CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 28, 2013

H.R. 2767

Protecting American Taxpayers and Homeowners Act of 2013

As ordered reported by the House Committee on Financial Services on July 24, 2013

SUMMARY

H.R. 2767 would require the Federal Housing Finance Agency (FHFA) to repeal the charters of Fannie Mae and Freddie Mac and end the operations of those firms five years after enactment of the bill (and subject to certain conditions). Thus, after 2018, those two government-sponsored enterprises (GSEs) would cease to guarantee new mortgages. The legislation would also make certain changes to the operation of the GSEs during the next five years and to other federal housing programs. In addition, the bill would create a statutory framework for regulating financial instruments known as covered bonds (full-recourse debt obligations that are secured by a pool of performing assets).

Taking all of the spending provisions together, CBO estimates that enacting H.R. 2767 would increase direct spending by $229 million over the 2014-2018 period but decrease direct spending by $6.6 billion over the 2014-2023 period. The savings over the coming decade as a whole are due primarily to the winding down of Fannie Mae and Freddie Mac and the resulting reduction in federal subsidies for mortgages that will be guaranteed by those entities under current law.

In addition, CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting H.R. 2767 would reduce revenues by $853 million over the 2014-2023 period. About half of that loss of revenues stems from changes in tax rules related to covered bonds, and much of the rest owes to a reduction in certain assessments paid by Fannie Mae and Freddie Mac to the government (which are recorded in the budget as revenues).

On balance, CBO estimates that the changes in direct spending and revenues stemming from enactment of H.R. 2767 would reduce deficits by $5.7 billion over the 2014-2023 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

CBO also estimates that implementing this legislation would result in a net decrease in discretionary spending of $41.2 billion over the 2014-2023 period assuming enactment of future appropriation laws necessary to implement the legislation's provisions. That potential reduction in discretionary spending would stem from a provision establishing a higher reserve requirement than under current law for the Federal Housing Administration's (FHA's) single- and multifamily programs and from an increase in the value of mortgages guaranteed by FHA after the GSEs cease operations.[1] Other effects of the legislation on discretionary spending would be much smaller and have largely offsetting budgetary effects.

CBO has determined that the nontax provisions of H.R. 2767 would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) on mortgage servicers, their affiliates, creditors of certain mortgages, and some financial institutions. The bill also would preempt some state laws related to demonstrating ownership of a mortgage. CBO estimates that the aggregate cost of the mandates in the bill would fall below the annual thresholds for intergovernmental and private-sector mandates established in UMRA ($75 million and $150 million in 2013, respectively, adjusted annually for inflation). JCT reviewed the tax provisions of H.R. 2767 and determined that those provisions contain no private-sector or intergovernmental mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H. R. 2767 is shown in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2767 will be enacted near the end of 2013 and that appropriations actions consistent with the bill will be completed each year.

1. The budgetary effects of those activities of FHA and the Government National Mortgage Association (GNMA) are classified as discretionary because new guarantees under those programs are subject to annual appropriation actions. In contrast, GSE operations are not subject to such annual appropriation laws. As required in H. Con. Res. 25, which proposed a budget for the United States Government for fiscal year 2014 and set forth budgetary levels for fiscal years 2015 through 2023, CBO has also prepared a cost estimate for H.R. 2767 using a fair-value approach to estimating the impact on FHA and GNMA. That alternative estimate is discussed under the heading, "Additional Information."

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 2767

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Maximum Loan Limits in High-Cost Areas												
Estimated Budget Authority	11	35	51	71	96	0	0	0	0	0	264	264
Estimated Outlays	11	35	51	71	96	0	0	0	0	0	264	264
Wind Down of Fannie Mae and Freddie Mac												
Estimated Budget Authority	0	0	0	0	0	-1,457	-1,178	-83	-2,442	-1,532	0	-6,692
Estimated Outlays	0	0	0	0	0	-1,457	-1,178	-83	-2,442	-1,532	0	-6,692
Covered Bonds												
Estimated Budget Authority	0	1	3	6	10	14	18	19	21	23	20	115
Estimated Outlays	0	1	3	6	10	14	18	19	21	23	20	115
FHFA Spending												
Estimated Budget Authority	0	0	-1	-1	-1	-25	-46	-64	-85	-104	-3	-328
Estimated Outlays	0	0	-1	-1	-1	-25	-46	-64	-85	-104	-3	-328
Other Provisions												
Estimated Budget Authority	-40	-40	4	11	13	16	19	22	26	29	-52	60
Estimated Outlays	-40	-40	4	11	13	16	19	22	26	29	-52	60
Total Costs												
Estimated Budget Authority	-29	-4	57	87	118	-1,452	-1,187	-106	-2,480	-1,584	229	-6,581
Estimated Outlays	-29	-4	57	87	118	-1,452	-1,187	-106	-2,480	-1,584	229	-6,581
CHANGES IN REVENUES												
Costs to the Federal Reserve	-2	-3	-5	-5	-5	-6	-6	-6	-6	-7	-20	-51
Taxes Related to Covered Bonds[a]	*	-1	-4	-10	-21	-36	-56	-82	-113	-152	-36	-474
FHFA Assessments	0	0	-1	-1	-1	-25	-46	-64	-85	-104	-3	-328
Total Estimated Revenues	-2	-4	-10	-16	-27	-67	-108	-152	-204	-263	-59	-853
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Estimated Impact on Deficit	-27	0	67	103	145	-1,385	-1,079	46	-2,276	-1,321	288	-5,728
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
FHA Offsetting Collections—Single-Family												
Estimated Authorization Level	-17	-28	-31	-33	-32	-5,618	-6,871	-7,897	-9,988	-10,868	-141	-41,383
Estimated Outlays	-17	-28	-31	-33	-32	-5,618	-6,871	-7,897	-9,988	-10,868	-141	-41,383
FHA Offsetting Collections—Multifamily												
Estimated Authorization Level	0	0	0	0	0	27	27	27	27	27	0	135
Estimated Outlays	0	0	0	0	0	27	27	27	27	27	0	135

