CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 23, 2007

H.R. 1427
Federal Housing Finance Reform Act of 2007

As ordered reported by the House Committee on Financial Services on March 29, 2007

SUMMARY

H.R. 1427 would establish a single regulator—the Federal Housing Finance Agency (FHFA)—for government-sponsored enterprises (GSEs) involved in the home mortgage market. GSEs are privately owned, Congressionally chartered financial institutions created to enhance the availability of credit in the economy. The GSEs that would be regulated by FHFA under the bill include the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks (FHLBs). These GSEs were created to increase the availability of credit for home mortgages.

FHFA would be an independent agency within the federal government with the authority to oversee the safety, soundness, and mission of the housing GSEs. Under H.R. 1427, FHFA would be authorized to collect fees from the GSEs and to spend such fees to pay for its operating costs. Because the GSEs would be compelled by the government to pay those fees, the amounts collected and spent would be recorded on the federal budget as governmental revenues and outlays, respectively. CBO expects that FHFA would become operational midway through fiscal year 2008, that its operations would cost about $50 million in 2008, and that fees collected by the agency would cover that spending.

The legislation also would require Fannie Mae and Freddie Mac to contribute amounts equal to 1.2 basis points on their average total mortgage portfolios (that is, 1.2 cents per $100 of the value of their mortgage portfolios) from the previous year to a new affordable housing fund created by the bill. Those contributions would occur over calendar years 2007 through 2011 and would be used for three purposes. First, each year, 25 percent of the funds deposited in the affordable housing fund would be used to pay some of the interest on the Resolution Funding Corporation (REFCORP) bonds that would otherwise be paid by the U.S. Treasury. Second, in the first year of the fund's operation, the remaining 75 percent of the funds would be used to fund the reconstruction of housing in areas of Louisiana and Mississippi affected by Hurricanes Katrina and Rita. In subsequent years, that remaining

75 percent would be used to provide grants to states and Indian tribes to support home ownership and rental housing among low-income households and investment in public infrastructure associated with housing activities.

As a result of the fees that would be collected and spent by FHFA and the transactions of the affordable housing fund, CBO estimates that enacting this legislation would increase revenues and direct spending by $2.7 billion over the 2008-2012 period and by $3.3 billion over the 2008-2017 period.

Finally, CBO estimates that implementing H.R. 1427 would result in net savings of about $22 million in discretionary spending over the next five years, assuming that appropriations are reduced to reflect the changes in regulatory structure that would be established in the legislation. Those savings would result from a reduction in the regulatory responsibilities of the Department of Housing and Urban Development (HUD).

H.R. 1427 contains several intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the aggregate costs to state, local, and tribal governments would be minimal and would not exceed the threshold established in that act ($66 million in 2007, adjusted annually for inflation). The bill also would authorize formula grants to support affordable housing programs, which would benefit state, local, and tribal governments.

H.R. 1427 would impose several private-sector mandates, as defined in UMRA, on Fannie Mae, Freddie Mac, and the FHLBs. CBO estimates that the aggregate direct cost of those mandates would exceed the annual threshold established by UMRA ($131 million in 2007, adjusted annually for inflation) in fiscal years 2008 through 2011.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The bill's estimated budgetary impact over the next five years is summarized in Table 1. The costs of this legislation fall within budget function 370 (commerce and housing credit).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 1427

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN REVENUES					
Estimated Revenues	850	540	590	630	110
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	850	540	590	630	110
Estimated Outlays	570	520	560	610	460
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Estimated Authorization Level	-1	−3	−6	−6	-6
Estimated Outlays	−1	−3	−6	−6	-6

BASIS OF ESTIMATE

The budgetary impact of the bill would stem mostly from the establishment of a new regulator for the GSEs and from the creation of the affordable housing fund. For this estimate, CBO assumes that H.R. 1427 will be enacted by the end of fiscal year 2007, that the affordable housing fund will become effective upon enactment, that the FHFA will become operational midway into fiscal year 2008, and that appropriation actions consistent with this bill will occur.

Background on GSE Regulation

Currently, HUD is responsible for setting affordable housing goals for Fannie Mae and Freddie Mac and ensuring that these two GSEs meet such goals. HUD's oversight activities are funded from the agency's annual appropriation. In 2006, HUD spent about $6 million to perform those oversight responsibilities. In addition, the Office of Federal Housing Enterprise Oversight (OFHEO), an independent agency within HUD, currently oversees the financial safety and soundness of these two GSEs. OFHEO is funded through annual assessments collected from Fannie Mae and Freddie Mac; the collection and spending of those assessments are subject to appropriation actions. In 2007, OFHEO was authorized to collect and spend about $60 million to perform its duties.

