



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 14, 2004

H.R. 4471

Homeownership Opportunities for Native Americans Act of 2004

As ordered reported by the House Committee on Financial Services on June 3, 2004

CBO estimates that implementing H.R. 4471 would increase the cost of loan guarantees made to Indian tribes and designated housing entities under title VI of the Native American Housing Assistance and Self-Determination Act of 1996 by less than \$500,000 annually, assuming the availability of appropriated funds. This loan guarantee program is a discretionary federal credit program that requires annual appropriation bills to establish a dollar limitation on the value of loans that may be guaranteed and to provide a credit subsidy appropriation for the cost of such guarantees. Enacting H.R. 4471 would have no impact on direct spending or revenues.

H.R. 4471 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act, and would impose no costs on state or local governments. Enacting this bill would provide benefits to tribal governments.

H.R. 4471 would require the Department of Housing and Urban Development (HUD) to provide insurance for 95 percent of the unpaid principal and interest on future loans. Currently, loans guaranteed under title VI of the 1996 act are insured by HUD for up to 80 percent of the loan value. By expanding the insurance coverage from 80 percent to 95 percent, CBO estimates that costs stemming from defaults would increase, resulting in the need for additional appropriated credit subsidy amounts each year.

The administration estimates this program currently has a subsidy rate of 10.3 percent. For 2004 the loan volume is set at about \$16.7 million, thus the subsidy cost of the program is nearly \$2 million. CBO estimates that by expanding the insurance coverage from 80 percent to 95 percent, the amount the federal government would have to spend in the event of a default would increase and that the subsidy rate associated with the loan guarantee program would increase from 10.3 percent to 12.3 percent each year.

Assuming that the volume limitation for the program over the 2005-2009 period would remain at levels similar to the 2004 level of \$16.7 million, CBO estimates that the subsidy

cost of the program would increase by less than \$500,000 each year to cover the additional cost of the loan guarantees. It is possible that this change in insurance coverage could lead to an increase in the demand for loan guarantees, and that this increase may be reflected in future appropriation actions. If guarantees for a higher loan volume were authorized, the subsidy cost would also increase.

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