Continued

TABLE 1. Continued.

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN SPENDING SUBJECT TO APPROPRIATION (Continued)												
Offsetting Collections from GNMA												
Estimated Authorization Level	-1	-1	-2	-2	-2	-68	-64	-59	-123	-135	-8	-457
Estimated Outlays	-1	-1	-2	-2	-2	-68	-64	-59	-123	-135	-8	-457
Administrative Costs for FHA and RHS												
Estimated Authorization Level	14	15	22	29	37	42	44	45	46	48	117	342
Estimated Outlays	14	15	22	29	37	42	44	45	46	48	117	342
Funding to Establish and Oversee National Mortgage Market Utility												
Authorization Level	25	25	25	25	25	25	0	0	0	0	125	150
Estimated Outlays	15	25	25	25	25	25	10	0	0	0	115	150
Grants to States												
Authorization Level	0	5	10	10	10	10	5	0	0	0	35	50
Estimated Outlays	0	3	8	10	10	10	7	2	0	0	31	50
Total Discretionary Costs												
Estimated Authorization Level	21	16	24	29	38	-5,582	-6,859	-7,884	-10,038	-10,928	128	-41,163
Estimated Outlays	11	14	22	29	38	-5,582	-6,847	-7,882	-10,038	-10,928	114	-41,163

Notes: FHA = Federal Housing Administration; FHFA = Federal Housing Finance Agency; GNMA = Government National Mortgage Association; RHS = Rural Housing Service.

Components may not sum to totals because of rounding.

a. Estimated by the staff of the Joint Committee on Taxation.

Most of the budgetary impacts of H.R. 2767 would result from the requirements to:

- End Fannie Mae's and Freddie Mac's role in providing new mortgage guarantees, and
- Increase FHA's mortgage guarantee fees to a level sufficient to establish a reserve fund equal to 4 percent of the agency's guarantee commitments.

Before discussing individual components of the cost estimate, this section first reviews CBO estimates of the changes to the market for mortgage guarantees that we expect would occur under the bill and explains how CBO accounts for the cost of mortgage guarantees in the federal budget.

Mortgage Guarantees, By Type

The GSEs and FHA currently provide guarantees on most of the mortgages issued in the United States. (FHA provides its guarantees in conjunction with the Government National Mortgage Association (GNMA), which is responsible for guaranteeing securities backed by pools of mortgages insured by federal agencies, such as FHA. In exchange for a premium 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.) Although the GSEs and FHA offer a similar mortgage guarantee product, they focus on homebuyers in different financial circumstances. FHA's market mainly consists of buyers who lack the savings, credit history, or income to qualify for conventional mortgages. In contrast, the GSE market consists of buyers with stronger credit profiles who can qualify for conventional mortgages.

When the GSEs exit the mortgage guarantee business as would be required under the bill, CBO expects that some of that business would flow to FHA. However, the bill also would impose new eligibility requirements on FHA that would result in the agency losing some business to private firms. On net, CBO expects that FHA would make more mortgage guarantees than under current law but that most mortgages that would have been guaranteed by the GSEs would either be guaranteed by private firms or would carry no guarantee.

Table 2 summarizes CBO's forecast for the U.S. mortgage guarantee market over the 2014-2023 period under current law and under H.R. 2767.

TABLE 2. NEW RESIDENTIAL MORTGAGES, BY TYPE OF GUARANTEE, OVER THE 2014-2023 PERIOD

	Average Percentage of Total Dollar Volume of Mortgages Originated			
	Under Current Law		Under H.R. 2767	
	2014-2018	2019-2023	2014-2018	2019-2023
FHA, VA, RHS	15	10	16	11
Fannie Mae and Freddie Mac	59	42	58	0
Not Federally Guaranteed	26	48	26	89

Note: FHA = Federal Housing Administration; VA = Department of Veterans Affairs; RHS = Rural Housing Service.

