CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 21, 2002

H.R. 3995
Housing Affordability for America Act of 2002

As ordered reported by the House Committee on the Judiciary on July 23, 2002

SUMMARY

H.R. 3995 would amend and extend certain laws relating to housing opportunity and community development. The bill would seek to increase the availability of affordable housing and expand homeownership opportunities across the country. H.R. 3995 would authorize appropriations to fund both new initiatives and existing housing programs.

CBO estimates that implementing this legislation would cost about $12.6 billion over the next five years, assuming appropriation of the necessary amounts. CBO estimates that enacting the bill also would increase direct spending by $34 million over the 2003-2008 period. Therefore, pay-as-you-go procedures would apply. The increase in direct spending would stem from the bill's authority to use certain unobligated funds for new grants related to elderly housing.

H.R. 3995 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3995 is summarized in Table 1. The costs of this legislation would fall within budget functions 370 (mortgage and housing credit), 450 (community and regional development), and 600 (income security).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 3995

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law						
Estimated Authorization Level [a]	17,142	17,112	17,953	18,573	19,159	19,734
Estimated Outlays	19,611	19,752	20,083	20,248	20,375	20,465
Proposed Changes						
Estimated Authorization Level	0	4,507	4,812	3,590	3,834	4,053
Estimated Outlays	0	709	1,866	2,655	3,464	3,951
Proposed Spending Under H.R. 3995						
Estimated Authorization Level	17,142	21,619	22,765	22,163	22,993	23,788
Estimated Outlays	19,611	20,461	21,949	22,903	23,839	24,416
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	*	8	12	7	6

NOTES: * = Less than $500,000.

Numbers may not add up to totals because of rounding.

a. The 2002 level is the amount appropriated for that year for the Certificate Fund, HOME Investment Partnership Program, Housing for Special Populations, HOPE VI, Homeless Assistance Grants, Housing Opportunities for Persons with AIDS, Assistance for Self-Help Housing Providers, and includes offsetting collections generated by the Federal Housing Administration's single-family program and the Government National Mortgage Association's single-family Mortgage-Backed Security program. The 2003-2007 levels are the 2002 amounts adjusted for inflation except for programs with expiring authorizations.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3995 will be enacted near the beginning of fiscal year 2003 and that the amounts necessary to implement the bill will be appropriated for each fiscal year. The costs by provision are shown in Table 2, which is followed by a description of the estimated costs.

TABLE 2. ESTIMATED SPENDING SUBJECT TO APPROPRIATION FOR H.R. 3995

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Title I					
Affordable Housing Production and Preservation					
Estimated Authorization Level	0	0	366	380	394
Estimated Outlays	0	0	7	55	174
Eligibility of Room Additions for Use for Grandparents and Grandchildren					
Estimated Authorization Level	1,002	1,224	1,436	1,618	1,775
Estimated Outlays	100	423	811	1,260	1,461
Title II					
Down-Payment Simplification					
Estimated Authorization Level	6	8	8	9	9
Estimated Outlays	6	8	8	9	9
Reduced Down-Payment Requirements					
Estimated Authorization Level	-3	-10	-14	-17	-20
Estimated Outlays	-3	-10	-14	-17	-20
Title III					
Service Coordinators for Supportive Housing for Persons with Disabilities					
Estimated Authorization Level	16	16	16	17	17
Estimated Outlays	1	10	16	16	17
Title IV					
Thrifty Production Vouchers					
Estimated Authorization Level	0	0	0	1	2
Estimated Outlays	0	0	0	*	1
Flexibility to Assist Hard-to-House Families					
Estimated Authorization Level	638	665	691	717	743
Estimated Outlays	160	566	587	609	631
PHA Administrative Fees					
Estimated Authorization Level	11	12	13	13	14
Estimated Outlays	9	12	12	13	14
Extension of Project-Based Section 8 Contract Renewals					
Estimated Authorization Level	9	12	13	13	14
Estimated Outlays	5	11	12	13	14

