CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 15, 2003

H.R. 1985
FHA Multifamily Loan Limit Adjustment Act of 2003

As ordered reported by the House Committee on Financial Services on July 23, 2003

CBO estimates that implementing H.R. 1985 would have no significant federal cost and would not affect direct spending or revenues. H.R. 1985 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Under the National Housing Act, the Federal Housing Administration (FHA) is authorized to insure private loans used to finance certain multifamily homes, subject to certain limitations specified in appropriation acts. H.R. 1985 would increase the current limit on the value of loans that FHA can guarantee in certain high-cost areas of the country under six different loan guarantee programs. (High-cost housing markets include such cities as Boston, San Francisco, and Los Angeles.) FHA would be able to insure loans at higher levels in other parts of the country as well, but on a project-by-project basis.

Under current law, most FHA programs that guarantee multifamily mortgages have a negative subsidy rate as estimated under credit reform procedures, resulting in net offsetting collections to the government. That is, guarantee fees paid to FHA for new mortgages more than offset the cost of expected defaults, resulting in net collections from five of the six loan guarantee programs affected by the bill. (One of the programs that would be affected by the bill—loans to support housing for moderate income and displaced families—is estimated to have a positive subsidy rate of 5.35 percent in 2004). In 2002, FHA insured about $5 billion in loans for multifamily projects. The budgetary impact of those guarantees was recorded as discretionary savings of about $20 million.

If FHA made additional loan guarantees as a result of the higher cap on the value of loans in high-cost areas, the agency would record additional offsetting collections (which would be a reduction in discretionary spending). Based on information from FHA, however, CBO does not expect that demand for multifamily housing guarantees would increase significantly under this bill. In many high-cost areas of the country, additional problems, such as

regulatory barriers and market forces (e.g., supply of suitable sites), also contribute to the lack of multifamily housing. Therefore, CBO estimates that any additional collections under the bill would be insignificant over the next five years.

The CBO staff contact for this estimate is Susanne S. Mehlman. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.