CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 8, 2005

H.R. 2892
Reverse Mortgages to Help America's Seniors Act

As introduced on June 14, 2005

SUMMARY

H.R. 2892 would remove the existing statutory limitation on the cumulative volume of federal guarantees of private home equity conversion mortgage (HECM) loans for elderly homeowners. Such loans are considered to be "reverse mortgages" because they enable homeowners, who are at least 62 years of age, to withdraw some of the equity in their home in the form of monthly payments, or in a lump sum, or through a line of credit. Under current law, the Federal Housing Administration (FHA) of the Department of Housing and Urban Development (HUD) is permitted to guarantee a cumulative total of 250,000 such mortgages. Implementation of the HECM program, like all of FHA's insurance programs, is contingent on the enactment of appropriation laws that provide annual commitment authorities.

CBO estimates that implementing H.R. 2892 would increase offsetting collections (as a credit against discretionary spending) by $9 million in 2007 and $142 million over the 2007-2010 period, assuming enactment of appropriation laws necessary to implement the program. CBO expects that increasing the number of homeowners who obtain loan insurance would generate additional offsetting collections, recorded as a reduction in discretionary spending, because the fees paid by borrowers under this program usually exceed the cost of expected defaults. Enacting the bill would not affect direct spending or revenues.

H.R. 2892 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that the bill will be enacted near the beginning of calendar year 2006. The estimated budgetary impact of H.R. 2892 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	2006	2007	2008	2009	2010
SPENDING SUBJECT TO APPROPRIATION					
HECM Spending Under Current Law [a]					
Estimated Authorization Level	-39	-31	0	0	0
Estimated Outlays	-39	-31	0	0	0
Proposed Changes					
Estimated Authorization Level	0	-9	–43	-43	-47
Estimated Outlays	0	-9	-43	-43	-47
Total HECM Spending Under H.R. 2892					
Estimated Authorization Level	-39	-40	-43	-43	-47
Estimated Outlays	-39	–40	-43	-43	-47

NOTE: HECM = Home Equity Conversion Mortgage.

a. The figure for 2006 is CBO's current estimate for the HECM program under the enacted appropriation level for this year. The 2007 level is CBO's estimate of the amount of offsetting collections generated by the HECM program given the current statutory limitation of 250,000 loan guarantees.

BASIS OF ESTIMATE

According to FHA, a cumulative total of 162,000 HECM loans were insured through the end of fiscal year 2005. Consequently, FHA has the authority to insure an additional 88,000 loans in subsequent years (given the current 250,000 statutory limitation), assuming appropriation of the necessary commitment authority. According to the National Reverse Mortgage Lenders Association (NRMLA), the HECM program has risen in popularity in recent years as more consumers are becoming aware of the product, more households are becoming eligible for the program, and more seniors view the product as an alternative approach to financing home improvement projects, medical costs, and other needs. In fact, the number of HECM loans insured by FHA more than doubled from 2003 to 2005 (18,000 loans were insured in 2003, compared with 43,000 loans in 2005).

Based on information from FHA and NRMLA, CBO expects that demand for HECM guarantees will range from 50,000 to 60,000 loans annually over the next five years. Given the volume that could be accommodated under the existing limitation (that is, 88,000), we estimate that removing the limit on cumulative guarantees would not affect program activity until the fourth quarter of fiscal year 2007. CBO estimates that removing the limit would allow an additional 12,000 loans (with a total face value of about $2.3 billion) to be guaranteed during the last quarter in 2007, and an additional 55,000 to 60,000 loans (with a face value between $10.7 billion to $11.7 billion) annually over the 2008-2010 period as a result of removing the volume limitation under this legislation.

Under current law, FHA guarantees of HECM loans result in net offsetting collections to the federal government because the credit subsidy is estimated to be about negative 0.4 percent. That is, guarantee fees for new mortgages slightly offset the costs of expected defaults, resulting in net collections from the loan guarantee program. Thus, CBO estimates that enacting this legislation would result in $9 million of additional collections in 2007 and $142 million over the 2007-2010 period. Such offsetting collections are contingent on enactment of appropriation bills, which establish the authority to make such loan guarantees by specifying commitment levels.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2892 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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