The FHLB system, which consists of 12 regionally based banks, is currently regulated by the Federal Housing Finance Board (FHFB). FHFB is an independent agency that oversees the financial safety and soundness of the FHLBs as well as their mission compliance; it is funded through annual assessments collected on the earnings of the FHLBs. The collection and spending of those annual assessment are not subject to appropriation actions. In 2007, FHFB anticipates that assessments and spending will total about $34 million.

Under this legislation, beginning midway through 2008, FHFA would assume all of the responsibilities associated with oversight of Fannie Mae's and Freddie Mac's housing mission, which are currently under HUD's jurisdiction. Additionally, enacting H.R. 1427 would abolish OFHEO and FHFB six months following its enactment, and their functions and current staff would be transferred to FHFA. The legislation also would establish an Inspector General within FHFA.

Revenues and Direct Spending

CBO estimates that the collection and spending of fees by FHFA would increase revenues and direct spending by about $1.1 billion over the next 10 years.

We also estimate that enacting the affordable housing fund provisions of H.R. 1427 would increase revenues and direct spending by about $2.2 billion over the same period. CBO assumes that Fannie Mae and Freddie Mac would begin making deposits to the new, affordable housing funds in calendar year 2007, and that payments to REFCORP and spending for grants and other types of financial assistance from the funds also would begin in calendar year 2007. The estimated impact of the bill on direct spending and revenues over fiscal years 2008 through 2017 is shown in Table 2.

FHFA Fees and Spending. While many of the regulatory activities currently performed by HUD, OFHEO, and FHFB would continue under H.R. 1427, enacting this legislation also would establish some new authorities, such as the authority to liquidate a troubled or insolvent GSE and the authority to limit the portfolio holdings of Fannie Mae and Freddie Mac (that is, the amount of mortgages that are held instead of repackaged and then sold as mortgage-backed securities) to ensure financial soundness and consistency with the mission of these two GSEs. In addition, Fannie Mae and Freddie Mac would not be able to undertake any new program without prior approval from the Director of FHFA. Also, section 106 of this legislation would authorize the Director of FHFA to assess fees on the housing-related GSEs each year to obtain funding for reasonable costs and expenses associated with FHFA's responsibilities. Those fees paid by the GSEs would be classified as federal revenues because they would be imposed through the exercise of the government's sovereign power.

TABLE 2. ESTIMATED IMPACT OF H.R. 1427 ON DIRECT SPENDING AND REVENUES

	By Fiscal Year, in Millions of Dollars									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
FHFA Fees										
Estimated Budget Authority	50	100	110	110	110	110	120	120	120	120
Estimated Outlays	50	100	110	110	110	110	120	120	120	120
Estimated Revenues	50	100	110	110	110	110	120	120	120	120
Affordable Housing Funds										
Estimated Budget Authority	1,070	590	640	690	0	0	0	0	0	0
Estimated Outlays										
Fund Payments of REFCORP Interest	270	150	160	170	0	0	0	0	0	0
All Other Payments	520	420	450	500	350	0	0	0	0	0
Total Outlays	790	570	610	670	350	0	0	0	0	0
Estimated Revenues	800	440	480	520	0	0	0	0	0	0
Reduction in Treasury Payments of REFCORP Interest										
Estimated Budget Authority	-270	-150	-160	-170	0	0	0	0	0	0
Estimated Outlays	-270	-150	-160	-170	0	0	0	0	0	0
Total Impact of H.R. 1427 on Direct Spending and Revenues										
Estimated Budget Authority	850	540	590	630	110	110	120	120	120	120
Estimated Outlays	570	520	560	610	460	110	120	120	120	120
Estimated Revenues	850	540	590	630	110	110	120	120	120	120

NOTE: Positive (negative) changes in revenues correspond to decreases (increases) in budget deficits. Positive (negative) changes in direct spending correspond to increases (decreases) in budget deficits.

Revenue Effects of the Fees Assessed by FHFA. CBO estimates that FHFA would require annual funding of about $50 million in 2008, approximately half the amount that will be spent under current law to oversee the GSEs in 2007. In susbsequent years, we estimate that the new agency would spend $100 million to $120 million a year. Under the bill, the first assessment by FHFA would occur midway into 2008, and CBO estimates that resulting collections would total about $1.1 billion over the 2008-2017 period. We expect that the fees assessed by FHFA would be roughly the same amount currently paid to OFHEO and FHFB. CBO estimates that any increase in costs stemming from the new responsibilities of FHFA would be offset by savings from merging the technical and administrative functions of OFHEO and FHFB.

