CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 5, 2014

S. 1217
Housing Finance Reform and Taxpayer Protection Act of 2014

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on May 15, 2014

SUMMARY

S. 1217 would establish the Federal Mortgage Insurance Corporation (FMIC) to provide a partial federal guarantee for mortgage-backed securities (MBSs). Similar to the financial role played by two government-sponsored enterprises (GSEs)—Fannie Mae and Freddie Mac—FMIC would offer guarantees on MBSs composed of mortgages originated by lenders in the primary market. Under the bill, the GSEs would stop offering guarantees on MBSs. FMIC would charge fees on the underlying mortgages to guarantee the payment of principal and interest to investors in eligible MBSs and would require private capital to absorb some losses before federal payments would occur. Because of those features, CBO expects that the government would take on less risk under FMIC guarantees than it would from continued operation of the GSEs under current law and thereby incur smaller costs.

CBO estimates that enacting S. 1217 would reduce direct spending by $60 billion over the 2015-2024 period—largely because new fees that FMIC would charge the issuers of MBSs would exceed the costs of the guarantees as calculated under the Federal Credit Reform Act (FCRA). In addition, under the bill, revenues would decline by $1.5 billion over the 2020-2024 period because the Federal Housing Finance Agency (FHFA)—the GSEs' regulator—would no longer assess fees on the GSEs (which are recorded in the budget as revenues) to cover the agency's administrative costs. Combining those effects on direct spending and revenues, CBO estimates that enacting the bill would decrease federal deficits by $58 billion over the 2015-2024 period.[1] Because enacting S. 1217 would affect direct spending and revenues, pay-as-you-go procedures apply.

1. CBO has also prepared an estimate for S. 1217 using a fair-value approach—rather than the FCRA approach—to estimating the costs of MBS guarantees that would be offered by FMIC. Using the fair-value approach, CBO estimates that enacting the legislation would reduce deficits by $7 billion over the 2015-2024 period. That additional estimate is discussed under the heading "Additional Information."

Under the bill, CBO expects that some mortgages that would be guaranteed by the GSEs under current law would instead obtain guarantees through the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA). CBO estimates that those changes would result in a decrease in discretionary spending of $6.9 billion over the 2020-2024 period, assuming enactment of future appropriation laws necessary to implement the legislation's provisions.[2]

S. 1217 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on mortgage servicers and creditors; the legislation also would impose a separate intergovernmental mandate on state banking and insurance agencies by requiring such agencies to provide information about insolvent entities. CBO estimates that the aggregate costs of the intergovernmental and private-sector mandates in the bill would fall below the annual thresholds established in UMRA ($76 million and $152 million in 2014, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of S. 1217 are shown in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 1217 will be enacted near the end of 2014 and that appropriations actions consistent with the bill will be completed each year. CBO also assumes that the infrastructure and participating entities needed to pool and securitize eligible mortgages for a FMIC guarantee would be operational in 2019 and the GSEs' authority to guarantee most new mortgages would be terminated at that time as envisioned in S. 1217.

2. The budgetary effects of FHA and GNMA are classified as discretionary because the authority to issue guarantees under those programs is subject to provisions in annual appropriation acts. In contrast, GSE operations are not subject to such annual appropriation laws, and S. 1217 would exempt FMIC from the requirement to have its authority to offer MBS guarantees provided in annual appropriation acts. CBO has also prepared a fair-value estimate of the legislation's effects on FHA and GNMA. Using this approach, CBO estimates that enacting the legislation would lead to an increase in discretionary spending of $5 billion over the 2020-2024 period. That additional estimate is discussed below under the heading "Additional Information."