Under the bill, the market share for Fannie Mae and Freddie Mac would decline slightly over the next five years and then fall to zero after 2018, with FHA (and the Rural Housing Service and the Department of Veterans Affairs) capturing a small portion of that lost GSE business and the private market capturing the rest. Some potential borrowers who could obtain a mortgage under current law might not obtain one in the absence of Fannie Mae and Freddie Mac.

Accounting for the Cost of Mortgage Guarantees

The riskiness—and thus the cost to the federal government—of providing a mortgage guarantee depends on a variety of factors. The most important factors include: the relationship between the size of the mortgage and the value of the home (known as the loan-to-value-ratio), the creditworthiness of the homeowner, and the fees (or insurance premiums) charged for the mortgage insurance. The costs to the federal government of providing mortgage guarantees are known as credit subsidies. The credit 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.

The budgetary costs of loan guarantee programs offered by FHA are calculated using the methodology established under the Federal Credit Reform Act of 1990 (FCRA). Under that methodology, the interest rates on Treasury bonds of comparable maturity are used to calculate the present value of estimated cash flows of a loan guarantee. Under FCRA, funds must be appropriated in advance to cover the estimated subsidy costs of providing loan guarantees. For credit programs that are estimated to result in a net savings to the government, such as FHA's single-family program, 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. Administrative costs to operate the credit programs are also provided through appropriation acts and are recorded in the budget on a cash basis.

An alternate approach to accounting for the cost of federal credit programs is to estimate the credit subsidy cost on a fair-value basis. Under that method, a market risk premium is added to the Treasury rate when calculating the net present value of future cash flows. CBO considers the fair-value approach to be a more comprehensive measure of a loan guarantee's cost to the federal government because it more fully incorporates the cost of risk to the government that is inherent in its credit transactions. In 2008 when the federal government placed the GSEs into conservatorship, CBO consulted with the Congressional budget committees and determined that measuring the effect of GSE activities on the federal budget on a fair-value basis would provide the most meaningful measure to the Congress of the cost of conservatorship.[2]

The costs associated with the GSEs and FHA also are categorized differently in the federal budget. Budgetary costs for the GSEs are considered to be mandatory

2. Conservatorship is the legal process by which an entity (in this case, the government) establishes control and oversight of a company to put it in a sound and solvent condition. At the time of conservatorship, the federal government took the majority ownership share in both entities.

expenditures because no federal appropriations are used in their business. In contrast, the budgetary costs for FHA are treated as discretionary because, as noted above, FHA requires an annual appropriation of commitment authority to operate its programs.

Under current law, CBO estimates that over the 2014-2023 period, the mortgage guarantees offered by the GSEs will result in a mandatory cost of $28.4 billion (that is, a positive subsidy cost). Over the same period, CBO estimates that the guarantees offered by FHA will result in discretionary savings to the federal government of $84 billion (that is, a negative subsidy cost). Those widely divergent budgetary effects are explained partly by the different terms of the guarantees offered by those entities but mostly by the difference in accounting methods—FCRA versus fair value—used to determine the costs of FHA's and the GSEs' guarantees.[3]

Direct Spending

CBO estimates that enacting H.R. 2767 would reduce direct spending by $6.6 billion over the 2014-2023 period. That reduction would result from the proposed changes to the GSEs, the regulation of covered bonds, and other aspects of federal housing programs.

Maximum Loan Limits in High-Cost Areas. Under current law, in areas of the country where median home values are higher than the national median, the loan limit for mortgages eligible to be guaranteed by the GSEs is 150 percent of the median house price in that area up to a maximum of $625,500.[4] H.R. 2767 would direct FHFA to reduce the loan limit in those areas and would not allow new high-cost areas to be established. Specifically, the maximum loan size for mortgages eligible to be guaranteed by the GSEs would decrease to $605,000 in 2014 and then by an additional $20,000 each year until 2019, when the GSEs would no longer guarantee new mortgages.

CBO estimates that enacting this provision would reduce the total value of loans guaranteed by the GSEs by an average of 1 percent each year over the 2014-2018 period. Based on historical data from FHFA on the size and characteristics of mortgages guaranteed by the GSEs, guaranteeing mortgages with loan balances between $417,000 and $625,500 is less risky, on average, than guaranteeing mortgages with loan balances below $417,000. Indeed, CBO estimates that those higher-value mortgages have a slightly negative subsidy rate because the guarantee fees paid by those borrowers more than compensates for their risk of default. Therefore, CBO estimates that excluding some

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3. Pursuant to a provision in the 2014 House Budget Resolution (section 607 (c) of H. Con. Res. 25), CBO has prepared a cost estimate of H.R. 2767 using a consistent estimating basis for the credit activities of FHA and the GSEs. That cost estimate has been prepared entirely on a fair-value basis and is displayed below under the heading, "Additional Information."