Continued

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Title V					
Third-Party Public Housing Assessment System					
Estimated Authorization Level	1	0	0	0	0
Estimated Outlays	1	0	0	0	0
HOPE VI Reauthorization					
Estimated Authorization Level	585	597	0	0	0
Estimated Outlays	0	12	88	195	236
Title VI					
Interagency Council on the Homeless					
Estimated Authorization Level	1	1	0	0	0
Estimated Outlays	1	1	*	0	0
Federal Emergency Management Agency Food and Shelter Grant Program					
Estimated Authorization Level	140	143	0	0	0
Estimated Outlays	140	143	0	0	0
Emergency Shelter Grants					
Estimated Authorization Level	155	158	0	0	0
Estimated Outlays	5	23	46	55	59
Supportive Housing Program					
Estimated Authorization Level	785	801	0	0	0
Estimated Outlays	24	118	234	278	297
Section 8 Single-Room Occupancy					
Estimated Authorization Level	16	16	0	0	0
Estimated Outlays	*	2	5	5	6
Shelter Plus Care					
Estimated Authorization Level	180	184	0	0	0
Estimated Outlays	13	69	114	72	30
Title VII					
Native American Block Grant Reauthorization					
Estimated Authorization Level	661	675	689	702	716
Estimated Outlays	240	380	482	568	647

Continued

TABLE 2. Continued

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
Title IX					
GNMA Guarantee Fee					
Estimated Authorization Level	0	0	56	58	59
Estimated Outlays	0	0	56	58	59
Reauthorization of SHOP					
Estimated Authorization Level	22	23	23	24	24
Estimated Outlays	*	8	17	21	23
HOPWA Reauthorization					
Estimated Authorization Level	282	288	294	300	306
Estimated Outlays	8	90	174	254	293
Total					
Estimated Authorization Level	4,507	4,812	3,590	3,834	4,053
Estimated Outlays	709	1,866	2,655	3,464	3,951

NOTES: * = Less than $500,000 per year.

Numbers may not add up to totals because of rounding.

PHA = Public Housing Authority; HOPE VI = Home Ownership and Opportunity for People Everywhere; GNMA = Government National Mortgage Association; SHOP = Self-Help Housing Providers; HOPWA = Housing Opportunities for Persons with AIDS.

Spending Subject to Appropriation

Title I: Home Investment Partnerships Program. CBO estimates that implementing title I would cost $4.3 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

Affordable Housing Production and Preservation. Section 101 would establish a housing production and preservation program for rental housing affordable to very low-income families. Funding for this program would be derived from any unobligated Certificate Fund balances appropriated for fiscal year 2004 or any subsequent fiscal year (the Certificate Fund provides funding for Section 8 rental assistance contracts). The bill would provide grants to participating state and local jurisdictions through the HOME Investment Partnership program. Families occupying units produced through this program would be required to pay not more than 40 percent of their adjusted monthly income toward rent.

Assuming the availability of future appropriations and the enactment of section 403 of this bill, CBO estimates that approximately $1.1 billion would be available for recapture from the Certificate Fund between 2005 and 2007 (as a result of tenant-based voucher utilization rates below 100 percent). Data provided by the Department of Housing and Urban Development (HUD) indicate that units currently produced through the HOME program cost an average of $90,000. Assuming that participating jurisdictions would provide the required 25 percent match of program funding, CBO estimates that implementing this provision would provide enough funding over the 2005-2007 period to produce approximately 15,400 units of affordable housing, which would increase outlays by $236 million over that period.

Eligibility of Room Additions for Use for Grandparents and Grandchildren. Section 106 would allow participating local jurisdictions to provide HOME Investment Partnership funds to low-income families to build an additional room or add a cottage to an existing dwelling for an elderly relative if it is necessary to avoid the relative's placement in an institutionalized setting. Based on data published by the Centers for Disease Control and Prevention and the Agency for Healthcare Research and Quality, CBO assumes that nearly a million elderly individuals from families eligible to receive assistance under this provision are admitted into nursing home facilities each year. About one in six of these individuals require help with fewer than three activities of daily living (ADLs), which would make them suitable candidates for home care.