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF S. 1217

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
CHANGES IN DIRECT SPENDING												
Establish FMIC and End New GSE Guarantees												
Estimated Budget Authority	130	250	260	270	280	-920	-280	-1,290	-1,300	-1,300	1,190	-3,900
Estimated Outlays	130	250	260	270	280	-920	-280	-1,290	-1,300	-1,300	1,190	-3,900
Provide FMIC Guarantees												
Estimated Budget Authority	0	0	0	0	0	-9,450	-9,410	-9,020	-9,410	-9,660	0	-46,950
Estimated Outlays	0	0	0	0	0	-9,450	-9,410	-9,020	-9,410	-9,660	0	-46,950
Net FMIC Collections and Spending for Administrative Costs												
Estimated Budget Authority	0	0	0	0	0	-287	-296	-300	-309	-312	0	-1,504
Estimated Outlays	0	0	0	0	0	-340	-342	-337	-341	-339	0	-1,698
Net Collections and Spending for Affordable Housing Programs												
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	0	0	0	-900	-1,460	-1,680	-1,690	-1,570	0	-7,300
Total Changes												
Estimated Budget Authority	130	250	260	270	280	-10,657	-9,986	-10,610	-11,019	-11,272	1,190	-52,354
Estimated Outlays	130	250	260	270	280	-11,610	-11,492	-12,327	-12,741	-12,869	1,190	-59,848
CHANGE IN REVENUES												
End FHFA Assessments	0	0	0	0	0	-287	-296	-300	-309	-312	0	-1,504
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Effect on the Deficit	130	250	260	270	280	-11,323	-11,196	-12,027	-12,432	-12,557	1,190	-58,344
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Additional Offsetting Collections for FHA and GNMA[a]												
Estimated Authorization Level	0	0	0	0	0	-1,020	-1,140	-1,590	-1,590	-1,590	0	-6,930
Estimated Outlays	0	0	0	0	0	-1,020	-1,140	-1,590	-1,590	-1,590	0	-6,930

Notes: FMIC = Federal Mortgage Insurance Corporation; GSE = Government-Sponsored Enterprises: Fannie Mae and Freddie Mac; FHFA = Federal Housing Finance Agency; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association.

Components may not sum to totals because of rounding.

a. Negative numbers denote a net reduction in spending, as a result of increased collections by FHA and GNMA. Those collections are treated as reductions in spending subject to appropriation.

Most of the budgetary effects of S. 1217 would result from replacing Fannie Mae's and Freddie Mac's authority to guarantee new mortgages with an explicit federal guarantee by FMIC of eligible MBSs in exchange for certain fees. That shift would affect the budget both because of differences in the terms of the guarantees that would be offered and because of differences in the accounting methods used for the various entities.

Before discussing individual components of the cost estimate, the next two sections review the changes to the market for mortgage guarantees that we expect would occur under the bill, and explain the different methods CBO uses to account for the cost of mortgage guarantees in the federal budget.

Forecast of Volume and Mortgage Guarantees, By Type

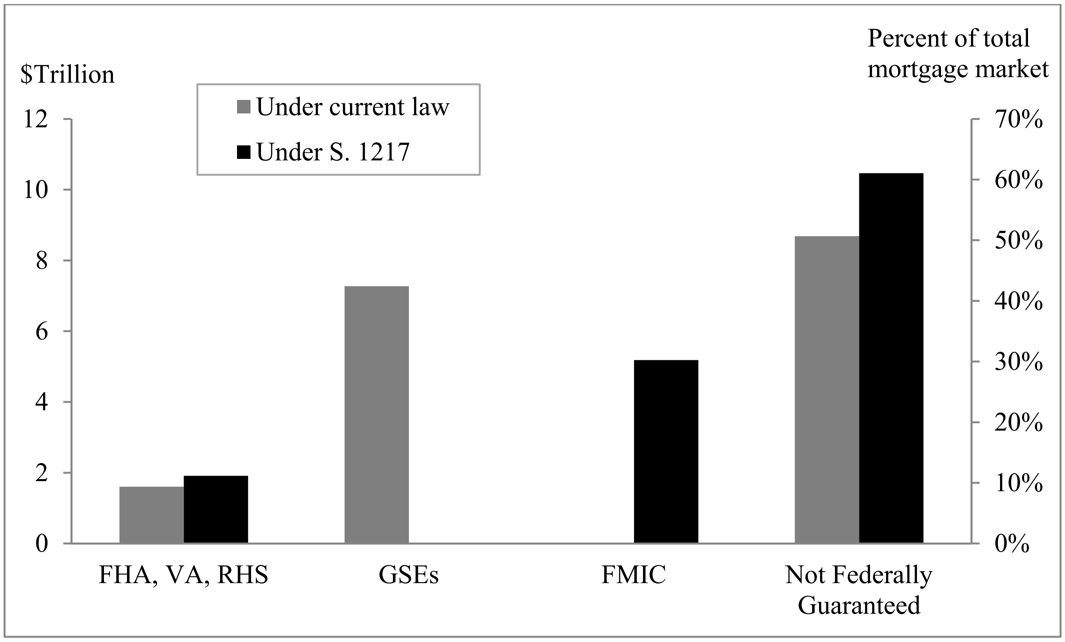
The GSEs and FHA currently guarantee the repayment of most mortgages issued in the United States.[3] In 2013, the volume—or face value—of all new mortgages guaranteed by those entities was about $1.7 trillion—about 80 percent of the total originations for residential mortgages. Although the GSEs and FHA offer a similar mortgage guarantee product, they focus on homebuyers in different financial circumstances. FHA's market mainly consists of buyers who lack the savings, credit history, or income to qualify for GSE-guaranteed or privately insured mortgages. In contrast, the GSE market consists of buyers with stronger credit profiles and larger down payments who can qualify for conventional mortgages.

