual Subsidy Costs	-8,393	-7,701	-7,072	-7,507	-7,160	-6,480	-6,520	-7,160	-7,740	-8,220	-8,680
Subsidy Rate (Percent)	-2.7	-2.8	-2.2	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Department of Veterans Affairs Home Loan Program[d,f]											
Dollar Volume of Annual Loans	305,607	265,361	253,991	240,175	225,280	220,610	216,454	224,110	233,065	242,975	253,562
Share of Originations (Percent)	9.6	10.3	9.0	7.4	7.1	7.7	7.5	7.1	6.8	6.7	6.6
Annual Subsidy Costs	-311	2,524	2,782	2,655	2,304	1,861	1,429	1,366	1,428	2,282	2,786
Subsidy Rate (Percent)	-0.1	1.0	1.1	1.1	1.0	0.8	0.7	0.6	0.6	0.9	1.1
Government National Mortgage Association (GNMA) Mortgage-Backed Securities Program[g]											
Annual Subsidy Receipts	-2,490	-1,940	-2,030	-2,140	-2,055	-1,930	-1,925	-2,050	-2,175	-2,280	-2,390

FCRA = Federal Credit Reform Act of 1990; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association; MMI = Mutual Mortgage Insurance; VA = Department of Veterans Affairs; n.a. = not applicable.

See next page for notes.

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a. Includes nonfederal mortgages.

b. For fiscal year 2022, the baseline includes an estimate of mandatory cash payments from Fannie Mae and Freddie Mac to the Treasury.

c. For 2023 through 2032, the baseline includes projected subsidy costs of new mortgage loans and guarantees made by Fannie Mae and Freddie Mac in each year, estimated on a fair-value basis. For more information about CBO's budgetary treatment of Fannie Mae and Freddie Mac, see Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887.

d. CBO uses the subsidy rates estimated by the Administration for home loans guaranteed or made by FHA and VA in the current year because the Administration will use those rates when it records the net present value of subsidy costs for such loans. In all years thereafter, CBO estimates the subsidy rates for those loans, which may diverge from the Administration's projections.

e. Excludes Home Equity Conversion Mortgages; MMI subsidy receipts are recorded in the budget as offsetting collections to discretionary appropriations. The subsidy rate for the MMI program is calculated using FCRA methods.

f. Includes guaranteed loans and direct loans made by VA on homes sold by the department; excludes loans acquired from other lenders and guarantees on securities of direct loans originated by VA. Costs associated with this program are recorded in the budget as mandatory spending. The subsidy rate for the VA program is calculated using FCRA methods.

g. GNMA securitizes more than 90 percent of FHA's MMI loan guarantees and 98 percent of VA's loan guarantees, resulting in additional offsetting collections. The subsidy rate for GNMA, which is calculated using FCRA methods, is estimated to be -0.38 percent in 2022 and -0.34 percent annually over the 2023-2032 period.