



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 26, 2010

H.R. 5017 **Rural Housing Preservation and Stabilization Act of 2010**

As ordered reported by the House Committee on Financial Services on April 22, 2010

SUMMARY

H.R. 5017 would raise the cap on the amount of the annual premium that is charged to borrowers under the single-family loan guarantee program run by the Department of Agriculture's Rural Housing Service (RHS). In addition, H.R. 5017 would authorize the RHS to guarantee up to \$30 billion in loans in 2010, provided that the authority to guarantee such loans is provided in a supplemental appropriations act in 2010.

CBO estimates that implementing H.R. 5017 would increase offsetting collections, and thus reduce discretionary spending, by \$24 million in 2010, assuming enactment of an appropriations act necessary to implement the proposed changes to RHS's loan guarantee program.

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

H.R. 5017 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. 5017 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						2010- 2015
	2010	2011	2012	2013	2014	2015	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
RHS Offsetting Collections							
Estimated Authorization Level	-7	0	0	0	0	0	-7
Estimated Outlays	-7	0	0	0	0	0	-7
Additional GNMA Offsetting Collections							
Estimated Authorization Level	-17	0	0	0	0	0	-17
Estimated Outlays	-17	0	0	0	0	0	-17
Total Changes							
Estimated Authorization Level	-24	0	0	0	0	0	-24
Estimated Outlays	-24	0	0	0	0	0	-24

Note: RHS = Rural Housing Service; GNMA = Government National Mortgage Association.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted in 2010 and that the authority to guarantee new loans for the RHS single-family program for 2010 will be provided in a supplemental appropriations law enacted this year.

Under the Federal Credit Reform Act (FCRA), funds for federal credit programs must be appropriated in advance to cover the estimated subsidy cost of 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 fiscal year 2010, RHS received an appropriation of \$173 million, which the agency expects will cover the cost of about \$12 billion in loan guarantees. According to RHS, that subsidy appropriation will be exhausted in May 2010. Enacting this legislation would change the terms of the loan guarantee program such that it would no longer have an estimated cost to the government under FCRA accounting, but would result in a small savings (by increasing offsetting collections).

RHS Offsetting Collections

Under this legislation, the cap on annual premiums for the RHS single-family program would increase from 2 percent to 4 percent of the loan amount. According to RHS, the agency expects that it would charge borrowers an up-front premium equal to 3.44 percent

of their loan amounts under this new authority. Based on information from RHS, CBO estimates that increasing the up-front premium to this level would lower the estimated subsidy rate for the program from 1.44 percent to -0.06 percent.

CBO estimates, based on information from RHS, that about \$12 billion in additional loan guarantees would be made during the remainder of 2010 assuming that authority is provided in a supplemental appropriations bill within the next few months. Therefore, CBO estimates that implementing the bill would result in offsetting collections of \$7 million in 2010.

Additional GNMA Offsetting Collections

GNMA is responsible for guaranteeing securities backed by pools of mortgages that are insured by federal housing agencies such as RHS. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments 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 the GNMA mortgage-backed securities (MBS) program will have a subsidy rate of -0.24 percent in 2010, resulting in net receipt collections to the federal government.

CBO estimates that about 60 percent of the new loan guarantees made by RHS under this legislation would be included in GNMA's MBS program. Thus, CBO estimates that under the bill, the GNMA mortgage backed securities program would realize an increase of about \$17 million in offsetting collections in 2010.

PAY-AS-YOU-GO CONSIDERATIONS: None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5017 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Susanne S. Mehlman

Impact on State, Local, and Tribal Governments: Elizabeth Cove Delisle

Impact on the Private Sector: Sarah Axeen

ESTIMATE APPROVED BY:

Theresa Gullo

Deputy Assistant Director for Budget Analysis