CBO expects that the new collections under the bill would be treated as revenues in the budget. Because the new fees paid by the GSEs to FHFA would be approximately equal to the amounts they would pay to OFHEO and FHFB under current law, taxable incomes of Fannie Mae and Freddie Mac or of other entities in the economy would not change significantly under the bill.

Spending Effects of the Fees Assessed by FHFA. CBO expects that such spending would begin in fiscal year 2008 after FHFA is established. We estimate that, in most years, FHFA would spend the total amount of fees it collects from the GSEs. Thus, enacting this provision would increase federal outlays by about $480 million over the 2008-2012 period and by about $1.1 billion over the 2008-2017 period.

Affordable Housing Fund. Section 139 of H.R. 1427 would establish an affordable housing fund managed by the Director of FHFA. To support that fund, both Fannie Mae and Freddie Mac would be required to contribute amounts equal to 1.2 basis points on the previous year's average mortgage portfolio, (including mortgages held and those securitized), provided that the GSE is adequately capitalized and such contributions would not contribute to the GSE's financial instability. Under the legislation, these contributions by the GSEs would occur over calendar years 2007 through 2011 and would be used to pay some of the interest on REFCORP bonds, provide assistance to areas impacted by Hurricanes Katrina and Rita, and provide grants to states to support home ownership and public infrastructure. No later than June 30, 2011, the Director of FHFA would be required to report to the House Committee on Financial Services and the Senate Committee on Banking, Housing, and Urban Affairs on whether the affordable housing fund should be extended or modified after the end of calendar year 2011.

REFCORP Bonds. The Resolution Trust Corporation (RTC) was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) in the aftermath of the savings and loan crisis of the late 1980s as a means of liquidating insolvent institutions. FIRREA also established REFCORP to finance the operations of the RTC by issuing bonds. REFCORP issued about $30 billion in noncallable long-term bonds that mature between October 2019 and April 2030. The annual interest payable on those bonds through 2019 is $2.6 billion. (Interest payments will decrease from 2020 through 2030 as the bonds mature.)

The bulk of the interest on these bonds is paid by the U.S. Treasury. Under FIRREA, and later under the Gramm-Leach-Biley Act of 2000, the FHLBs are required to pay some of the interest due on these bonds. To the extent that those payments from the FHLBs are not sufficient to pay the interest due on the bonds, the U.S. Treasury is required to pay the remaining amounts due. (In 2006, for example, the Treasury paid about $2 billion of the interest due.) H.R. 1427 would direct that 25 percent of the amounts deposited in the affordable housing fund each year to be used to pay some of the interest on REFCORP Bonds.

Thus, CBO estimates that the amount of interest paid by the Treasury would decrease over the 2008-2012 period by about $750 million.

Grants and other Financial Assistance. In fiscal year 2008, the remaining 75 percent of the deposits to the affordable housing fund would be provided to the Louisiana Housing Finance Agency and the Mississippi Development Authority to support reconstruction of affordable housing in areas affected by Hurricanes Katrina and Rita.

In subsequent years, 75 percent of the deposits to the affordable housing fund would be used to provide grants to states and Indian tribes to support efforts to increase and improve home ownership and rental housing for extremely low- and very low-income families, and investment in public infrastructure associated with housing activities. The funds would be distributed based on a formula developed by HUD. Also under the bill, the fund's resources could not be used to fund activities, such as lobbying or counseling services, or pay for a grantee's administrative expenses.

Budgetary Treatment of the Affordable Housing Fund. The required contributions to the affordable housing fund would be considered revenues because the bill compels their expenditure for governmental purposes. The deposit of specific amounts into the new fund would be compulsory, not voluntary. Likewise, expenditures from the fund would be a form of federal spending because the affordable housing funds could be obligated only for purposes specified in the bill. (FHFA would enforce the requirement for deposits into the affordable housing fund and would oversee spending of those funds to ensure compliance with federal purposes.)