Results from a 1991 survey conducted by the American Association of Retired Persons indicate that 44 percent of families would prefer to care for frail or disabled family members at home. Assuming appropriation of the necessary amounts, CBO estimates that this provision would allow about 72,000 of these elderly individuals to avoid placement in an institutionalized setting each year at a cost of approximately $10,000 per grant. CBO notes that this reduction in nursing home placement could result in Medicaid savings if the beds not used by this population are not filled by previously unmet demand. (Any such change in Medicaid spending can not be attributed to H.R. 3995, however, because the grants that might lead to the savings are contingent upon appropriation action.)

In addition, based on data published by the National Alliance for Caregiving, CBO assumes that by 2007 roughly 10 percent of the 1.4 million low-income households that are involved in caregiving for frail elderly relatives requiring some help (individuals with one or two ADLs) also would receive funding through this provision. This estimate is highly uncertain because the legislative language would provide little guidance to HUD on how to limit eligibility. If HUD were to target funding to families with frail relatives most likely to be admitted to nursing homes, participation would be lower than the CBO estimate. However, given the lack of predictability of nursing home admissions, the regulations might become less restrictive than CBO assumes. In total, CBO estimates that section 106 would authorize the appropriation of about $7 billion over the 2003-2007 period, with estimated outlays of about $4 billion over that period.

Title II: FHA Mortgage Insurance. CBO estimates that implementing title II would cost $3 million in 2003 but save $24 million over the 2003-2007 period.

Simplification of Down Payment. Section 221 would permanently change the process the Federal Housing Administration (FHA) uses to determine the amount of a down payment that is necessary for mortgages on the single-family homes that it insures. Under current law, the down payment is calculated using a formula established in a 1996 pilot program. Under this formula, the maximum mortgage amount that FHA could insure would be determined as a fixed percentage of the home value. Authority to use this formula is scheduled to terminate on December 31, 2002, but section 221would make its use permanent.

Based on information from FHA, CBO estimates that continuing the use of the current down-payment formula would slightly increase the cost of guaranteeing FHA loans because it would lead to a small increase in the loan-to-value (LTV) ratios of about 15 percent of the loans guaranteed each year after 2002. The LTV ratio indicates how much equity a borrower initially has in the home, and serves as a good predictor of the likelihood of default. On average, borrowers with less equity (that is, higher LTV ratios) have higher default rates than borrowers with more equity. We estimate that this provision would increase the cost of guaranteeing some loans, resulting in a cost of $6 million in 2003 and $40 million over the 2003-2007 period. The estimated changes in FHA's loan subsidy costs—which are treated as discretionary spending—would be recorded in each year as new loans are disbursed.

*Reduced Down-Payment Requirements***.** Section 222 would reduce the down-payment requirements for federally insured mortgages for teachers and public safety officers. Enacting this provision could enable certain teachers and public safety officers to purchase homes within their work regions with an FHA guarantee, by permitting a down payment as low as 1 percent of the mortgage amount instead of the 3 percent minimum down payment that is currently required. In addition, for each year that the loan is held and the borrower continues to work in the designated school district or public safety jurisdiction, FHA would defer 20 percent of the up-front cost of obtaining the loan. Normally, FHA charges a fee of 1.5 percent of the loan amount as the up-front cost of obtaining an FHA loan guarantee.

The budgetary impact of this new loan program would depend on how many households would use this provision to help them become homeowners and how long these homeowners would remain in their homes. Based on information from associations, private investment firms, banks, FHA, and industry experts, CBO expects that about 10,000 loans (with a face value of about $1 billion) would be guaranteed after the program is fully implemented in 2004. CBO expects that demand for this program would grow to almost 20,000 loans by

2007. CBO expects that this new program would be profitable (and thus generate negative subsidies), though not as profitable as the current single-family program where fees are not waived or reduced and default rates are slightly lower. We estimate that this new program would have a subsidy rate of about negative 0.75 percent, compared to a subsidy rate of negative 2.53 percent for FHA's single-family program in 2003 and negative 2.4 percent in subsequent years. CBO estimates that implementing the program would result in additional offsetting collections of $2 million in 2003 and $41 million over the 2003-2007 period.

In addition, because the majority of FHA-insured loans are eventually included in the Government National Mortgage Association (GNMA) Mortgage-Backed Securities (MBS) program, CBO estimates that implementing this provision would result in additional collections to GNMA of $1 million in 2003 and $23 million over the 2003-2007 period.