Under S. 1217, CBO estimates that FMIC would guarantee about 30 percent of the total mortgage market over the 2020-2024 period. The remaining mortgage market would be supported mostly by private firms that carry no federal guarantee (60 percent of the total), while about 10 percent would be guaranteed by FHA, the Department of Veterans Affairs (VA), or the Rural Housing Service (RHS).

Figure 1 summarizes CBO's forecast for the U.S. mortgage guarantee market over the 2020-2024 period under current law and under S. 1217.

3. FHA provides its guarantees in conjunction with GNMA, which is responsible for guaranteeing securities backed by pools of mortgages insured by federal agencies, such as FHA. In exchange for a premium paid by lenders or issuers of the securities, GNMA guarantees the timely payment of scheduled principal and interest due on the pooled mortgages that back those securities.

FIGURE 1. NEW RESIDENTIAL MORTGAGES, BY TYPE OF GUARANTEE, OVER THE 2020-2024 PERIOD



Note: FHA = Federal Housing Administration; VA = Department of Veterans Affairs; RHS = Rural Housing Service; GSEs = Government-Sponsored Enterprises: Fannie Mae and Freddie Mac; FMIC = Federal Mortgage Insurance Corporation.

CBO estimates that FMIC would guarantee less of the total mortgage market (under the bill) than the GSEs would (under current law) because we expect that borrowers would face higher net costs for a FMIC guarantee. Over the 2020-2024 period, CBO estimates that mortgages with a FMIC guarantee would have interest rates that were 10 basis points to 20 basis points higher than a guarantee obtained through the GSEs under current law (100 basis points equals 1 percentage point).[4] Those higher estimated rates would stem from requirements in S. 1217 for FMIC to:

- Establish cash reserves equivalent to 2.5 percent of the outstanding principal of its guarantees by 2029,

- Charge private entities an additional 10 basis points, on average, to fund affordable housing programs, and

4. Under the bill, CBO estimates that the FMIC guarantee would be 10 basis points more costly for borrowers compared to a GSE guarantee in the first two years of operations (2020 and 2021). Beginning in 2022, it would be 20 basis points more costly because the temporary increase in the fees charged by the GSEs that was enacted in the Temporary Payroll Tax Cut Continuation Act of 2011—equal to 10 basis points—will expire at the end of 2021.

- Require private entities to absorb some losses before the FMIC guarantee would be triggered, which would cause those entities to charge additional fees that would be incorporated into mortgage costs.

Accounting for the Cost of Mortgage Guarantees in the Federal Budget

The riskiness—and thus the cost to the federal government—of providing a mortgage guarantee depends on a variety of factors. The most important factors include: the relationship between the amount of the mortgage and the value of the home (known as the loan-to-value ratio), the loan interest rate, changes in house prices, the creditworthiness and employment status of the homeowner, and the fees (or insurance premiums) charged for the mortgage insurance. The costs to the federal government of providing mortgage guarantees are known as credit subsidies. The credit subsidy cost is the estimated lifetime cost to the government of a direct loan or loan guarantee calculated on a net-present-value basis, excluding administrative costs (which are recorded separately in the budget on a cash basis).

The federal budgetary costs of loan guarantee programs are calculated using the methodology established under the Federal Credit Reform Act. Under that methodology, the estimated future cash flows associated with a loan guarantee are converted into a present value using the interest rates on Treasury securities of comparable maturity. The subsidy costs for FHA's single-family credit program are estimated using this approach. Generally, under FCRA, funds must be appropriated in advance to cover the estimated subsidy costs of providing loan guarantees. However, because FHA's program results in net savings for the government when estimated on a FCRA basis, appropriation acts must specify a limit on the aggregate amount of loans that may be guaranteed (known as the annual commitment authority) and provide for FHA's administrative costs.