4. The limit for mortgages eligible to be guaranteed by the GSEs in most areas is $417,000 for a single-family residence. The maximum limit in high-cost areas is 150 percent of $417,000, or $625,500.

of those larger mortgages from obtaining GSE guarantees would increase the overall subsidy rate on the remaining GSE guarantees by a small amount—about 3 percent.[5]

On balance, CBO estimates that the smaller loan volume and higher subsidy rate would increase the cost of GSE mortgage guarantees by $264 million over the 2014-2018 period. For comparison, under current law, CBO estimates that guaranteeing GSE mortgages will cost the federal government $21.6 billion over the 2014-2018 period. (Under the bill, the GSEs would no longer guarantee mortgages after 2018.)

Wind Down of Fannie Mae and Freddie Mac. Near the start of fiscal year 2019, H.R. 2767 would require the FHFA to repeal the charters of the GSEs and end their operations. The GSEs would therefore cease to guarantee new mortgages in 2019. Under the bill, FHFA could delay those actions for up to two years if FHFA finds that, for any three-week period in the prior six months, the average difference in interest rates between GSE-eligible mortgages and those too large to be eligible for a GSE guarantee is greater than 0.80 percentage points—a condition not observed in the last decade except during the 2008-2010 period at the height of the recent turmoil in the mortgage market.

Under current law, CBO expects that the GSEs will guarantee about $7.2 trillion in single-family mortgages over the 2019-2023 period, representing about 40 percent of the mortgage market. Under the bill, CBO estimates that terminating the GSEs would eliminate new volume after 2018 and thus reduce direct spending by $6.7 billion over the 2019-2023 period. Almost half of that reduction in direct spending would occur in 2022 and 2023. The savings in those years would be particularly large because, under current law, the cost of guaranteeing mortgages in those years will increase substantially above the cost in previous years. The reason for that increase is that a temporary increase in the fees charged by the GSEs that was enacted in the Temporary Payroll Tax Cut Continuation Act of 2011—equal to 10 basis points—will expire at the end of 2021.

CBO expects that after 2018, some of the mortgages that would have been guaranteed by the GSEs would be guaranteed by FHA instead. The budgetary impact of the extra FHA guarantees is discussed below under "Spending Subject to Appropriation."

Covered Bonds. H.R. 2767 would create a statutory framework for the regulation of covered bonds. In the event that a covered-bond issuer is placed into receivership or conservatorship of the Federal Deposit Insurance Corporation (FDIC), the new framework would require that all pledged collateral, including any excess, be transferred to a separate estate for the benefit of investors. Under current law, the FDIC may pay

5. CBO's subsidy costs for the GSEs are estimated using a fair-value approach. Under that approach, subsidy costs are calculated in the way required by the Federal Credit Reform Act (FCRA) except for one important difference: Under FCRA, the net present value of expected future cash flows is calculated by using interest rates on Treasury securities of comparable maturity, while under the fair-value approach, the net present value is calculated by adding to interest rates on Treasury securities a market-based risk premium.

investors only the par value of the covered bond plus accrued interest and may retain any excess collateral to offset the cost of resolving failed institutions. The new framework would increase net direct spending because the FDIC would no longer have the option of retaining that excess collateral.

CBO estimates that enacting the new statutory framework would increase net direct spending by $115 million over the 2014-2023 period. That amount is fairly small because CBO expects that issuances of covered bonds over the next 10 years will be fairly small, primarily because of the continued advantages of other forms of financing (such as Federal Home Loan Bank advances). The estimate is a probabilistic assessment of the budgetary impact of the new framework: Following the default of a covered-bond issuer, additional outlays and subsequent revenues could be much higher under the bill than shown in Table 1, but in periods where such an event does not occur, additional outlays would be zero.

FHFA Spending. FHFA's spending on its operations would decrease under this bill in line with the decrease in FHFA's assessments on Fannie Mae and Freddie Mac—which are recorded as revenues. Under current law, CBO estimates that FHFA will collect and spend about $2 billion over the 2014-2023 period. As the GSEs lower their loan limits and wind down their operations, we estimate that FHFA would collect $328 million less over that period. Because FHFA's spending is usually very close to its collections, we estimate that FHFA's spending would also be $328 million lower. Thus, there would be no net impact on the federal budget.

In addition, the bill would allow FHFA, as the regulator of the National Mortgage Market Utility that would be established by the bill, to impose assessments on this utility for reasonable costs related to FHFA's oversight. The amount of such assessments is highly uncertain and would depend on the ultimate size and structure of the utility. In any case, CBO estimates that FHFA would likely spend all of the collections it would receive in a given year from the utility, resulting in no net effect on the federal budget.

Other Provisions. Other provisions of the bill would affect the financial regulatory agencies—the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), the FDIC, and the National Credit Union Association (NCUA)—as well as the Consumer Financial Protection Bureau (CFPB). Taken together, CBO estimates that enacting those provisions would increase net direct spending by $60 million over the 2014-2023 period.