Revenue Impact of Establishing the Affordable Housing Fund. The estimated revenue effect of establishing the fund consists of two broad components. First, the levy on the average total mortgage portfolio (that is, payments equal to 1.2 basis points on the value of the average mortgage portfolio) would be accounted for as a revenue when credited to the affordable housing fund. The combined mortgage portfolio for these GSEs has averaged $3.8 trillion over the last five years. CBO estimates that future portfolios of these entities will grow by CBO's forecast of mortgage debt outstanding (that is, mortgage debt on one to four family residences), which is estimated to be about 5 percent to 7 percent annually. We also estimate that because section 133 of this legislation would permit the GSEs to securitize and sell certain high-dollar loans in high-cost areas, a small expansion in the GSEs' volume of mortgage-backed securities would result.

CBO assumes that H.R. 1427 will be enacted by the end of fiscal year 2007, which would result in two assessments occurring in fiscal year 2008 and one assessment in each of the subsequent three fiscal years. The first assessment for the affordable housing fund would be based on the 2006 value of mortgage portfolios and would occur in calendar year 2007, but paid in fiscal year 2008. CBO estimates that in 2006 the value of the mortgage portfolios for both GSEs totaled about $4.3 trillion, and we estimate that the assessment for 2008 would total $520 million. In addition, an assessment on the 2007 value of mortgage portfolios would be collected in fiscal year 2008 of about $550 million in fiscal year 2008. CBO estimates that over the 2008-2011 period, assessments would total about $3.0 billion. (Under H.R. 1427, collections would stop in 2011; continuation of the fund would require additional legislative action.)

Second, spending of amounts from the affordable housing fund for both payments to the REFCORP and financial assistance to affordable housing programs would generate deductions against taxable corporate profits for the two GSEs. If the GSEs' taxable profits were reduced as a result of the affordable housing program, they would pay lower corporate income taxes. If the GSEs passed through some of the assessments to customers in the form of higher fees, other taxable incomes in the economy would presumably be lower. Therefore, CBO estimates that the payments to the affordable housing fund would reduce total taxable incomes in the economy and thus diminish federal tax receipts by about $750 million over the 2008-2012 period (25 percent of the amount of the payments from the funds). However, payments from the affordable housing fund to REFCORP would result in savings to the Treasury that are equal to the revenue loss caused by lower taxable incomes.

Spending from the Affordable Housing Fund. Expenditures from the fund would constitute direct spending by the federal government and would likely begin in fiscal year 2008. We estimate that enacting this provision would increase federal outlays by $3 billion over the 2008-2012 period, with no spending after 2012 under this legislation.

The bill would require that affordable housing fund grant amounts be committed for use within two years of the date the amounts are made available to the grantee. Unused amounts would be returned to the fund. While CBO estimates a lag between the recording of federal revenues and the spending of amounts in fund, we estimate that enacting the affordable housing provision would be deficit-neutral both over the 2008-2012, with no revenues or spending after 2012.

Other Effects on Spending

Enacting H.R. 1427 also could have an additional minor impact on revenues and direct spending because this bill would provide for civil and criminal penalties against GSEs or a party affiliated with them for various violations of law. While enacting the legislation would expand the number of possible violations, CBO expects that the amount of fines assessed would not significantly increase under the bill. In fact, prior to the $125 million fine paid by Freddie Mac in 2003, a $125,000 fine paid by one of its former employees, and a $400 million fine paid by Fannie Mae in 2007, no fines had been collected from any of the housing-related GSEs.

Section 117 would direct GSEs to register their capital stock with the Securities and Exchange Commission (SEC) under the Securities Act of 1934. Registering under this act involves standardized disclosure of certain financial information but would not involve any payment of fees associated with other securities laws.

Under current law, GSEs are exempt from registering their capital stock with the SEC. However, Fannie Mae has registered its stock voluntarily, though its filings have been suspended pending restated financial statements. Freddie Mac intends to register, but like Fannie Mae, cannot do so until its financial statements are corrected. The FHLBs are registered with the SEC. Based on information provided by the SEC, CBO estimates that implementing section 117 of H.R. 1427 would impose no significant costs on the SEC.

In addition, enacting this legislation would abolish the FHFB. Thus, the receipts collected and spent by this regulatory body would no longer appear in the budget beginning midway through fiscal year 2008. Because collections and spending by FHFB are about equal, eliminating FHFB would have no net budgetary effect.

Spending Subject to Appropriation

Implementing H.R. 1427 could result in net savings of about $22 million in discretionary spending over the next five years, assuming appropriation actions consistent with the legislation.

Changes in HUD's Regulatory Responsibilities. CBO estimates that implementing the bill would reduce HUD spending by about $2 million beginning midway through 2008 and $6 million in each subsequent year because FHFA would take over HUD's current GSE-oversight responsibilities, though HUD would be responsible for developing regulations associated with allocating funds from the affordable housing fund.

