

**Federal Programs That Guarantee Mortgages—
CBO's Estimate of the President's Fiscal Year 2019 Budget**

Fannie Mae and Freddie Mac are government-sponsored enterprises that were federally chartered to help ensure a stable supply of financing for residential mortgages, including those for low- and moderate-income borrowers. The two entities carry out their mission mainly through buying and selling mortgage loans made by lenders, then issuing mortgage-backed securities that are sold to investors along with a guarantee that principal and interest on the underlying loans will be paid in full. To cover their costs, Fannie Mae and Freddie Mac charge borrowers guarantee fees that are included in the interest on their mortgages.

CBO's budgetary treatment of Fannie Mae and Freddie Mac's mortgage guarantees follows fair-value accounting methods: The subsidy cost of providing credit either corresponds to or approximates the market price of that credit. Under fair-value accounting, when the net present value of future cash flows is calculated, a premium is added to the discount rate—the interest rate paid on Treasury instruments—to account for market risk. (Net present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The number depends on the discount rate, the rate of interest used to translate past and future cash flows into current dollars.) The object is to more fully incorporate the cost to the government (and, by extension, taxpayers) of the risks inherent in federal credit transactions.

Proposal for Federal Programs That Guarantee Mortgages—CBO's Estimate of the President's Fiscal Year 2019 Budget

Millions of Dollars, by Fiscal Year

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
Increases or Decreases (-) in Direct Spending Outlays												
Changes in Subsidy Costs	-3,700	-900	100	-1,400	-1,600	0	0	0	0	0	-7,500	-7,500

Components may not sum to totals because of rounding.

The budget proposes to increase the guarantee fee charged by Fannie Mae and Freddie Mac by 10 basis points (a basis point is one one-hundredth of a percentage point) from 2019 through 2021 and by 20 basis points through 2023. The larger increase in 2022 and 2023 is intended to hold the fee level constant. Under current law, an increase of 10 basis points put in place in 2011 is scheduled to expire in 2021.

The projections account for estimated subsidy costs of new mortgage loans and guarantees made by Fannie Mae and Freddie Mac in each year, estimated on a fair-value basis. Using that approach, CBO estimates that under current law, the mortgages guaranteed by Fannie Mae and Freddie Mac will cost the federal government \$19 billion over the 2019-2028 period. The proposal would reduce the fair-value subsidy costs by \$7.5 billion over the 10-year period.