CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 7, 2011

H.R. 830
FHA Refinance Program Termination Act of 2011

As ordered reported by the House Committee on Financial Services on March 3, 2011

SUMMARY

H.R. 830 would terminate the Federal Housing Administration's (FHA's) program to refinance mortgages for borrowers who owe more than the value of their home. Additionally, the bill would rescind funds that remain available for the program as of the date of enactment.

CBO estimates that enacting the legislation would decrease federal budget deficits by $175 million over the 2011-2021 period. Pay-as-you-go procedures apply because the legislation would affect direct spending.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 830 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011-2016	2011-2021
CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	-2	-103	-70	0	0	0	0	0	0	0	0	-175	-175
Estimated Outlays	-2	-103	-70	0	0	0	0	0	0	0	0	-175	-175

BASIS OF ESTIMATE

The FHA program to refinance mortgages for borrowers who owe more than the value of their house was launched in September 2010 and is a joint effort between the Department of Treasury and the FHA. Using authority provided by the Emergency Economic Stabilization Act of 2008, the Treasury established an $8 billion letter of credit with Citigroup to be used to provide loss protection on the new FHA loans. The loss protection allows FHA to guarantee the new mortgages without the need for additional appropriations for the cost of the credit subsidy. The Treasury also has obligated $2.7 billion for the FHA Second Lien Program which complements the refinance program by encouraging the write-down of second-lien loans. Homeowners can refinance into FHA mortgages through December 31, 2012.

To be eligible for a mortgage under this program the homeowners must be current on their existing mortgage, owe more on their mortgage than the house is worth, and have an existing loan that is not insured by FHA. Additionally, servicers of the existing mortgage must agree to write off at least 10 percent of the unpaid balance so that the new mortgage has a loan-to-value ratio of no more than 97.75 percent.

As of January 31, 2011, about 40 loans have been refinanced under the program. Based on data from the Department of Housing and Urban Development, CBO estimates that the refinanced loans cost the government an average of $13,000 on a present-value basis. CBO estimates that enacting H.R. 830 would prevent the refinancing of about 13,000 mortgages under the program. In total, CBO estimates that enacting the bill would reduce direct spending by $175 million over the 2011-2021 period. For this estimate, CBO assumes that the legislation will be enacted by June 2011.

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 that are subject to those pay-as-you-go procedures are shown in the following table. (Enacting H.R. 830 would have no impact on federal revenues.)

CBO Estimate of Pay-As-You-Go Effects for H.R. 830, the FHA Refinance Program Termination Act, as ordered reported by the House Committee on Financial Services on March 3, 2011

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011-2016	2011-2021
					NET DECREASE (-) IN THE DEFICIT								
Statutory Pay-As-You-Go Impact	-2	-103	-70	0	0	0	0	0	0	0	0	-175	-175

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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