GAO Studies and Audits. H.R. 1427 would require GAO to conduct several studies and audits over the next five years, including a study to examine the practices used by the GSEs to set guarantee fees, a study of the effects of the affordable housing fund on the cost of housing for borrowers, and an audit of the methodology used by FHFA to calculate changes in housing prices. Based on information from GAO, CBO estimates that it would cost GAO about $4 million over the next five years to carry out its responsibilities under this legislation. The bill also would require GAO to conduct annual audits of the financial transactions associated with the new regulator. However, the costs associated with the annual audits could be funded through the assessments collected by FHFA.

Elimination of OFHEO. Under H.R. 1427, OFHEO would be abolished six months after enactment. Because its collections are about equal to its spending, the elimination of OFHEO would have no net budgetary effect.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Several provisions of H.R. 1427 would preempt state laws and thus constitute intergovernmental mandates as defined in UMRA. Those provisions would allow FHFA to act outside the authority of state law in some circumstances and would preempt state statute-of-limitations and contract laws. These preemptions would primarily occur in the unlikely instance that FHFA serves as the receiver or conservator of a regulated entity. CBO estimates that the aggregate costs to states of complying with these mandates would be minimal and would not exceed the threshold established in UMRA ($66 million, in 2007, adjusted annually for inflation). The bill also would authorize formula grants to support affordable housing programs, which would benefit state, local, and tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1427 would impose several private-sector mandates, as defined in UMRA, on Fannie Mae, Freddie Mac, and the FHLBs. The bill would require Fannie Mae and Freddie Mac to contribute to a new affordable housing fund. In addition, the bill would require the housing-related GSEs to comply with new requirements to be administered by the FHFA and to register their capital stock with the SEC. CBO estimates that the aggregate direct cost of those mandates would exceed the annual threshold established by UMRA ($131 million in 2007, adjusted annually for inflation) in fiscal years 2008 through 2011.

Affordable Housing Fund

The most costly mandate would require Fannie Mae and Freddie Mac to make contributions to the affordable housing fund to be established by this bill. In each calendar year through 2011, those GSE's would be required to allocate amounts equal to 1.2 basis points for each dollar of their average total mortgage portfolios from the previous year. CBO estimates that the direct cost of those mandatory contributions would total approximately $3 billion over the 2008-2011 period.

Regulatory Functions

The bill would establish a new federal regulator for the GSEs involved in the home mortgage market—Fannie Mae, Freddie Mac, and the FHLBs. In general, the GSEs would have to comply with regulations administered by their new regulator—the Federal Housing Finance Agency. Under current law, those GSEs pay assessments to their regulators. Under the bill, they would pay assessments for the operation of the FHFA. The duty to pay those fees would be a private-sector mandate, but CBO expects that the new fees would not differ significantly from the amounts the GSEs would otherwise pay to their current regulators.

The bill would authorize the FHFA to establish a conservatorship or receivership over a critically undercapitalized GSE, to increase the amount of capital GSEs must hold, and to limit the portfolio holdings of the GSEs to ensure financial soundness. Such new authority would impose private-sector mandates on the GSEs when it is utilized. The cost to the GSEs would depend on how the regulations governing such authority are implemented. Because that information is not available, CBO cannot determine the cost of those mandates.

The bill also would impose new reporting requirements on the GSEs. The bill would require Fannie Mae and Freddie Mac to submit an annual report to the FHFA on certain charitable contributions and to include in their annual report to the Securities and Exchange Commission their income reported to the Internal Revenue Service. According to industry representatives, the cost to comply with those mandates would be minimal.

In addition, Fannie Mae, Freddie Mac, and the FHLBs would each be required to establish an Office of Minority and Women for developing and implementing standards and procedures to ensure the inclusion of minorities and women in their business activities. The GSEs also would have to conduct, or provide for the conducting of, an annual study to determine the levels of affordable housing inventory and the changes in those levels. According to industry representatives, the cost to comply with those mandates would be small relative to the annual threshold.

Registration of Capital Stock

The bill also would require the GSEs to register their capital stock with the SEC under the Securities Act of 1934. Registering under this act involves a standardized disclosure of certain financial information. Under current law, GSEs are exempt from registering their capital stock with the SEC. According to the SEC, Fannie Mae has registered its stock voluntarily, though its filings have been suspended pending restated financial statements and Freddie Mac intends to register, when its financial statements are corrected. The FHLBs are registered with the SEC. Therefore, the direct cost to the GSEs to comply with this mandate would be minimal.

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