CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 9, 2010

S. 118
Section 202 Supportive Housing for the Elderly Act of 2010

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 30, 2010

SUMMARY

S. 118 would amend the American Homeownership and Economic Opportunity Act of 2000 to increase the number of properties that are eligible to prepay loans issued under Section 202 of the Housing Act of 1959. The bill also would expand the eligible uses for savings generated by refinancing Section 202 Loans.

CBO estimates that enacting S. 118 would increase direct spending by $5 million in 2011 because the bill would effectively modify the terms of existing federal loans—reducing the present value of expected cash flows for such loans. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues.

Additionally, CBO estimates that implementing S. 118 would have discretionary costs of $4 million over the 2011-2015 period and $9 million over the 2011-2020 period, assuming appropriation of the necessary amounts.

S. 118 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

S. 118 would impose a private-sector mandate as defined in UMRA because it would require current owners of supportive housing for the elderly to comply with additional reporting requirements. CBO estimates that the aggregate cost of complying with that mandate would not exceed the threshold established by UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 118 is shown in the following table. The costs of this legislation fall within budget functions 600 (income security) and 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
CHANGES IN DIRECT SPENDING												
Use of Unexpended Amounts												
Estimated Budget Authority	5	0	0	0	0	0	0	0	0	0	5	5
Estimated Outlays	5	0	0	0	0	0	0	0	0	0	5	5
Approval of Prepayment of Debt												
Estimated Budget Authority	*	0	0	0	0	0	0	0	0	0	*	*
Estimated Outlays	*	0	0	0	0	0	0	0	0	0	*	*
Total Changes in Direct Spending												
Estimated Budget Authority	5	0	0	0	0	0	0	0	0	0	5	5
Estimated Outlays	5	0	0	0	0	0	0	0	0	0	5	5
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Senior Housing Clearinghouse												
Estimated Authorization Level	1	1	1	1	1	1	1	1	1	1	5	10
Estimated Outlays	*	1	1	1	1	1	1	1	1	1	4	9

Note: * = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 118 will be enacted before the beginning of calendar year 2011, and that the amounts estimated to be necessary will be appropriated for each year. Components of the estimated costs are described below.

Background

The Section 202 Housing for the Elderly program was established as part of the Housing Act of 1959. The program currently makes capital grants and rental assistance available to nonprofit entities to develop housing that is affordable to low-income elderly households. Prior to 1990, the Department of Housing and Urban Development (HUD) made direct loans to nonprofit developers, rather than capital grants, with an average term of 40 years for those loans. HUD holds about 3,000 Section 202 loans with a total unpaid balance of over $3 billion. The interest rates for those loans range from 3 percent to 9 percent, with an average maturity date of 2025. Property owners who agree to operate their project until the maturity date of the original loan (under terms that are at least as advantageous to tenants as under the original loan agreement) may prepay their loans if such refinancing results in a lower interest rate and a reduction in debt service.

Direct Spending

Because several provisions of the legislation would change the expected cash flows associated with existing federal loans made under the Section 202 program, those changes constitute a modification of the existing loans. Under credit reform procedures, the costs of loan modifications are estimated on a present-value basis and recorded as changes in direct spending in the year in which the legislation is enacted.

Use of Unexpended Amounts. S. 118 would expand the eligible uses for proceeds generated by refinancing Section 202 loans. Those new uses would include reducing the number of rental units and making payments to the project owner. This section also would allow HUD to waive the restriction on the amount of savings that owners can use to provide supportive services to the elderly.

CBO estimates that those provisions would increase the prepayment rate and increase the likelihood that HUD would approve the transactions. Based on data provided by HUD, CBO estimates that several additional properties would have their loans prepaid each year (with an average current interest rate of about 9 percent). CBO estimates such prepayments would cost $5 million in 2011 on a present-value basis.

Approval of Prepayment of Debt. The bill would allow owners of properties financed with a Section 202 loan to refinance if the new financing were used to improve the project, even if refinancing would not result in a lower interest rate. Loans made to such properties prior to 1974 have interest rates of approximately 3 percent, and borrowers may not prepay their debt under current law. Based on data provided by HUD, CBO estimates that HUD currently holds about 250 loans of this type with a total unpaid balance of about $135 million. This refinancing provision would increase direct spending slightly.

The bill would allow HUD to approve the subordination of existing debt in lieu of prepayment. (Subordinated debt is placed in a lower priority for debt collections.) When refinancing to address a property's physical needs, CBO expects that the owners of Section 202 properties would be more likely to subordinate those low-interest loans than to prepay them because the interest rates on those old loans are lower than current market rates. Issuing new primary debt on top of the existing 3 percent loans would increase the risk of default for those loans. Based on data provided by HUD, CBO estimates that Section 202 loans have an annual default rate of 0.25 percent. CBO expects that the majority of those loans would be refinanced by 2014 and that the default rate for the loans would increase but remain below 1 percent per year. CBO estimates that the increased risk of default would increase the cost of the loans by less than $500,000 in 2011 on a net-present-value basis.

Spending Subject to Appropriation

Section 401 would authorize the appropriation of such sums as are necessary for HUD to establish a publicly available repository of information regarding the availability and quality of multifamily developments for elderly tenants. Based on amounts provided for similar data clearinghouse programs, and assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $9 million over the 2011-2020 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 that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for S. 118 as ordered reported by the Senate Committee on Banking, Housing, and Urban Development on September 30, 2010

	By Fiscal Year, in Millions of Dollars											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011-2015	2011-2020
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	5	0	0	0	0	0	0	0	0	0	5	5

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 118 contains no intergovernmental mandates as defined in UMRA. State, local, and tribal governments participating in federal programs that provide housing assistance to the elderly would be required to submit information to HUD for a national clearinghouse. Any costs those governments incur would result from complying with conditions of federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 118 would impose a private-sector mandate, as defined in UMRA, on current owners of properties, projects, or facilities who receive funding under the supportive housing for the elderly program. Those owners would be required to periodically respond to requests from the Secretary to provide information about those properties, projects, or facilities. The direct costs of complying with this mandate are likely to be small. Therefore, CBO estimates that the cost of complying with this mandate would not exceed the threshold established by UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On October 8, 2010, CBO transmitted a cost estimate for H.R. 4868, the Housing Preservation and Tenant Protection Act of 2010, as ordered reported by the House Committee on Financial Services on July 27, 2010. S. 118 is similar to title VII of H.R. 4868, and the estimated costs are identical.

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