



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

April 16, 2012

**H.R. 4264  
FHA Emergency Fiscal Solvency Act of 2012**

*As ordered reported by the House Committee on Financial Services on March 27, 2012*

**SUMMARY**

H.R. 4264 would make several changes to current law aimed at improving the financial safety and soundness of the Federal Housing Administration's (FHA's) single-family program. That program offers federal guarantees on certain home mortgages; cash flows associated with the loan guarantees are recorded in the budget in the Mutual Mortgage Insurance Fund (MMIF). The bill would require an independent actuarial review of the MMIF during periods when the fund's capital ratio falls below 2 percent, establish positions related to risk management at FHA and the Government National Mortgage Association (GNMA), and require FHA to make other administrative changes to the processes they use to oversee the single-family program.

CBO estimates that implementing H.R. 4264 would cost \$11 million over the 2013-2017 period, subject to the availability of appropriated funds. This legislation would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

H.R. 4264 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. 4264 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					2013- 2017
	2013	2014	2015	2016	2017	
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>						
Actuarial Studies						
Estimated Authorization Level	3	3	1	1	1	9
Estimated Outlays	3	3	1	1	1	9
Other Costs						
Estimated Authorization Level	*	*	*	*	*	2
Estimated Outlays	*	*	*	*	*	2
Total Changes						
Estimated Authorization Level	3	3	1	2	2	11
Estimated Outlays	3	3	1	2	2	11

Note: \* = less than \$500,000.

## **BASIS OF ESTIMATE**

For this estimate, CBO assumes that the bill will be enacted in late 2012 and that the necessary amounts will be appropriated each year.

### **Actuarial Studies**

Currently, an independent actuarial review of the MMIF is performed on an annual basis. H.R. 4264 would require the MMIF to be reviewed semiannually if the fund fails to maintain the statutorily mandated 2 percent capital ratio. (The capital ratio measures FHA's cash on hand relative to the number of all outstanding mortgages insured by the agency.) FHA estimates that the capital ratio has been below 2 percent since 2009; prior to that, the ratio fell below 2 percent once in 1994. Currently, FHA expects that the capital ratio will reach or exceed 2 percent by 2015. According to FHA, an actuarial review costs about \$3 million. CBO expects that under the bill additional actuarial reviews would have to be performed in 2013 and 2014, at a cost of \$6 million over those two years.

Although FHA anticipates that the capital ratio for MMIF will increase to 2 percent by 2015, there is some probability that this may not happen and that additional actuarial reviews would be necessary. CBO estimates that there is about a 20 percent chance that the capital ratio could be below 2 percent in any year, given that it has fallen below this level four times in the last 19 years. Considering the probability that additional actuarial reviews would be needed, CBO estimates that enacting this provision would cost about \$3 million over the 2015-2017 period.

## **Other Costs**

Implementing H.R. 4264 would change the processes used by FHA to oversee the single-family loan program. For example, the bill would require a review of any mortgages that default within 24 months of being originated. In addition, H.R. 4264 would establish two new positions: Deputy Assistant Secretary for Risk Management and Regulatory Affairs within FHA, and Chief Risk Officer within GNMA. H.R. 4264 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.

In total, CBO estimates that these other requirements under H.R. 4264 would cost \$2 million over the 2013-2017 period, subject to the availability of appropriated funds.

Finally, under H.R. 4264 the annual mortgage insurance premium charged by FHA could not be less than 0.55 percent or more than 2.05 percent of the outstanding loan balance. Because CBO does not anticipate that FHA's annual premiums will be adjusted over the next five years as a result of enacting this legislation, this provision would have no budgetary impact.

**PAY-AS-YOU-GO CONSIDERATIONS:** None.

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

H.R. 4264 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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