CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 18, 2013

S. 1376
FHA Solvency Act of 2013

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on July 31, 2013

SUMMARY

S. 1376 would make several changes to current law aimed at improving the financial safety and soundness of the Federal Housing Administration's (FHA's) Mutual Mortgage Insurance (MMI) fund. That fund records the transactions of two housing programs operated by FHA: the single-family mortgage guarantee program and the Home Equity Conversion Mortgage (HECM) program. The bill would require FHA to take certain corrective actions if the annual actuarial review of the MMI fund indicates that the fund's capital ratio has fallen below certain targets and would require FHA to make other administrative changes to the processes they use to oversee the single-family and HECM programs.

CBO estimates that implementing S. 1376 would result in a net decrease in discretionary spending of $514 million over the 2014-2018 period, assuming enactment of appropriation laws necessary to implement the legislation's provisions. This legislation would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

S. 1376 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 S. 1376 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					
	2014	2015	2016	2017	2018	2014-2018
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
FHA Insurance Premiums						
Estimated Authorization Level	0	0	0	0	-524	-524
Estimated Outlays	0	0	0	0	-524	-524
Other Costs						
Estimated Authorization Level	2	2	2	2	2	10
Estimated Outlays	2	2	2	2	2	10
Total Changes						
Estimated Authorization Level	2	2	2	2	-522	-514
Estimated Outlays	2	2	2	2	-522	-514

Note: FHA = Federal Housing Administration.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the start of calendar year 2014 and that the necessary amounts will be appropriated each year.

FHA Insurance Premiums

Currently the MMI fund is required to maintain a 2 percent capital ratio. (The capital ratio measures FHA’s cash on hand relative to the value of all outstanding mortgages insured by the agency.) Enacting this legislation would require FHA to evaluate the premiums it charges for mortgage insurance on an annual basis and the MMI fund to achieve a capital ratio of 3 percent within 10 years of enactment. The legislation also would establish additional reporting requirements and require program evaluations and programmatic changes if the fund doesn’t meet certain targets as it builds towards the proposed 3 percent capital ratio over the next 10 years. For example, FHA would be required to impose a surcharge of 10 basis points on its guarantees if the actuarial report for fiscal year 2016 indicates that the capital ratio is less than 1.25 percent.

CBO estimates that under current law, FHA will charge borrowers insurance premiums sufficient to maintain a capital ratio that exceeds 1.25 percent in the next couple of years, so we expect that, under the bill, FHA would not impose the 10 basis point surcharge in 2016. However, under the bill, CBO expects that FHA would probably increase its initial and annual insurance premiums beginning in 2018 in order to achieve a 3 percent capital ratio in the MMI fund by 2023; such increases in premiums would result in an increase in offsetting collections totaling $524 million in 2018 (and further increases in collections in subsequent years), assuming commitment authority to operate the single-family program is included in future appropriation acts.

Other Costs

Based on estimates of the cost of similar programmatic activities, CBO estimates that the additional reporting requirements and other administrative activities required to maintain adequate capital balances in the MMI fund would cost $10 million over the 2014-2018 period, subject to the availability of appropriated funds.

Implementing S. 1376 would change various processes used by FHA to oversee the single-family and HECM programs. The bill would require FHA to:

- Issue regulations to establish a nationwide appeals process for terminating a borrower's approval;

- Issue regulations related to loans subject to indemnification; and

- Alter the management of the HECM program through letters to mortgagees and rulemaking procedures.

The Government Accountability Office also would be required to produce a report on the appropriate methodology for adjusting FHA's loan limits and a report examining FHA's procedures for disclosure of its housing program data.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1376 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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