Title IV would establish a new office, the Office of Examination Ombudsman, at the Federal Financial Institutions Examination Council (FFIEC) to, among other things, investigate complaints from financial institutions related to examinations, review examination standards to ensure consistent standards across the agencies, and conduct a continuing program of quality control and assurance. FFIEC was established to promote uniformity in supervision of financial institutions, and its operating costs are borne by four financial regulatory agencies. Three of those regulators—the OCC, the FDIC, and the NCUA—collect fees to offset operating costs; thus, the net budgetary effect from changes at those agencies would be negligible over the 2014-2023 period. The fourth regulator—the Board of Governors of the Federal Reserve System—affects the federal budget through changes in revenues, which are discussed below.

Currently, the FFIEC employs 14 staff who are employed by one of the regulatory agencies but assigned to the council (all of the member agencies provide staff support). CBO expects that establishing the Office of the Ombudsman would require a significant increase in the council's staff—we estimate that an additional 65 staff positions would be needed to meet the bill's requirements to investigate and resolve appeals and to review examination procedures. We expect that it would take several years to reach that new staffing level. Based on information from those agencies, CBO estimates that establishing the Office of Executive Ombudsman would increase direct spending by $140 million over the 2014-2023 period to supply the FFIEC with additional staff. That amount reflects savings to the regulators as some portion of the complaints they receive under current law would go to FFIEC. As noted above, those regulators collect fees to offset operating costs, thus the net budgetary effect from changes at those agencies would be negligible over the 2014-2023 period.

Title IV also would revise standards for the classification of commercial loans and their placement in nonaccrual status. If the new standards delayed the closure of a failing institution, the costs of resolving that institution would, on average, be higher (although the delay would initially lower costs). CBO expects that the effects of the new standards would be mostly felt during financial downturns when failures are more likely; however, our estimate reflects expected average costs. Based on historical and projected losses for bank failures, CBO estimates that the revised standards would increase direct spending by the FDIC by $50 million over the 2014-2023 period.

Titles IV and V would amend the Truth in Lending Act, which provides protections to consumers in the market for residential mortgages, to reflect changes in the status and authority of the GSEs and FHFA, among other things. Based on information from the CFPB, CBO estimates that enacting those provisions would increase direct spending by $1 million per year over the 2014-2023 period for additional rulemaking and enforcement activities.

Title V would require the Financial Stability Oversight Council (FSOC) to prepare a report recommending ways to prevent the financial regulatory agencies from providing conflicting guidance related to loan classification and capital requirements. Based on information from FSOC, CBO estimates that preparing this report would have an insignificant effect on direct spending over the 2014-2023 period; further, this additional cost would be offset by fees (recorded in the budget as revenues) which are authorized to offset the operating costs of FSOC.

Revenues

CBO and JCT estimate that enacting H.R. 2767 would reduce revenues by $853 million over the 2014-2023 period. That change stems from changes in the bill related to the operating cost of the Federal Reserve, the regulation of covered bonds, and certain assessments paid by the GSEs.

Costs to the Federal Reserve. The Federal Reserve remits its profits to the Treasury, and those payments are classified as revenues in the federal budget. Any additional income or costs to the Federal Reserve, therefore, can affect the federal budget.

H.R. 2767 would require the Federal Reserve to conduct several studies, including one in concert with other banking regulators to assess the potential impacts of certain rules regulating capital. Based on information provided by staff of the Federal Reserve, CBO expects that this study would cost the Federal Reserve about $1 million to carry out, causing a revenue loss of that amount in 2014.

The Federal Reserve pays a portion of the operating costs of the FFIEC (see "Other Provisions" above), which, under the bill, must establish an Office of Examination Ombudsman. CBO estimates that the portion of those costs allocated to the Federal Reserve would average about $5 million per year over the 2014-2023 period, causing a revenue loss of $50 million over that period.

Taxes Related to Covered Bonds. Following an uncured (uncorrected) default by a covered bond issuer that occurs without it entering into bankruptcy, conservatorship, or receivership, a separate estate would be established by H.R. 2767 to maintain contractual payments to investors using pledged collateral. The bill specifies certain federal income-tax consequences related to the creation of such an estate and the transfer into the estate of residual interests—the right to any surplus from the underlying pool of assets after the covered bonds and other liabilities of the estate have been paid. The bill also prescribes rules related to the tax treatment of the estate itself. JCT estimates that those provisions would result, on net, in revenue losses of $474 million over the 2014-2023 period.

FHFA Assessments. Under current law, CBO estimates that FHFA will collect and spend about $2 billion over the 2014-2023 period. As the GSEs lower their loan limits and wind down their operations, we estimate that FHFA would collect $328 million less over the next 10 years. As noted above, because FHFA's spending is usually very close to its collections, we estimate no net impact on the federal budget from the lower assessments.

Spending Subject to Appropriation

The provisions of H.R. 2767 would affect discretionary spending for FHA, GNMA, the Rural Housing Service (RHS), and FHFA. CBO estimates that implementing this legislation would result in a net decrease in discretionary spending of $41.2 billion over the 2014-2023 period, assuming appropriation actions consistent with the bill. The components of this budgetary effect are discussed below.

