CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 1, 2008

H.R. 5818
Neighborhood Stabilization Act of 2008

As ordered reported by the House Committee on Financial Services on April 23, 2008

SUMMARY

CBO estimates that implementing H.R. 5818 would cost about $8.4 billion over the 2009-2013 period, assuming appropriation of the authorized and necessary funds.

H.R. 5818 would authorize the Secretary of the Department of Housing and Urban Development (HUD) to make zero-interest loans to qualified states, counties, and cities to purchase and rehabilitate certain foreclosed homes. Homes purchased under this authority would be sold or rented to families with incomes below a specified percentage of the region's median income. Assuming appropriation of the necessary funds, CBO estimates that implementing this program would cost about $1 billion over the 2009-2013 period for the loan subsidy and associated administrative costs.

The legislation also would authorize the appropriation of $7.5 billion for the Secretaries of the Treasury and HUD to award grants to qualified states, counties, and cities to cover other costs related to purchasing and rehabilitating foreclosed homes under the direct loan program. Funds would be used to cover planning and administration, incidental costs of acquiring, operating, and holding foreclosed properties, and the costs of rehabilitating and demolishing properties. Based on historical spending data and information from local governments, CBO estimates that this provision would cost about $7.3 billion over the 2009-2013 period. Enacting this legislation would not affect direct spending or revenues.

H.R. 5818 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5818 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, in Millions of Dollars				
	2009	2010	2011	2012	2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Direct Loan Program					
Subsidy Costs					
Estimated Authorization Level	900	0	0	145	0
Estimated Outlays	505	360	35	80	60
Administrative Costs					
Estimated Authorization Level	15	7	7	8	8
Estimated Outlays	14	8	7	8	8
Grant Program					
Authorization Level	7,500	0	0	0	0
Estimated Outlays	675	1,725	2,250	1,725	940
Total Changes					
Estimated Authorization Level	8,415	7	7	153	8
Estimated Outlays	1,194	2,093	2,292	1,813	1,008

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted before the end of calendar year 2008 and that the amounts specified and estimated to be necessary will be appropriated in each year.

H.R. 5818 would authorize the Secretaries of the Treasury and HUD to provide grants and direct loans to purchase and rehabilitate certain foreclosed homes. Eligible recipients would include states, urban counties, and metropolitan cities (including any city with a minimum population of 50,000 that has a foreclosure rate of more than 125 percent of the rate for the state in which it is located). Grant assistance also would be made available to nonprofit organizations. Funding from the grant and loan programs would be allocated to those entities based on the number of single-family homes that are in foreclosure or were financed with a sub-prime mortgage that has been delinquent for more than 90 days.

Direct Loan Program

H.R. 5818 would authorize the appropriation of such funds as may be necessary for the Secretary of HUD to make zero-interest loans to states, counties, and cities. Under the bill, the volume of outstanding loans would be capped at $7.5 billion and the authority to make new loans would expire four years after enactment. Loan proceeds would be used by state or local governments to purchase foreclosed homes. Those homes would be made available by those governments for sale to individuals with incomes below 140 percent of the area's median income, or for rent to those with incomes below 100 percent of the area's median income. Loan proceeds also could be used to rehabilitate homes to comply with applicable building codes and to increase energy efficiency. Federal loans used by state or local governments to purchase homes for resale or rent would have terms of three or five years, respectively. All loans made under the bill would be nonrecourse (the federal government could only seek recovery of the collateral in the event of a default), bear no interest, and require principal payment only upon the expiration of the loan term.

Based on the loan terms specified in the bill, CBO estimates that the subsidy cost for the first cohort of loans made under this legislation would total $900 million over the 2009-2013 period. That estimate includes a subsidy rate of about 12 percent (most of which is attributable to the fact that no interest would be charged on the loans) and assumes that most of the loan authority made available under the bill would be used.

Under the bill, HUD also would be authorized to make new direct loans as the principal from the original cohort of loans is repaid. Because the authority to make new loans would expire after four years, new loan authority would be limited to repayments made on the initial cohort of loans prior to the expiration of the program. The Federal Credit Reform Act of 1990 requires that new loan obligations may only be made to the extent that new budget authority is provided. As such, CBO assumes that additional appropriations would be provided by the Congress to cover the cost of those new loans. CBO estimates that additional loans made under this revolving authority would require appropriations of about $145 million in 2012, with outlays of $140 million over the 2012-2013 period.

Grant Program

H.R. 5818 would authorize the appropriation of $7.5 billion for the Secretaries of the Treasury and HUD to make grants to states, counties, cities, and nonprofit organizations. Such funding would be used for planning and administration, incidental costs of acquiring foreclosed properties, costs of operating and holding those properties (including local property taxes and insurance), and rehabilitation and demolition costs. Based on historical spending patterns of community development and housing projects and information from several local governments, CBO estimates that implementing this provision would cost about $7.3 billion over the 2009-2013 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5818 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit state and local governments by authorizing grants and loans for purchasing and redeveloping foreclosed properties.

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