CBO uses a related but different approach to accounting for the cost of the GSEs' mortgage guarantee business. Specifically, CBO projects the credit subsidy cost of new GSE activity on a fair-value basis. Under that method, a market risk premium is added to the Treasury rate when calculating the net present value of future cash flows.[5]

The costs associated with the GSEs and FHA also are categorized differently in the federal budget. Budgetary costs for the GSEs are considered to be mandatory expenditures because no federal appropriations are necessary for the operation of their business. In contrast, the budgetary costs for FHA are treated as discretionary because, as noted above, FCRA requires that FHA receive an annual appropriation for administrative costs and an annual amount of commitment authority to operate its programs.

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5. Congressional Budget Office, *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market* (December 2010), www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12032/12-23-fanniefreddie.pdf.

Under S. 1217, FMIC would be subject to most of the requirements of FCRA, and its subsidy costs would be calculated using the methodology specified in that act. S. 1217, however, would exempt FMIC from the provision of FCRA that requires agencies to obtain authority to provide credit guarantees in annual appropriation acts. As a result, FMIC's guarantees and administrative costs would be considered mandatory expenditures in the federal budget, similar to those of the GSEs.

Under current law, CBO estimates that the mortgage guarantees offered by the GSEs will result in a mandatory cost of about $5 billion (that is, a positive subsidy cost) over the 2020-2024 period on a fair-value basis. Over the same period, CBO estimates that the guarantees offered by FMIC would result in mandatory savings to the federal government of about $47 billion (that is, a negative subsidy cost) on a FCRA basis. Those widely divergent budgetary effects are explained partly by the different terms of the guarantees offered by those entities. Most of the difference, however, stems from the different accounting methods —FCRA versus fair-value—used to determine the costs of the guarantees that would be offered by FMIC and the GSEs, respectively.[6]

Changes in Direct Spending

CBO estimates that enacting S. 1217 would reduce net direct spending by $60 billion over the 2015-2024 period. That reduction in spending would mostly result from a negative subsidy cost (on a FCRA basis) of the new guarantees on MBSs offered by FMIC.

Establish FMIC and End New GSE Guarantees. S. 1217 would require that in the first few years after enactment the GSEs would finance all salaries and expenses related to establishing FMIC so that it would be prepared to provide MBS guarantees beginning in 2020. Those start-up activities would increase federal costs over the 2015-2019 period because CBO considers the GSEs' outlays and receipts to be part of the federal budget.

According to information from FHFA, Fannie Mae and Freddie Mac are already performing many of the activities that S. 1217 would initially require. However, additional costs would be incurred under the bill to adapt some features of the securitization infrastructure (which is currently being developed) on an accelerated schedule to ensure that the FMIC guarantee would be available when the GSEs exit the market. Other costs that would be incurred by FMIC would include development of new regulatory and supervisory standards and of the capacity to administer MBS guarantees. CBO estimates that FMIC would require a budget of roughly $240 million per year over the 2015-2019 period.

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6. Pursuant to a provision in the 2015 House Budget Resolution (section 507 (c) of H. Con. Res. 96), CBO has also prepared an estimate of S. 1217 using fair-value accounting as a consistent estimating basis for the credit activities of FMIC, the GSEs, and FHA. That additional estimate has been prepared entirely on a fair-value basis and is displayed below under the heading "Additional Information."

Under S. 1217, the GSEs would continue to wind down their portfolios and manage their existing guarantees after 2019, but their authority to guarantee most new mortgages would end in 2019.

Under current law, CBO expects that the GSEs will guarantee about $7.3 trillion in single-family mortgages over the 2020-2024 period, representing about 40 percent of the mortgage market (as shown in Figure 1). CBO estimates that ending the authority for the GSEs to conduct new business would reduce direct spending by $5.1 billion over the 2020-2024 period by eliminating estimated GSE subsidies over that period. Combining those savings with the costs of starting up FMIC would reduce direct spending by $3.9 billion over the 2015-2024 period, CBO estimates.