Title III: Supportive Housing for Elderly and Disabled Families. CBO estimates that implementing title III would cost $60 million over the 2003-2007 period, assuming the appropriation of the necessary amounts.

Section 302 would add Section 811 Supportive Housing for the Disabled to the list of federally assisted housing programs that are eligible to receive grants to provide service coordinators. Service coordinators assist residents in obtaining needed supportive services from community agencies. In fiscal year 2002, 6.4 percent of the total allocation for the Section 202 elderly housing program was earmarked for service coordinators. Assuming a similar ratio, CBO estimates that section 302 of H.R. 3995 would authorize $82 million for the 2003-2007 period, with outlays of $60 million over that period.

Title IV: Section 8 Rental Housing Assistance Program. CBO estimates that implementing title IV would cost $2.7 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

Thrifty Production Vouchers. Section 401 would establish a project-based voucher program to be used for the production or substantial rehabilitation of affordable housing. The provision would allow public housing agencies (PHAs) to use tenant-based vouchers for these purposes and would cap the payment standard for assisted units at 75 percent of the public housing agency's payment standard for a unit of the same size. The provision also would require HUD to increase the number of vouchers allocated to PHAs by the number of additional families that can be assisted by the agencies as a result of the cap on the payment standard for those units. Assuming that these vouchers would be used in conjunction with the housing production and preservation program in section 101, CBO estimates that 2,500 additional vouchers would be allocated to PHAs over the 2003-2007 period. These additional vouchers would result in increased administrative fees paid to public housing agencies, costing approximately $2 million over the same period.

Flexibility to Assist Hard-to-House Families. Section 403 would allow public housing authorities to use up to 5 percent of amounts allocated to the agency each year for purposes that directly support the agency's housing choice voucher program (the program that provides tenant-based vouchers to low income-families). These funds could be used for housing counseling programs, down-payment assistance, rental security deposits, and other activities that assist eligible families in obtaining suitable dwelling units. Currently, many PHAs are not able to utilize their full allotments each year because some tenant-based vouchers cannot be placed. Assuming the availability of appropriations, CBO estimates that this authority would increase outlays by $2.6 billion over the 2003-2007 period.

PHA Administrative Fees. Section 405 would authorize the Secretary of HUD to pay incentive fees to public housing agencies that succeed in achieving high or substantially improved performances on specified program requirements. Based on information provided by HUD, CBO assumes that one-third of all units are administered by public housing authorities that have been rated as "high performers" under the Section 8 Management Assessment Program and, therefore, would be likely recipients of the incentive fees. Assuming an administrative fee bonus of 3 percent, CBO estimates that this provision would require the appropriation of $63 million over the 2003-2007 period, with outlays of $60 million over that period.

Extension of Project-Based Section 8 Contract Renewals. Section 408 would amend the Multifamily Assisted Housing Reform and Affordability Act of 1997 to allow rents for properties subsidized through the moderate rehabilitation program to be renewed at market rates. Under current law, rents are renewed at the lesser of adjusted existing rents, fair market rents, or market rents.

Based on data provided by HUD, state housing agencies, and public housing agencies, CBO estimates that almost half of the 52,000 moderate rehabilitation units subsidized by HUD currently have contract rents that are below market for comparable units. Average monthly rents for such units are estimated to be approximately $50 below the market rate. CBO estimates that allowing contract rents on these units to be marked up to market upon contract expiration would require the appropriation of $61 million over the 2003-2007 period, with outlays of $54 million over that period.

Title V: Public Housing. CBO estimates that implementing title V would cost $532 million over the 2003-2007 period, assuming appropriation of the necessary amounts.

Third-Party Public Housing Assessment System. Section 503 would give HUD the authority to develop a prototype of an alternative evaluation system for assessing the overall performance of housing authorities. The bill would require HUD to enter into a contract with an outside entity to develop the prototype assessment system. CBO estimates that this provision would cost approximately $1 million in fiscal year 2003.

HOPE VI Authorization of Appropriations. Section 522 would authorize the appropriation of such sums as necessary for the HOPE VI program through 2004. In 2002, $574 million was appropriated for this program. Assuming inflation-adjusted appropriations, CBO estimates that the bill would authorize $1.2 billion for the 2003-2004 period, with outlays totaling $531 million through 2007.

