CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 1, 2007

H.R. 2139

FHA Manufactured Housing Loan Modernization Act of 2007

As ordered reported by the House Committee on Financial Services on May 23, 2007

SUMMARY

H.R. 2139 would amend the Federal Housing Administration's (FHA's) loan guarantee program for manufactured housing. Under title I of the National Housing Act, FHA insures loans for individuals for the purchase and improvement of manufactured housing—single-family homes constructed entirely in a controlled factory environment and built to a federal code administered by the Department of Housing and Urban Development (HUD). This bill would require FHA to insure such loans on an individual basis, raise the maximum loan limits, require FHA to charge premiums necessary to maintain a negative credit subsidy (as estimated under the Federal Credit Reform Act) for the loan guarantees, and make other administrative changes to the program. Implementing the manufactured housing loan program, like all of FHA's insurance programs, is contingent on the enactment of appropriation laws that provide annual commitment authority.

CBO estimates that implementing H.R. 2139 would result in a negligible cost or savings of less than $500,000 a year over the 2009-2012 period, assuming enactment of appropriation laws necessary to implement the program. Until the reforms in the bill can be fully implemented, CBO expects that continuing the manufactured housing loan-guarantee program in 2008 would cost $1 million. Enacting the bill would not affect direct spending or revenues.

H.R. 2139 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

For this estimate, CBO assumes that the bill will be enacted near the beginning of fiscal year 2008. The estimated budgetary impact of H.R. 2139 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					
	2007	2008	2009	2010	2011	2012
SPENDING SUBJECT TO APPROPRIATION						
Spending for Manufactured Housing Loan Guarantees Under Current Law [a]						
Budget Authority [a]	1	0	0	0	0	0
Estimated Outlays	1	0	0	0	0	0
Proposed Changes						
Estimated Authorization Level	0	1	*	*	*	*
Estimated Outlays	0	1	*	*	*	*
Spending for Manufactured Housing Loan Guarantees Under H.R. 2139						
Estimated Authorization Level [a]	1	1	*	*	*	*
Estimated Outlays	1	1	*	*	*	*

NOTE: * = costs or savings of less than $500,000.

a. The figure for 2007 is the estimated portion of the total credit subsidy appropriated for that year that will be used by FHA for the manufactured housing loan-guarantee program.

BASIS OF ESTIMATE

CBO estimates that over the 2009-2012 period, implementing the manufactured housing loan program would result in costs or savings of less than $500,000 a year. Until the reforms in the bill can be fully implemented, continuing the loan guarantee program would cost $1 million in 2008.

Background

Manufactured housing loan guarantees fall under title I of the National Housing Act; under title I, FHA also has authority to insure house improvement loans. The volume of manufactured housing loans guaranteed by FHA has fallen from 30,000 per year in the 1990s to less than 2,000 loans per year in recent years. Furthermore, in the late 1980s the Government National Mortgage Association (GNMA) experienced significant losses from its securitization of the manufactured housing loans. (GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by the federal government. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back those securities.) As a result of those losses, GNMA imposed a moratorium on new issuers of manufactured housing loan guarantees into its Mortgage-Backed Securities (MBS) program.

Moreover, financing options for manufactured housing are very limited. Currently, only two private lenders participate in the FHA program, and because no private secondary market exists, most private lenders and insurers have no incentive to make loans or loan guarantees for manufactured housing. Despite the fact that there are relatively few financing options available for manufactured housing, there are about 11 million manufactured homes in the United States (mostly in rural areas), according to the Manufactured Housing Institute (MHI). Most of those manufactured houses are financed through personal loans. Enacting this legislation would make several programmatic changes designed to increase demand for FHA's manufactured housing loan program.

Proposed Changes

Under current law, FHA limits its loss exposure on manufactured housing loan guarantees by capping the lender's insurance coverage at 10 percent of the value of the lender's portfolio for the title I program. That is, FHA pays only lender claims amounts that are less than or equal to 10 percent of the value of the lender's loan portfolio for the title I loans. As a result, the amount of insurance that FHA provides for each loan varies. Enacting H.R. 2139 would eliminate this insurance structure for loans associated with manufactured homes and would direct FHA to insure 90 percent of each individual loan. Those changes would significantly expand government liability under the program.

Enacting this legislation also would raise the loan limits for insuring a manufactured home by about 40 percent and would require that the limits be indexed for inflation on an annual basis. According to FHA, the average cost of a manufactured home is about $60,000. Current loan limits restrict the purchase of a manufactured home to $48,000; under H.R. 2139, this limit would increase to $69,678 after the program changes are implemented in 2009.

Currently, borrowers are charged a 1 percent up-front fee for a manufactured home loan guarantee. Because the fees collected are not expected to exceed the cost of defaults, FHA estimates that the manufactured housing loan guarantee program has a subsidy rate of about

1 percent. Enacting this legislation would require FHA to assess higher premiums that would offset the costs of expected defaults to yield an estimated negative credit subsidy rate for the program. Based on information from FHA, CBO expects that FHA would set the up-front premiums for borrowers at about 2.25 percent and the annual premiums at 1 percent. CBO expects that those fees may be sufficient to make the program's estimated subsidy rate near zero, assuming that the pattern of future default rates in this program is similar to recent history—about 9.5 percent. Because there is essentially no private market for manufactured housing loan guarantees to compare to the federal program, it is uncertain whether those higher fees would result in a program with no net cost. On balance, CBO estimates that implementing the bill would result in net costs or savings of less than $500,000 a year beginning in fiscal year 2009.

Cost of Program. Based on information from FHA and MHI, CBO estimates that it would take about one year to implement the changes proposed under the bill. Furthermore, CBO anticipates that significant outreach by FHA would be needed to identify and educate prospective borrowers and lenders about the manufactured housing program reforms. Thus, CBO estimates that the number of loans insured under the program would begin to grow by about 5 percent annually beginning in 2009. Assuming this gradual increase in demand and an estimated subsidy rate for 2009 and subsequent years that is near zero, CBO estimates that implementing this legislation would result in a net cost or savings of less than $500,000 a year.

CBO estimates that in 2008, while the programmatic changes are underway, FHA would require an appropriation of about $1 million to maintain the program at its current level.

GNMA Savings. According to GNMA, the agency would consider securitizing additional manufactured housing loans following an evaluation of the program after the proposed changes are implemented and to the extent FHA has begun to guarantee a significant number of loans, most likely with a face value close to at least $1 billion. Because CBO estimates that it will take FHA many years to increase its business volume to that level, we do not estimate that any additional offsetting collections associated with GNMA's MBS program would be generated over the next five years.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2139 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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