CBO expects that after 2019, FHA's market share combined with mortgage guarantees by VA and RHS would increase from 9 percent to 11 percent—as shown in Figure 1—because some of the mortgages that would have been guaranteed by the GSEs would be guaranteed by FHA instead. (That increase would stem entirely from a rise in FHA's market share.) The budgetary effect of those additional FHA guarantees is discussed below under "Spending Subject to Appropriation."

Provide FMIC Guarantees. S. 1217 would establish FMIC to operate a federal guarantee program for MBSs. The credit subsidy cost of the program would stem from the expected dollar volume of mortgages that would receive a FMIC guarantee and their estimated subsidy rate. CBO expects that, once the GSEs exit the mortgage market, FMIC would handle $5.2 trillion in mortgage guarantees over the 2020-2024 period—about 30 percent of the total market. Although FMIC would aim to serve the same borrowers as the GSEs, CBO expects its market share would be smaller because borrower interest rates under FMIC would be higher than under the GSEs and borrowers with the strongest credit would probably seek cheaper alternatives. In addition, CBO expects that the higher interest rates would cause some borrowers to go to FHA for a guarantee instead of FMIC and would cause some other borrowers to choose not to take on a mortgage.

Under the bill, except for paying slightly higher interest rates, the experience of borrowers seeking a mortgage would probably not be very different than under current law with the GSEs. CBO expects that the mortgages guaranteed by FMIC would have many of the features that are currently popular with borrowers, such as long terms with fixed rates, the ability to prepay a mortgage, the ability to lock in an interest rate, and broad access to the market for eligible borrowers. Those features would be important in order for FMIC to replace the GSE guarantee with one that places private capital in front of an explicit government guarantee while avoiding a disruption to the mortgage market for borrowers. CBO expects that the continued availability of those features would allow FMIC to retain much of the mortgage guarantee market currently held by the GSEs.

Based on CBO's expectations about the characteristics of future GSE mortgages—loan-to-value ratios, creditworthiness, and fees—and the risk associated with the level of private capital required to obtain a FMIC guarantee on those mortgages, CBO estimates that the subsidy rate for FMIC guarantees (on a FCRA basis) would average -0.9 percent over the 2020-2024 period. That negative subsidy rate indicates that the present value of future losses expected to be incurred by FMIC would be less than the present value of fees that FMIC is expected to charge for mortgage guarantees. The subsidy rate also reflects the flexibility provided in the legislation to allow private entities a multiyear phase-in period to meet the capital standards specified in the bill, and for FMIC to temporarily lower those capital standards if necessary to ensure the availability of mortgage financing during an economic downturn. Consequently, CBO's estimated subsidy rate is a probabilistic estimate that accounts for the uncertainty in future economic variables such as house prices and interest rates, as well as the possibility that FMIC's capital standards could be significantly reduced during a recession.

CBO estimates that FMIC guarantees would increase offsetting receipts (which are treated as reductions in direct spending) by $47 billion over the 2020-2024 period. That figure is the product of CBO's estimated subsidy rate (-0.9 percent) and the estimated dollar volume of mortgages that FMIC would guarantee ($5.2 trillion). There is significant uncertainty surrounding that estimate. CBO's estimate of the size of the U.S. residential mortgage market in future years may be too high or too low. CBO's assessment of how FMIC would operate, the fees it would charge, and the interest rates borrowers would face may also be incorrect. In particular, CBO expects that the agency would use its authority under the bill to ensure that a substantial portion of the risk of offering MBS guarantees is borne by private entities—not the federal government. If FMIC used its authority differently—or on a different time schedule—the budgetary effects over the 2015-2024 period could vary widely from CBO's estimate.

Net FMIC Collections and Spending for Administrative Costs. Under the bill, the fees that FMIC would charge on the mortgages it guarantees would also cover its administrative costs and the costs of regulating and supervising the entities that utilize the FMIC guarantee. Receipt of those fees would be recorded on a cash basis as offsetting receipts.

In addition to its regulatory responsibilities, FMIC would absorb some of the operations currently performed by Fannie Mae, Freddie Mac, and FHFA, while some responsibilities of those entities would move to private entities. Under current law, the administrative costs of Fannie Mae and Freddie Mac are covered by fees and amount to about 9 basis points on their outstanding guarantees each year. CBO estimates that FMIC would need to set its fees to allow for 5 basis points of administrative costs on its outstanding guarantees each year because more tasks would be performed by private entities seeking the FMIC guarantee and fewer responsibilities would fall to FMIC than are borne by the GSEs.

