



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 10, 2006

### **H.R. 5039** **Saving America's Rural Housing Act of 2006**

*As ordered reported by the House Committee on Financial Services on June 14, 2006*

#### **SUMMARY**

H.R. 5039 would require the Rural Housing Service (RHS) within the Department of Agriculture to implement a program aimed at preserving rural rental housing supported by section 515 of the Housing Act of 1949 by restructuring loans on existing properties. Under the legislation, RHS would provide housing vouchers to certain families who would be displaced if property owners prepay the mortgages on properties where they now reside. The effective date of those provisions of the bill is October 10, 2007. CBO estimates that implementing this legislation would cost \$585 million over the 2008-2011 period and additional amounts after 2011, assuming appropriation of the necessary amounts. Enacting this bill would not affect direct spending or revenues.

Section 515 of the Housing Act of 1949 provides RHS with the authority to make direct loans to developers to build affordable multifamily rental housing in rural areas for very low-income families, elderly people, and persons with disabilities. Owners of projects financed through section 515 must maintain rents at affordable levels, usually for a minimum of 20 years. According to RHS and housing industry experts, construction of new section 515 properties has slowed in recent years, existing units are deteriorating, and an increasing number of project owners want to prepay their mortgages. Such prepayments would probably displace tenants who cannot afford housing in projects that are not subsidized.

Under H.R. 5039, RHS would provide financial incentives, such as loan forgiveness and direct loans, to owners of section 515 housing who agree not to prepay their mortgages. H.R. 5039 would authorize the appropriation of such sums as may be necessary each year to implement those financial incentives.

H.R. 5039 also would authorize RHS to provide vouchers to those families residing in projects where the owners choose not to participate in the new program and to prepay their mortgages on section 515 properties. Such vouchers could be used by the affected tenants to stay in the same project or to rent or purchase housing elsewhere. This legislation would

authorize the appropriation of such amounts as necessary to provide vouchers over the 2008-2011 period.

H.R. 5039 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. 5039 is shown in the following table. The costs of this legislation fall within budget functions 370 (mortgage and housing credit) and 600 (income security).

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2011
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
RHS Rental Assistance Spending						
Under Current Law						
Estimated Authorization Level <sup>a</sup>	647	659	670	683	695	707
Estimated Outlays	849	871	904	880	803	766
Proposed Changes						
Mortgage Restructuring						
Estimated Authorization Level	0	0	27	41	57	45
Estimated Outlays	0	0	27	41	57	45
Rural Tenant Protection Vouchers						
Estimated Authorization Level	0	0	74	135	158	162
Estimated Outlays	0	0	22	92	142	159
Total Changes						
Estimated Authorization Level	0	0	101	176	215	207
Estimated Outlays	0	0	49	133	199	204
Total Spending Under H.R. 5039						
Estimated Authorization Level	647	659	771	859	910	914
Estimated Outlays	849	871	953	1,013	1,002	970

NOTE: RHS = Rural Housing Service.

a. The amount shown for 2006 is the amount appropriated for rental assistance in that year. The 2007-2011 levels are CBO baseline projections, assuming adjustments for anticipated inflation.

## **BASIS OF ESTIMATE**

CBO estimates that implementing H.R. 5039 would cost \$585 million over the 2008-2011 period, assuming appropriation of the necessary amounts. Of that amount, CBO estimates that about \$170 million would be spent by RHS to restructure mortgages and \$415 million would be used by RHS to provide tenant protection vouchers. Details of these two provisions are provided below.

### **Mortgage Restructuring**

Under this legislation, long-term viability plans would be developed for those owners of section 515 properties who choose to have their mortgages restructured. A long-term viability plan would include an assessment of a project's physical needs and a financial plan that addresses the restructuring tools needed to cover operating expenses and physical needs of the project. The restructuring tools that could be used include loan forgiveness and a reduction or elimination of interest. In return for such assistance, owners would agree to enter into long-term commitments with RHS to make low-income rental housing available for the greater of 20 years or the remaining loan term.

According to RHS, the portfolio of section 515 loans encompasses almost 16,000 properties with nearly 450,000 units. Furthermore, of these roughly 16,000 properties, around 9,560 will be eligible for prepayment over the 2008-2011 period because their 20-year rent restrictions will be expiring. The remaining balance of properties (around 6,440 properties) include about 4,000 properties that are eligible for prepayment after 2011, 1,480 properties that are not under consideration for prepayment despite being currently eligible, and about 960 properties that will have their mortgages prepaid or will have their mortgages restructured under an ongoing demonstration program by the end of fiscal year 2007.

The ongoing agency demonstration program that offers mortgage restructuring indicates that the vast majority of property owners eligible for prepayment would be interested in obtaining some form of financial assistance to prevent defaulting on their mortgages. Based on information from RHS, CBO estimates that 88 percent of the 9,560 properties eligible for prepayment over the 2008-2011 period would undergo a mortgage restructuring; the remaining 12 percent would prepay their mortgages. We estimate that the restructuring tools used would cost \$20,000 for an average property with a \$700,000 outstanding loan balance. The cost to restructure mortgages for about 8,400 properties would be about \$170 million over the 2008-2011 period.

## **Rural Tenant Protection Vouchers**

Under this legislation, RHS would provide tenant protection vouchers that would be annually renewable to families residing in properties whose owners prepay their section 515 loans. Based on information from RHS, CBO estimates that owners of about 1,150 properties (with about 34,500 units) in the section 515 loan program would opt to prepay their mortgages over the 2008-2011 period. CBO assumes that families in all of the affected 34,500 units would elect to receive a voucher. Assuming that the average cost of a voucher would be \$4,400 in fiscal year 2008 (adjusted for inflation in subsequent years) and that those vouchers would be renewed annually, CBO estimates that this provision would cost \$415 million over the 2008-2011 period.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 4804 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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