Title VI: Homeless Housing Programs. CBO estimates that implementing title VI would cost about $1.7 billion over the 2003-2007 period, assuming inflation-adjusted appropriations.

Title VI would extend the authorizations for the following programs through 2004 for such sums as may be necessary:

- Interagency Council on the Homeless (estimated outlays of $2 million over the 2003-2007 period);

- Federal Emergency Management Agency food and shelter program (estimated outlays of $283 million over the 2003-2007 period);

- Emergency shelter grants program (estimated outlays of $188 million over the 2003-2007 period);

- Supportive housing program (estimated outlays of $950 million over the 2003-2007 period);

- Section 8 assistance for single room occupancy dwellings (estimated outlays of $19 million over the 2003-2007 period); and

- Shelter plus care (estimated outlays of $299 million over the 2003-2007 period).

Title VII: Reauthorization of Native American Housing and Self-Determination Act of 1996. Section 701 would authorize the appropriation of such sums as necessary through 2007 for Native American Housing Block Grants, title VI loan guarantees, and training and technical assistance. For 2002, $649 million was appropriated for these purposes. Assuming continued funding at that level and adjusting for inflation, CBO estimates that implementing this provision would cost $2.3 billion over the 2003-2007 period.

Title IX: Other Housing Programs. CBO estimates that implementing title IX would cost $1.1 billion over the 2003-2007 period, assuming appropriation of the necessary amounts.

GNMA Guarantee Fee. GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the federal government. (These securities are known as mortgage-backed securities or MBS). For a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back their securities. Under current law, GNMA charges lenders or issuers an annual fee of 6 cents for every $100 (6 basis points) of guaranteed mortgage-backed securities backed by single-family loans. Furthermore, a fee increase to 9 basis points is scheduled to take effect on October 1, 2004. Section 901 would repeal that fee increase. CBO estimates that eliminating the fee increase would increase the subsidy rate associated with the single-family MBS program and increase the demand for the program.

Based on information from GNMA, CBO estimates that the collection of lower fees would reduce the subsidy for the single-family MBS program from negative 0.56 percent to negative 0.37 percent. (As with the FHA single-family program, GNMA guarantee fees for the mortgage-backed securities more than offset the costs of expected defaults, resulting in net collections from the MBS program.) CBO expects that by extending the lower fee of 6 basis points, however, GNMA would remain more competitive with other MBS programs and continue to guarantee more than $100 billion worth of mortgage-backed securities, as it does under the current fee structure. Thus, while repealing the fee increase would result in a less profitable program, this loss would be partially offset by additional receipts stemming from an expected increase in demand for GNMA services of about 25 percent. On balance, CBO estimates that implementing this provision would cost $56 million in 2005 and $173 million over the 2005-2007 period.

Assistance for Self-Help Housing Providers. Section 903 would authorize the appropriation of such sums as necessary for the Assistance for Self-Help Housing Providers program through 2007. For 2002, $22 million was appropriated for this program. Assuming continued funding at that level and adjusting for anticipated inflation, CBO estimates that implementing this provision would cost $69 million over the 2003-2007 period.

Housing Opportunities for Persons with AIDS. Section 904 would authorize the appropriation of such sums as necessary through 2007 for the Housing Opportunities for Persons with Aids program. For 2002, $277 million was appropriated for this program. Assuming inflation-adjusted appropriations, CBO estimates that the bill would authorize $1.5 billion for the 2003-2007 period, with outlays of $820 million over that period.

Direct Spending

Section 301 would authorize the use of any amounts that remain unobligated as of September 30, 2002, for grants under section 202b of the Housing Act of 1959 to carry out a program to demonstrate the effectiveness of providing funds to be used for the repair, rehabilitation and modernization needs of section 236 elderly housing. Based on information provided by HUD, CBO estimates that the use of unobligated funds will increase outlays by $34 million over the 2003-2008 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	0	8	12	7	6	1	0	0	0	0
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

HR. 3995 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. Any significant costs to state, local, or tribal governments would result from complying with conditions of federal aid.

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