That part of FMIC's fee would yield new collections of $6.5 billion over the 2020-2024 period. Spending by FMIC would total $6.3 billion over this period, slightly less than collections because the spending would occur with a slight lag. However, FHFA would spend $1.5 billion for its portion of those administrative costs under current law, an amount that is currently offset by fee collections that are recorded in the budget as revenues. Thus, the increase in such federal costs under the bill over the 2020-2024 period would be $4.8 billion, CBO estimates. As a result, the net budgetary effect of the change in collections and spending for administrative costs over the 2020-2024 period would be an increase in offsetting receipts (a credit against direct spending) of $1.7 billion ($6.5 billion minus $4.8 billion).

Net Collections and Spending for Affordable Housing Programs. S. 1217 would require FMIC to charge an average of 10 basis points annually on its outstanding guarantees and to spend the proceeds on affordable housing programs. FMIC would have the authority to vary the fees charged to firms based on certain criteria about how much those firms supported underserved markets compared to their peers. CBO estimates that offsetting receipts for affordable housing would total $13.0 billion over the 2020-2024 period. Based on the historical spending patterns of similar programs, CBO estimates that the spending for the programs would total $5.7 billion over the same period because it would take time to administer the programs and award grants to qualified local housing entities. Therefore, the net effect of collections and spending on affordable housing programs would reduce outlays by $7.3 billion over the 2020-2024 period, CBO estimates.

Revenues

Under the bill, FHFA would no longer assess fees on the GSEs for its administrative costs beginning in 2020. Those fees are recorded in the budget as revenues. Under the bill, CBO estimates that revenues would decrease by $1.5 billion over the 2020-2024 period.

However, as noted above, FHFA's administrative costs would be borne by FMIC and would be offset by new fees charged by FMIC (which, as discussed above, would be offsetting collections recorded on the spending side of the budget). Replacing the revenue collections under current law with an equal amount of offsetting collections under the bill would have no net effect on future deficits.

Spending Subject to Appropriation

CBO estimates that, over the 2020-2024 period, implementing S. 1217 would increase offsetting collections for FHA's single-family program and GNMA by $6.9 billion. Those additional offsetting collections would stem from a change in the volume of FHA loan guarantees and subsequent securitization of those loans by GNMA over that period.

CBO estimates that the exit of the GSEs from the mortgage guarantee business in 2020 would cause a small number of borrowers who otherwise would have obtained GSE-backed mortgages to turn to FHA instead. We estimate that, over the 2020-2024 period, enacting this bill would increase demand for mortgage guarantees from FHA's single-family program by $305 billion. The combination of guarantee fees charged by FHA and estimated defaults and mortgage prepayments over the next 10 years yields a subsidy rate for that activity of -2.3 percent. Combining that subsidy rate with the additional volume of mortgage guarantees expected to be offered by FHA under the bill would result in additional offsetting collections of $6.9 billion over the 2020-2024 period. Under current law, CBO estimates that operation of the FHA mortgage guarantee program will generate $25 billion in offsetting collections over that same five year period.

ADDITIONAL INFORMATION

Pursuant to H. Con. Res. 96, this section provides information on the estimated budgetary effects of S. 1217 using a fair-value cost accounting approach for all of the affected programs rather than using a FCRA approach for the FMIC, FHA, and GNMA programs as in the estimates above. CBO estimates that enacting S. 1217 would reduce deficits by $7 billion over the 2015-2024 period if, combining the effects on direct spending and revenues, a fair-value accounting approach were applied. In addition, under a fair-value approach, the bill would have a discretionary cost of $5 billion, assuming future appropriations acts are consistent with CBO's estimate.

Under current law, the costs of the FHA and GNMA programs are measured in the budget according to the procedures established in FCRA. Under S. 1217, the costs of FMIC also would be measured on a FCRA basis.

The fair-value approach is an alternative to the approach specified under FCRA to account for the cost of credit guarantees in the federal budget. Both FCRA and the fair-value approach rely on the same projections of future cash flows for the guarantee programs, and both approaches take into account the lifetime cost of the new guarantees made in a given year (including the expected cost of defaults, net of fees collected). The difference between the two estimates lies in the treatment of the cost of market risk, which is one component of financial risk. Much of the risk of financial investments can be avoided by diversifying a portfolio; market risk is the component of risk that remains even after a portfolio has been diversified as much as possible. It arises because most investments tend to perform relatively poorly when the economy is weak and relatively well when the economy is strong. People value income from investments more when the economy is weak and incomes are relatively low, and so assign a higher cost to losses that occur during economic downturns. The higher cost of losses in bad times (as well as lower cost in good times) is captured in the cost of market risk.

