CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 27, 2003

H.R. 659

Hospital Mortgage Insurance Act of 2003

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on July 31, 2003

CBO estimates that implementing H.R. 659 would increase offsetting collections (a credit against discretionary spending) by $3 million to $4 million a year. Enacting this legislation would not affect direct spending or revenues.

H.R. 659 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) of the Department of Housing and Urban Development (HUD) offers to insure private loans used to finance the modernization and rehabilitation of certain hospital facilities. To qualify for such insurance, hospitals must obtain a certificate of need (CON) issued from a designated state agency. The CON indicates whether the hospital applying for a loan meets certain eligibility requirements necessary for receipt of the FHA loan guarantee. If a state has no process in place to prepare a CON, then the state must commission or conduct an independent feasibility study in lieu of the CON. According to FHA, 24 states currently do not have a CON process in place and are unlikely to support a feasibility study on their own.

H.R. 659 would give HUD the authority to establish a process for determining the need and feasibility for a hospital's proposed project, thus eliminating the requirement for some states to provide a feasibility study where no CON procedure exists. To the extent that additional hospitals would obtain FHA loan insurance under this bill, CBO estimates that FHA could earn additional offsetting collections (which are recorded as a reduction in discretionary spending). Under current law, FHA guarantees of hospital mortgages result in net offsetting collections to the federal government because the credit subsidy is estimated to be negative. That is, guarantee fees for new mortgages more than offset the costs of expected defaults, resulting in net collections from the loan guarantee program.

CBO expects that legislation's change to the application process would increase the demand for the hospital insurance program in the 24 states without a CON process. According to FHA, this program currently insures 64 mortgages with a combined outstanding principal balance of about $4 billion. Only four mortgages out of those 64 are located in non-CON states. CBO expects that the need for capital improvements in hospitals will continue to grow as hospitals are increasingly under pressure to acquire state-of-the-art equipment and expand services.

Until July 31, 2006, this legislation would allow certain hospitals to qualify for FHA's hospital insurance program even if they do not meet the 50 percent patient day test. (Under current law, to qualify for the FHA insurance program, at least 50 percent of a hospital's patient days must be for acute-care needs.) CBO estimates that this change in eligibility also would increase demand for the hospital insurance program.

In recent years, this program has generated about $2 million in offsetting collections per year. CBO estimates that implementing this legislation would result in $3 million to $4 million of additional collections each year. Such offsetting collections are contingent on the enactment of appropriation bills, which establish the authority to make such loan guarantees by specifying commitment levels.

On February 27, 2003, CBO transmitted a cost estimate for H.R. 659 as ordered reported by the House Committee on Financial Services. The two bills are similar, but the Senate version would extend eligibility for the hospital insurance program to critical access hospitals that would otherwise not be eligible for such insurance. CBO estimates that this extension of eligibility would generate an additional $1 million in offsetting collections. In total, CBO estimates that the Senate version of H.R. 659 would result in $3 million to $4 million of additional collections each year compared with the House version, which we estimated would result in $2 million to $3 million of additional collections each year.

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.