FHA Offsetting Collections—Single-Family. CBO estimates that, over the 2014-2023 period, implementing H.R. 2767 would increase offsetting collections for FHA's single-family program by $41.4 billion. To estimate the difference in offsetting collections that would be generated under this legislation, CBO estimated the change in the volume of loans that would be guaranteed by FHA and the change in the average subsidy rate.

Volume in the Single-Family Program. Under current law, CBO estimates that FHA will guarantee about $1.2 trillion in single-family mortgages over the 2014-2018 period and about $2.4 trillion over the 2014-2023 period, representing about 9 percent of all new mortgages. Under this legislation, CBO expects that demand for FHA's single-family program would change significantly for two reasons. First, beginning in 2019, the bill would restrict FHA's single-family program to first-time homebuyers and borrowers below certain income levels and would require a 5 percent minimum downpayment for most homebuyers. As a result, about 20 percent of borrowers currently projected to take out FHA-insured mortgages would no longer be eligible for the program beginning in that year, CBO estimates. Those eligibility changes would result in an estimated $219 billion reduction in loan volume over the 2019-2023 period.

But second, the reduction in the maximum mortgage-guarantee limits for the GSEs beginning in 2014 and, more importantly, the required exit of the GSEs from the mortgage guarantee business in 2019 would cause some borrowers who otherwise would have obtained GSE-backed mortgages to turn to FHA instead. We estimate that, over the 2014-2023 period, the provisions of the bill regarding the GSEs would increase demand for FHA's single-family program by $441 billion.

On balance, under H.R. 2767, CBO estimates that demand for FHA's single-family program would increase by $222 billion over the next 10 years, with the majority of that increase occurring after 2018 when the GSEs would cease operations.

Subsidy Rate for the Single-Family Program. Under current law, CBO estimates that the FHA single-family program will have a subsidy rate of -5.3 percent in 2014. We also estimate that this subsidy rate will become less negative each year thereafter as FHA's capital reserve becomes more replenished and there is a diminished need to charge borrowers higher fees.

H.R. 2767 makes two changes to FHA's single-family program that could affect subsidy rates. First, under current law, when FHA guarantees a mortgage, it guarantees 100 percent of the mortgage amount. H.R. 2767 would require FHA to reduce that share by 10 percentage points annually until it reaches 50 percent of the mortgage amount. That change, taken by itself, would affect the subsidy rate. However, CBO expects that FHA would make compensating changes to the premiums it charges borrowers, resulting in no significant change to the subsidy rates.

Second, beginning in 2019, H.R. 2767 would require FHA to maintain a reserve balance of 4 percent of the unamortized insurance in-force through its mortgage guarantees and to charge sufficient fees to cover its administrative costs. To achieve this 4 percent reserve and to earn enough receipts to offset administrative costs, CBO expects that FHA would set premiums at a level necessary to achieve a subsidy rate of -4.25 percent each year over the 2019-2023 period. Table 3 displays CBO's estimates of the subsidy rate under current law and under the legislation.

TABLE 3. ESTIMATED FHA SINGLE-FAMILY PROGRAM SUBSIDY RATES UNDER CURRENT LAW AND UNDER H.R. 2767

	By Fiscal Year, in Percentages									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Estimated FHA Subsidy Rate Under Current Law	-5.3	-4.5	-3.9	-3.3	-2.8	-2.4	-2.0	-1.7	-1.5	-1.2
Estimated FHA Subsidy Rate Under H.R. 2767	-5.3	-4.5	-3.9	-3.3	-2.8	-4.25	-4.25	-4.25	-4.25	-4.25

FHA Offsetting Collections—Multifamily. Under current law, CBO estimates that over the 2014-2023 period, FHA's multifamily programs will operate with an average subsidy rate of -4.2 percent in each year and will generate $9.3 billion in offsetting collections. Because H.R. 2767 would require that FHA insure only multifamily properties that are targeted to low- and moderate-income families, CBO expects that fewer mortgages for multifamily properties would be guaranteed over the 2019-2023 period. Based on information from FHA, CBO estimates that about 5 percent of mortgages on multifamily properties that would be guaranteed by FHA under current law would no longer be eligible for FHA guarantees under the legislation. As a result, we estimate that enacting this legislation would reduce offsetting collections for the multifamily program by $135 million over the 2014-2023 period.

Offsetting Collections from GNMA. GNMA is responsible for guaranteeing securities backed by pools of mortgages insured by federal agencies, such as FHA. In exchange for a premium paid by the lenders of the underlying mortgages or by the 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, CBO estimates that, under current law, the GNMA program will have a subsidy rate of -0.22 percent in 2014.

The demand for GNMA guarantees would be higher under the legislation than under current law, as discussed below, and the subsidy rate over the next 10 years would be unchanged. Therefore, CBO estimates that enacting this legislation would result in a net increase in offsetting collections to GNMA by $457 million over the 2014-2023 period.