The estimated FCRA and fair-value costs of the FMIC guarantees and other aspects of S. 1217 that would affect direct spending and revenues are shown in Table 2; the estimated FCRA and fair-value costs of the FHA and GNMA programs, which affect spending subject to appropriation, are shown in Table 3.

TABLE 2. COMPARISON OF ESTIMATED COSTS FOR FMIC GUARANTEES UNDER S. 1217 USING FCRA AND FAIR-VALUE ESTIMATES, 2015-2024

	(In Billions of Dollars)	
	Estimated Cost Using FCRA Methodology	Estimated Cost Using Fair-Value Methodology
CHANGES IN DIRECT SPENDING		
FMIC Guarantees		
Estimated Budget Authority	-47	4
Estimated Outlays	-47	4
Other Changes in S. 1217 (Establish FMIC and End New GSE Guarantees, Administrative Costs, and Affordable Housing Programs)		
Estimated Budget Authority	-5	-5
Estimated Outlays	-13	-13
Total Changes		
Estimated Budget Authority	-52	-1
Estimated Outlays	-60	-9
CHANGE IN REVENUES		
End FHFA Assessments	-2	-2
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES		
Estimated Effect on the Deficit	-58	-7

Note: FCRA = Federal Credit Reform Act; FMIC = Federal Mortgage Insurance Corporation; GSE = Government-Sponsored Enterprise: Fannie Mae and Freddie Mac; FHFA = Federal Housing Finance Agency.

TABLE 3. COMPARISON OF ESTIMATED COSTS FOR FHA AND GNMA PROGRAMS UNDER S. 1217 USING FCRA AND FAIR-VALUE ESTIMATES, 2015-2024

	(In Billions of Dollars)	
	Estimated Cost Using FCRA Methodology	Estimated Cost Using Fair-Value Methodology
CHANGES IN SPENDING SUBJECT TO APPRORPRIATION		
Discretionary Spending for FHA and GNMA Under Current Law		
Estimated Authorization Level	-71	31
Estimated Outlays	-71	31
Changes in Offsetting Collections for FHA and GNMA under S. 1217		
Estimated Authorization Level	-7	5
Estimated Outlays	-7	5

Note: FHA = Federal Housing Administration; GNMA = Government National Mortgage Association.

To make the fair-value estimates, CBO inferred the appropriate discount rates for present-value calculations from the prices charged for mortgage insurance by private mortgage insurers and other financial institutions. Compared to estimates under FCRA, the fair-value estimates of FMIC's MBS guarantees incorporate an additional discount rate that is higher by an amount ranging from slightly more than 10 basis points on average for mortgages guaranteed in 2020 down to about 5 basis points on average for mortgages guaranteed in 2024. That estimated market risk premium declines over time for two reasons. First, CBO anticipates that the market risk premiums for mortgage-related investments will decline over time because of improvements in the housing and mortgage markets. Second, under the bill private entities would absorb an increasing share of losses before the FMIC guarantee would be triggered during a phase-in period for private capital requirements.

Including this adjustment for market risk increases the estimated subsidy rates for FMIC from an average over the 2020-2024 period of -0.9 percent under FCRA to 0.1 percent under the fair-value approach. Similarly, for the FHA and GNMA programs, incorporating market risk premiums corresponding to the risks of those programs raises the subsidy estimates from an average of -3.1 percent to 1.4 percent over the 2015-2024 period. The more significant change in the subsidy rate for FHA and GNMA than for FMIC stems from the considerably larger amount of market risk inherent in the combined insurance provided by FHA and GNMA, which covers 100 percent of the losses associated with mortgages with low down payments.

Using a FCRA approach, CBO estimates that the FMIC guarantees would produce a net budgetary savings of about $47 billion over the 2020-2024 period (as discussed above). In contrast, using a fair-value approach, CBO estimates that those programs would have a net cost of about $4 billion over the same time period—a difference of about $50 billion. The other changes in direct spending and the change in revenues are not different under the fair-value approach because either they are already calculated on a fair-value basis (as with Fannie Mae and Freddie Mac) or they are estimated on a cash basis in the federal budget.

