CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 27, 2003

H.R. 659
Hospital Mortgage Insurance Act of 2003

As ordered reported by the House Committee on Financial Services on February 13, 2003

CBO estimates that implementing H.R. 659 would increase offsetting collections (a credit against discretionary spending) by $2 million to $3 million a year. Enacting the bill would not affect direct spending or revenues.

H.R. 659 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Under the National Housing Act, the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD) offers to insure private loans used to finance the modernization and rehabilitation of certain hospital facilities. To qualify for such insurance, hospitals must obtain a certificate of need (CON) issued from a designated state agency. The CON determines whether or not the hospital applying for the loan meets certain eligibility requirements necessary for receipt of the FHA loan guarantee. If a state has no CON process in place, the state must commission or conduct an independent feasibility study in lieu of the CON. According to FHA, 24 states currently do not have a CON process in place and, many of these states do not have the fiscal and managerial means to support a feasibility study on their own.

H.R. 659 would give HUD the authority to establish a process for determining the need and feasibility for a hospital's proposed project, thus eliminating the requirement for states to provide a feasibility study where no CON procedure exists. To the extent that additional hospitals would obtain loan insurance under this bill, CBO estimates that FHA could earn additional offsetting collections (which are recorded as a reduction in discretionary spending). Under current law, FHA guarantees of hospital mortgages result in net offsetting collections to the federal government because the credit subsidy is estimated to be negative. That is, guarantee fees for new mortgages more than offset the costs of expected defaults, resulting in net collections from the loan guarantee program.

CBO expects that H.R. 659's change to the application process would create some increase in demand for the hospital insurance program, especially in the 24 states without a CON process. According to FHA, this program currently insures 64 mortgages with a combined outstanding principal balance of about $4 billion. Only four mortgages out of those 64 are located in non-CON states. Based on information from industry sources, CBO expects that the need for capital improvements in hospitals will continue to grow as hospitals are increasingly under pressure to acquire state-of-the-art equipment and expand services. In addition, since 2000 this program has generated about $2 million in offsetting collections per year. CBO estimates that enacting this legislation would result in $2 million to $3 million of additional collections each year. Such offsetting collections are contingent on enactment of appropriation bills, which establish the authority to make such loan guarantees by specifying commitment levels. Thus, enactment of H.R. 659 would not affect direct spending or revenues.

The CBO staff contact for this estimate is Susanne S. Mehlman. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.