Demand for the GNMA Program. CBO estimates that, under both current law and this legislation, about 95 percent of the single-family and multifamily loan guarantees made by FHA would be included in GNMA's program. Under this legislation, CBO estimates that GNMA's program would experience a slight decrease in demand stemming from the loss of muiltifamily loan guarantees over the 2019-2023 period, as discussed previously. However, because we estimate net increases in demand for the single-family program, demand for GNMA's program, on balance, would increase by about $207 billion over the 2014-2023 period.

Subsidy Rate for the GNMA Program. The bill would remove the restriction that GNMA charge no more than 6 basis points to lenders or issuers for its guarantee. Consequently, CBO expects that, to the extent that GNMA expects its losses would increase under the bill because of the decreasing guarantee that would be provided by FHA on its mortgages, GNMA would raise its fees accordingly. Specifically, based on information from GNMA, CBO expects that GNMA would adjust its guarantee fee to a level that maintains its current subsidy rate of -0.22 percent.

Administrative Costs for FHA and RHS. This bill would require FHA to meet new reporting requirements imposed by FHFA, hire additional personnel, set compensation at more competitive levels, and make certain programmatic changes to its mortgage guarantee programs. RHS also would be required to submit reports and data to FHFA. CBO estimates that implementing those requirements would increase discretionary spending by FHA and RHS by $117 million over the 2014-2018 period and by $342 million over the 2014-2023 period.

Under the bill, FHFA would be the regulator of FHA and RHS and consequently would be allowed to impose assessments on those entities to cover FHFA's costs related to those reporting provisions. CBO expects that FHA and RHS would adjust the fees they charge borrowers to pay those assessments. Because we anticipate that all assessments collected in a given year would be spent, CBO expects that imposing those assessments would have no net impact on the federal budget.

Funding to Establish and Oversee a National Mortgage Market Utility. H.R. 2767 would require FHFA to accept applications from qualified entities or individuals seeking to establish the proposed National Mortgage Market Utility and to select an applicant with expertise in residential mortgages and the necessary financial, operational, and managerial resources to set up and operate the utility. Two years after the bill is enacted, FHFA would issue a federal charter for the utility if FHFA concludes that the selected applicant has met certain organizational benchmarks. One year later, FHFA would transfer ownership of the securitization infrastructure—known as "the platform"—currently being developed by the GSEs to the utility. The bill also would designate FHFA as the sole regulator of the National Mortgage Market Utility.

The bill also would authorize the National Mortgage Market Utility to establish standard criteria for eligibility to access its securitization platform, including borrowers' risk characteristics and loan terms for residential mortgages, standards for collateral and the entities that aggregate the collateral, standards for issuers of qualified securities, and standards for originating, pooling, servicing, securitizing, and reporting.

The bill would authorize the appropriation of $150 million to FHFA to fund its initial activities. CBO assumes that those funds would be appropriated as necessary over the next several years. CBO estimates that implementing those provisions would cost $150 million over the 2014-2023 period.

Grants to States. The bill also would authorize the National Mortgage Market Utility to develop a National Mortgage Data Repository and issue standards for mortgage-related information required to be deposited in the repository.

H.R. 2767 would authorize the appropriation of $50 million to FHFA to provide grants to states that apply for financial assistance to support their participation in the proposed mortgage-data repository. CBO assumes that those funds would be appropriated as necessary over the next several years. CBO estimates that implementing those provisions would cost $50 million over the 2014-2023 period.

Under the bill, the utility would be required to repay to the Treasury the value of the platform as determined by FHFA, the $150 million authorized to be appropriated for FHFA's initial activities regarding the utility, and the $50 million provided for grants to states. CBO expects that any such repayments would be received by the Treasury after 2023.

ADDITIONAL INFORMATION

Pursuant to H. Con. Res. 25, this section provides additional information on the estimated effects of H.R. 2767 on the fair-value costs of the FHA single-family, FHA multifamily, and GNMA programs. Under current law, the costs of those programs are measured in the budget according to the procedures established in FCRA.

The fair-value approach is an alternative to the approach specified in FCRA. Both the FCRA approach and the fair-value approach rely on the same projections of future cash flows for the guarantee programs, and both approaches take into account the lifetime cost of the new guarantees made in a given year (including the expected cost of defaults, net of fees collected). The fair-value estimates differ from the FCRA estimates by recognizing that the government's assumption of financial risk has a cost that exceeds the average amount of losses that would be expected from defaults. In practice, the main difference between FCRA estimates and fair-value estimates is the discount rates used to calculate the present value of estimated future guarantee costs and receipts, as described below. The estimated FCRA and fair-value costs of the FHA and GNMA programs are shown in Table 4.

