CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 22, 2007

H.R. 2930
Section 202 Supportive Housing for the Elderly Act of 2007

As ordered reported by the House Committee on Financial Services on September 25, 2007

SUMMARY

H.R. 2930 would amend the American Homeownership and Economic Opportunity Act of 2000 to increase the number of properties that are eligible to prepay loans issued under Section 202 of the Housing Act of 1959. The bill also would authorize a new demonstration program for the sale of loans made under Section 202 and allow the savings generated through the refinancing of Section 202 loans to be used for additional purposes. Finally, the bill would authorize a new program for project-based rental assistance for certain properties that are currently financed with a Section 202 loan.

CBO estimates that enacting H.R. 2930 would increase direct spending by $94 million in 2008 because the bill would effectively modify the terms of existing federal loans—reducing the present value of expected cash flows for such loans. We also estimate that implementing the bill would have a net discretionary cost of $212 million over the 2008-2012 period, assuming appropriation of the necessary amounts.

H.R. 2930 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA); any costs to state, local, or tribal governments would be incurred voluntarily.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2930 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				
	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING					
Mortgage Sale Demonstration					
Estimated Budget Authority	88	0	0	0	0
Estimated Outlays	88	0	0	0	0
Use of Unexpended Amounts					
Estimated Budget Authority	5	0	0	0	0
Estimated Outlays	5	0	0	0	0
Refinancing					
Estimated Budget Authority	1	0	0	0	0
Estimated Outlays	1	0	0	0	0
Total Changes in Direct Spending					
Estimated Budget Authority	94	0	0	0	0
Estimated Outlays	94	0	0	0	0
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Project-Based Rental Assistance					
Estimated Authorization Level	0	23	52	78	111
Estimated Outlays	0	14	40	68	98
Delegated Processing Fees					
Estimated Authorization Level	0	2	3	5	5
Estimated Outlays	0	1	2	4	5
Multifamily Loan Guarantees					
Estimated Authorization Level	0	-5	-5	-5	-5
Estimated Outlays	0	-5	-5	-5	-5
GNMA Offsetting Collections					
Estimated Authorization Level	0	*	*	*	*
Estimated Outlays	0	*	*	*	*
Total Changes in Spending Subject to Appropriation					
Estimated Authorization Level	0	20	50	78	111
Estimated Outlays	0	10	37	67	98

Note: Components may not sum to totals because of rounding; GNMA = Government National Mortgage Association; * = between 0 and -$500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2930 will be enacted in fiscal year 2008, that the full amounts authorized will be appropriated for each year, that outlays will follow historical patterns, and that appropriation laws necessary to implement the Federal Housing

Administration (FHA) and Government National Mortgage Association (GNMA) programs will be enacted each year. Components of the estimated costs are described below.

Background

The Section 202 Housing for the Elderly program was established as part of the Housing Act of 1959. The program currently makes capital grants and rental assistance available to nonprofit entities to develop housing that is affordable to very low-income elderly households. Prior to 1990, the Department of Housing and Urban Development (HUD) made direct loans to nonprofit developers, rather than capital grants, with an average term of 40 years for those loans. HUD holds about 4,000 Section 202 loans with a total unpaid balance of over $5 billion. The interest rates for those loans range from 3 percent to 9 percent, with an average maturity date of 2025. Property owners who agree to operate their project until the maturity date of the original loan (under terms that are at least as advantageous to tenants as under the original loan agreement) may prepay their loans if such refinancing results in a lower interest rate and a reduction in debt service. The prepayment rate for Section 202 loans averages about 15 percent per year and most refinancing transactions involve FHA-insured loans; however, FHA insurance is not required.

Direct Spending

Because several provisions of the legislation would change the expected cash flows associated with existing federal loans made under the Section 202 program, those changes constitute a modification of the existing loans. Under credit reform procedures, the costs of loan modifications are estimated on a present-value basis and recorded as changes in direct spending in the year in which the legislation is enacted. In total, CBO estimates that enacting H.R. 2930 would increase direct spending by $94 million in 2008.

Mortgage Sale Demonstration. Section 205 of H.R. 2930 would authorize HUD to sell mortgages associated with Section 202 loans. It would require the department to carry out a demonstration program in not more than three states to sell portfolios of those mortgages to state housing finance agencies for a price not to exceed the unpaid principal balances of such mortgages. Based on HUD data, CBO estimates that the average outstanding principle balance is about $100 million per state and that HUD would select three states with average-size portfolios for the demonstration program by the end of 2009. Because the majority of those mortgages have interest rates that are above the federal cost of funds and are estimated to have low default rates, selling those mortgages at a price less than or equal to the unpaid principal balances would result in a loss to the government on a present-value basis. CBO estimates those loan sales would cost $88 million in 2008. The cost of the demonstration program could be higher or lower depending on the particular states selected.

Use of Unexpended Amounts. Section 203 of the bill would expand the eligible uses for savings generated by refinancing Section 202 loans. Those new purposes include the reconfiguration or reduction in the number of rental units that are functionally obsolete and the payment of equity to the project owner or seller. This section also would eliminate the restriction on the amount of savings that owners can use to provide supportive services to elderly tenants as well as restrictions on the owners' ability to direct savings to other properties. Finally, the bill would allow HUD to waive the requirement that borrowers repay any debt incurred through the flexible subsidy program under section 201 of the Housing and Community Development Amendments of 1978 if such waiver is necessary for the financial feasibility of the transaction.