Under the bill, the costs of operating FHA and GNMA would not change in the first five years. Using a FCRA approach, CBO estimates that the FHA and GNMA programs would produce budgetary savings of $7 billion over the 2015-2024 period that would be attributable to the bill, assuming that authority to implement the programs is provided in appropriation acts each year. In contrast, using a fair-value approach, CBO estimates that the budgetary effect of these programs attributable to the bill would be $5 billion over the same time period—a difference of $12 billion.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

TABLE 4. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR S. 1217 AS ORDERED REPORTED BY THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS ON MAY 15, 2014

	By Fiscal Year, in Millions of Dollars												
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2014-2019	2014-2024
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	130	250	260	270	280	-11,323	-11,196	-12,027	-12,432	-12,557	1,190	-58,344
Memorandum:													
Changes in Outlays	0	130	250	260	270	280	-11,610	-11,492	-12,327	-12,741	-12,869	1,190	-59,848
Changes in Revenues	0	0	0	0	0	0	-287	-296	-300	-309	-312	0	-1,504

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1217 would impose intergovernmental and private-sector mandates as defined in UMRA on mortgage servicers and creditors and would impose a separate intergovernmental mandate on state banking and insurance agencies by requiring such agencies to provide information about insolvent entities. CBO estimates that the aggregate cost of the intergovernmental and private-sector mandates in the bill would fall below the annual thresholds established in UMRA ($76 million and $152 million in 2014, respectively, adjusted annually for inflation).

Mandates that Apply to Public and Private Entities

Requirements on Servicers. Section 803 would impose a mandate on public and private servicers of mortgages. When a servicing contract for a mortgage is transferred to a new servicer, the bill would require the new servicer to provide information to the borrower about their mortgage within 15 days of receiving the contract. Servicers, including public housing finance agencies that service loans, would have to provide the borrower with a statement showing payments and charges, the status of the loan, and an explanation for all arrearages claimed to be due as of the date of the transfer. Under current law, servicers are already required to provide borrowers a notice clarifying the date of the transfer, both servicers' contact information, and a list of the borrower's rights within 15 days of receiving a servicing contract for a mortgage loan. Moreover, few public housing finance agencies would be affected by this requirement, so the costs of the mandate for public entities would be quite small. Therefore, CBO expects that the incremental costs to provide the additional information to borrowers would not be large.

Requirements on Creditors of a Junior Mortgage or Other Lien. Section 334 of the bill would require the creditor of a junior mortgage lien or other credit lien that contains a loan-to-value ratio of 80 percent or more to notify the holder of the senior mortgage on that property within 30 days of when the junior lien has been approved. CBO estimates that the costs associated with the notification requirement would be small for both public and private entities.

Mandate that Applies to Public Entities Only

Sections 311 and 312 would authorize FMIC to prescribe regulations and carry out other necessary actions to address issues of insolvency for approved guarantors and aggregators, regardless of any conflicting state or federal law. Depending on the actions taken by FMIC, some state laws that govern actions of insolvent guarantors and aggregators could be invalidated. While such preemptions would limit the application of state laws, CBO estimates that those limits would not impose duties resulting in significant additional spending or a loss of revenues.

Section 312 also would require federal and state banking agencies to notify FMIC in writing if they have information about the possible insolvency of an insured depository institution or one of its affiliates, if the institution or affiliate is also an approved aggregator. In addition, section 313 would require state insurance regulators to notify FMIC if an approved private mortgage insurer is determined to be in a hazardous financial condition. Because the bill would require such agencies to have knowledge of the relevant information before the notification would need to occur, CBO estimates that the cost of the requirement on state banking and insurance agencies would be small since such agencies would already be collecting the information.

Other Effects on Public Entities

Section 333 of the bill would establish a working group to study the need for a national electronic mortgage registry system. If the working group were to determine that such a system were necessary for the public interest and for the protection of its cash reserves for mortgage insurance, FMIC would have the option to establish, by rule, a national electronic mortgage registry system for single family mortgages. State and local government agencies would be able to create an electronic mortgage registry system that would comply with the minimum requirements in the report to take the place of the national system. If state or local agencies chose to operate a national electronic mortgage registry system they could incur costs, but those costs would be incurred voluntarily.

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