TABLE 4. COMPARISON OF COSTS UNDER H.R. 2767 USING FCRA AND FAIR-VALUE ESTIMATES

	(In Billions of Dollars)	
	Estimated Cost Using FCRA Methodology	Estimated Cost Using Fair-Value Methodology
	2014-2023	2014-2023
Estimated Cost of FHA and GNMA Activities Under Current Law	-84	60
Estimated Cost of FHA and GNMA Activities Under H.R. 2767	-125	20
Savings Under H.R. 2767 Relative to Current Law	42	40

Note: FCRA = Federal Credit Reform Act; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association.

To calculate the fair-value estimate, CBO inferred the appropriate discount rates for present-value calculations by looking at the pricing of private mortgage insurance and the guarantee fees charged by Fannie Mae and Freddie Mac. On average, the market-based discount rates used for the fair-value estimate are about 1 to 2 percentage points above the Treasury interest rates used for the FCRA estimates. Including this adjustment for market risk increases the estimated subsidy rates for the covered programs, which increases the estimated cost of those programs.

Using a FCRA approach, CBO estimates that, under current law, the FHA single-family, FHA multifamily, and GNMA programs would produce net budgetary savings of about $84 billion over the 2013-2023 period, assuming that authority to implement the programs is provided in appropriation acts each year. In contrast, using a fair-value approach, CBO estimates that those programs would cost $60 billion over the same time period—a difference of about $144 billion.

Despite the significant difference in the estimated budgetary impact of those programs under current law, CBO's fair-value estimate of the savings under H.R. 2767 is similar to our FCRA estimate. Under either approach, CBO estimates that implementing H.R. 2767 would reduce the cost of those programs by roughly $40 billion over the 2014-2023 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

TABLE 5. CBO ESTIMATE OF PAY-AS-YOU-GO EFFECTS FOR H.R. 2767 AS ORDERED REPORTED BY THE HOUSE COMMITTEE ON FINANCIAL SERVICES ON JULY 24, 2013

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	-27	0	67	103	145	-1,385	-1,079	46	-2,276	-1,321	288	-5,728
Memorandum:												
Changes in Outlays	-29	-4	57	87	118	-1,452	-1,187	-106	-2,480	-1,584	229	-6,581
Changes in Revenues	-2	-4	-10	-16	-27	-67	-108	-152	-204	-263	-59	-853

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has determined that the nontax provisions of H.R. 2767 would impose intergovernmental and private-sector mandates as defined in UMRA on mortgage servicers, their affiliates, creditors of certain mortgages, and some financial institutions. The bill also would preempt some state laws related to demonstrating ownership of a mortgage. CBO estimates that the aggregate cost of the mandates would fall below the annual thresholds for intergovernmental and private-sector mandates established in UMRA ($75 million and $150 million in 2013, respectively, adjusted annually for inflation).

Mandates that Apply to Both Public and Private Entities

Limit on Mortgages Held by Loan Servicers. The bill would prohibit the servicer of a residential mortgage (and any affiliate of the servicer) from owning or holding any other security interest on the same dwelling. For example, a lender that services a residential mortgage loan would be prohibited from also holding a home equity loan or line of credit for that mortgage loan customer. The prohibition would be a mandate as defined in UMRA and would affect both public and private entities.

To comply with the bill's requirements, an entity that holds an interest in more than one mortgage associated with a property and also services one (or both) of those mortgages would need to either sell their security interest in one of the mortgages or transfer responsibility for servicing the mortgage to a different servicer. The cost of the mandate would include the administrative costs of changing business practices and any net loss of income from not being able to own or hold any other security interest on the same dwelling.

According to industry experts, servicers of loans in the private sector could in many cases transfer servicing contracts among themselves to comply with the mandate. The result in those cases would be some additional administrative costs but little net loss of income for private-sector servicers as a whole. By contrast, public entities may not be able to transfer servicing contracts among themselves to the same extent as private entities, and thus they may contract with private entities to service loans. For those loans, the result could be additional costs to the public sector as a whole. Based on information from FHFA and industry sources, CBO expects that the costs of this mandate for public and private entities would fall below the annual thresholds established in UMRA.

Required Notice of a Junior Mortgage or Lien. The bill also would require the creditor of a junior mortgage to notify the servicer of the senior mortgage on that property of the existence of any new mortgage or lien. CBO estimates that the costs associated with the notification requirement would be small.

Mandate that Applies to Private Entities Only

The bill would impose a private-sector mandate by requiring financial institutions regulated by the OCC, the FDIC, and the NCUA to pay additional fees or other mandatory assessments to offset the operating cost of the Office of Examination Ombudsman to be established at the Federal Financial Institutions Examination Council. CBO estimates that the aggregate increase in those fees would amount to about $15 million per year.

Mandate that Applies to Public Entities Only

The bill would preempt some state laws that establish specific requirements for demonstrating ownership of a mortgage. Because the preemption of state laws would impose no duty on state and local governments that would result in additional spending or the direct loss of revenues, CBO estimates that the cost of the mandate would be small.

ESTIMATE PREPARED BY:

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