Currently, about 15 percent of Section 202 loans are refinanced each year and fewer than 2 percent of property owners that apply for prepayment are denied. CBO estimates that these provisions would increase the prepayment rate by making such transactions more attractive to property owners and increase the likelihood that HUD would approve the transactions. Based on data provided by HUD, CBO estimates that several additional properties would have their loans prepaid each year. CBO estimates such prepayments would cost $5 million in 2008 on a present-value basis.

Refinancing. Section 201 of the bill would allow owners of properties financed with a Section 202 loan to refinance if the new financing were used to address the physical needs of the project, even if the refinancing would not result in a lower interest rate. Loans made prior to 1974 have interest rates of approximately 3 percent, and borrowers may not prepay their debt under current law. Based on data provided by HUD, CBO estimates that HUD currently holds about 260 loans of this type with a total unpaid balance of about $190 million. Taken by itself, this section would result in direct spending savings, but enacted in conjunction with section 205, it would slightly increase direct sending.

Section 205 of the bill would allow HUD to approve the subordination of existing debt in lieu of prepayment. When refinancing to address a property's physical needs, CBO expects that the owners of Section 202 properties would be more likely to subordinate those low-interest loans than to prepay them because the interest rates on those old loans are substantially lower than current market rates. Issuing new primary debt on top of the existing 3 percent loans would increase the risk of default for those loans. Based on data provided by HUD, CBO estimates that Section 202 loans have an annual default rate of 0.25 percent. CBO expects that under section 205, the majority of those loans would be refinanced by 2012 and that the default rate for the subordinated loans would increase but remain below 1 percent per year.

CBO estimates that the increased default rates would cost $1 million in 2008 on a net-present-value basis.

Spending Subject to Appropriation

CBO estimates that H.R. 2930 would authorize the net appropriation of $20 million in 2009 and $259 million over the 2009-2012 period. CBO estimates that appropriation of those amounts would result in spending of $212 million over the next five years.

Project-based Rental Assistance. Section 205 would authorize a new program for project-based rental assistance to be used in connection with the prepayment of a Section 202 loan. This provision would primarily affect properties with loans made prior to 1974 that do not have existing rent subsidies on all units. Based on HUD data, CBO estimates that beginning in 2009 around 50 properties each year (averaging 80 units per property) would receive such rental assistance at an average cost of about $5,300 per unit. Thus, by 2012, a cumulative total of about 200 properties would be assisted by the new program. Assuming appropriation of the necessary amounts, CBO estimates that providing project-based rental assistance to these properties would cost $14 million in 2009 and $220 million over the 2009-2012 period.

Delegated Processing Fees. Section 102 would require HUD to delegate the processing of certain capital grants to interested state or local housing agencies. The provision would direct HUD to develop a schedule of reasonable fees to be paid to the delegated processing agencies and would allow the fees to be included as part of the total capital grant amount. Based on information provided by HUD, industry groups, and state agencies, CBO assumes that the fee structure would be similar to those used for Participating Administrative Entities in the Section 8 Mark-to-Market program and for the underwriting of low-income housing tax credits. CBO estimates that, over time, about two-thirds of capital grants would be processed by state or local housing agencies and that those agencies would be paid a fee of about 1 percent of the grant value. Grants currently average a little more than $4 million per property. Assuming appropriation of the necessary amounts, CBO estimates that paying fees for the delegated processing of capital grants would cost $1 million in 2009 and $12 million over the 2009-2012 period.

Multifamily Loan Guarantees. As described above, H.R. 2930 would increase the number of Section 202 loans that are refinanced each year. Although not required by law, most of the refinanced loans are likely to be insured by FHA's multifamily mortgage insurance or risk-sharing programs. The Federal Credit Reform Act of 1990 requires an appropriation of the subsidy costs and administrative costs associated with loan guarantees. The subsidy cost is the estimated long-term cost to the government of the loan guarantee, calculated on a present-value basis, excluding administrative costs. Under current law, HUD estimates that FHA's guarantees of multifamily loans will result in net offsetting collections (that is, negative outlays that are recorded as a credit against discretionary spending) because guarantee fees collected on those mortgages will more than offset the costs of expected defaults, calculated on a present-value basis. CBO estimates that the average subsidy cost for the multifamily programs that could be used to refinance Section 202 loans is -2 percent and that this legislation would result in about 50 additional loan guarantees each year. CBO estimates that implementing this legislation would result in additional offsetting collections of $5 million in 2009 and $20 million over the 2009-2012 period, contingent on enactment of appropriation bills that would establish authority to make loan guarantees by specifying annual loan commitment levels.

GNMA Offsetting Collections. GNMA is responsible for guaranteeing securities backed by pools of mortgages that are insured by the federal government (known as the mortgage-backed securities, or MBS program). In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payment of scheduled principal and interest due on the pooled mortgages that back those securities. The Administration estimates that the value of the fees collected by GNMA will exceed the cost of loan defaults each year. Accordingly, under credit reform, the GNMA MBS program will have an estimated subsidy rate of -0.21 percent in 2008, resulting in net collections to the federal government.

Because most FHA multifamily loan guarantees are included in GNMA's MBS program, CBO estimates that increasing the number of Section 202 loans refinanced with FHA insurance would result in additional GNMA collections over the 2008-2012 period, but they would total less than $500,000 per year. Those savings would affect discretionary spending because, like FHA, GNMA requires appropriation action to establish the total amount of its guarantees.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 2930 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit state, local, and tribal governments that participate in affordable housing projects and programs. Any costs those governments incur to comply with program requirements would be incurred voluntarily.

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