CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 6, 2010

H.R. 5072
FHA Reform Act of 2010

As ordered reported by the House Committee on Financial Services on April 27, 2010

SUMMARY

H.R. 5072 would raise the cap on the annual premiums charged to borrowers under the Federal Housing Administration's (FHA's) single-family mortgage-guarantee program. This legislation also would authorize an appropriation of the necessary amount for 2011 to reimburse mortgage-loan servicers for the cost of providing financial counseling to borrowers with delinquent loans. In addition, H.R. 5072 would make other changes to current law aimed at improving the financial safety and soundness of FHA's single-family program.

CBO estimates that implementing H.R. 5072 would result in a net decrease in discretionary spending of about $2.5 billion over the 2011-2015 period, assuming enactment of appropriation laws over that period necessary to implement FHA's single-family program and the Mortgage-Backed Securities (MBS) program of the Government National Mortgage Association (GNMA).

Pay-as-you-go procedures do not apply to this legislation because it would not affect direct spending or revenues.

H.R. 5072 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. 5072 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					
	2011	2012	2013	2014	2015	2011-2015
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Additional FHA Offsetting Collections						
Estimated Authorization Level	-902	-800	-510	-280	-100	-2,592
Estimated Outlays	-902	-800	-510	-280	-100	-2,592
Loss of GNMA Offsetting Collections						
Estimated Authorization Level	16	0	0	0	0	16
Estimated Outlays	16	0	0	0	0	16
Third-Party Servicer Outreach						
Estimated Authorization Level	53	0	0	0	0	53
Estimated Outlays	40	13	0	0	0	53
Other Costs						
Estimated Authorization Level	*	*	*	*	*	2
Estimated Outlays	*	*	*	*	*	2
Total Changes						
Estimated Authorization Level	-833	-800	-510	-280	-100	-2,521
Estimated Outlays	-846	-787	-510	-280	-100	-2,521

Note: * = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the beginning of fiscal year 2011 and that the authority to guarantee new loans for the FHA single-family program and for GNMA to guarantee payment by pools of those loans sold to investors as securities will be provided in appropriation acts each year.

Under the Federal Credit Reform Act (FCRA), funds must be appropriated in advance to cover the estimated subsidy cost of providing loan guarantees on a present-value basis. (The subsidy cost is the estimated long-term cost to the government of a direct loan or loan guarantee calculated on a net-present-value-basis, excluding administrative costs.) For credit programs that are estimated to result in a net savings to the government, no appropriation of credit subsidy is required; however, for such programs, appropriation acts must specify the aggregate amount of loans that may be guaranteed. That figure is known as the annual commitment authority.

Increasing Annual Premiums

CBO estimates that amending the premium that FHA may charge borrowers for participating in its mortgage-guarantee program would affect offsetting collections generated by FHA and by GNMA.

Additional FHA Offsetting Collections. Under this legislation, the cap on annual premiums for the single-family program would increase from 0.55 percent to 1.55 percent of the loan balance. The average borrower currently pays a fee equal to 0.52 percent of the remaining balance on their mortgage to FHA. Based on information from FHA, CBO expects that under the bill, FHA would charge borrowers, on average, 0.88 percent of their loan balance amount annually. In addition, CBO expects that FHA would lower the up-front premium from 2.25 percent to 1 percent of the mortgage amount, though this action would not be required under this legislation. CBO estimates that those changes to the premium structure would change the estimated credit subsidy rate for the program from -0.4 percent to -0.8 percent. We estimate that under this revised premium structure, the volume of loan guarantees handled by FHA in 2011 would decrease slightly from $240 billion to $232 billion because the increase in the annual premium would deter some borrowers from participating in the single-family program. On balance, we estimate that the revised premium structure would increase offsetting collections (a credit against discretionary spending) from the program by $900 million in 2011, assuming the appropriation action to establish the 2011 commitment authority for the FHA single-family program.

Over the 2011-2015 period, CBO estimates that about $2.6 billion in additional net offsetting collections would be realized under this provision. This estimate assumes, based on information from FHA, that after 2011, upfront and annual premiums charged by FHA would start to revert to the lower levels charged today.

Loss of GNMA Offsetting Collections. Through its MBS program, GNMA is responsible for guaranteeing securities backed by pools of mortgages that are insured by federal agencies such as FHA. In exchange for a fee paid by 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. Because the value of the fees collected by GNMA is estimated to exceed the cost of loan defaults in each year, the Administration estimates that under current law, the GNMA MBS program will have a subsidy rate of -0.24 percent in 2011, resulting in net receipt collections to the federal government.

CBO estimates that each year about 90 percent of the new mortgage loan guarantees made by FHA would be included in GNMA's MBS program. Because CBO estimates that changes in FHA's premium structure under H.R. 5072 would reduce FHA's 2011 loan-guarantee volume by $8 billion, we estimate that the GNMA MBS program would realize a loss of about $16 million in offsetting collections in 2011. After 2011, CBO expects that the new FHA premium structure would have a negligible impact on the volume of loan guarantees provided by FHA, and thus the legislation would have no further impact on GNMA collections.

Third-Party Servicer Outreach

H.R. 5072 would authorize the appropriation of whatever sums are necessary in 2011 for the Department of Housing and Urban Development to reimburse servicers of single-family loans insured by FHA for the cost of providing financial counseling to borrowers whose mortgage payments are 60 days past due. Based on information from FHA, CBO expects that in 2011 about 700,000 loans could become 60 or more days delinquent, and that about 50 percent of the borrowers holding such loans would require counseling to help them become current on their loans. According to FHA, such credit counseling costs about $150 per loan. Thus, CBO estimates that implementing this provision would cost $53 million over the 2011-2012 period.

Other Costs

Enacting this legislation would make various changes to the processes used by FHA to oversee the single-family loan program, such as requiring the review of mortgages that default within 24 months of being originated and requiring lenders to use certain identifiers when processing a loan to ensure that lenders can be easily tracked nationally through the existing Nationwide Mortgage Licensing System and Registry. In addition, H.R. 5072 would establish the position of Deputy Assistant Secretary for Risk Management and Regulatory Affairs within FHA.

Based on information from FHA, CBO estimates that enacting those provisions and other provisions associated with improving and streamlining FHA's oversight of loans would not result in significant additional costs. According to FHA, existing resources would be used to meet the vast majority of the requirements under this legislation.

H.R. 5072 also would require the Government Accountability Office within one year of enactment to produce a report on the safety and soundness of FHA's single-family program and a report on the safety and soundness of GNMA's MBS program. CBO estimates that such reports would each cost less than $500,000 over the 2011-2015 period.

In total, CBO estimates that performing those other activities would cost about $2 million over the 2011-2015 period, subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5072 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would benefit housing finance agencies by authorizing reimbursements for servicers that provide counseling for delinquent borrowers. Any costs to those agencies of participating in the program would be incurred voluntarily.

ESTIMATE PREPARED BY:

Federal Costs: Susanne S. Mehlman
Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

Theresa Gullo
Deputy Assistant Director for Budget Analysis