CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 18, 2009

S. 896
Helping Families Save Their Homes Act of 2009

As cleared by the Congress and signed by the President on May 20, 2009

SUMMARY

S. 896 (enacted as Public Law 111-22) makes several changes to the insurance funds administered by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA). First, the law temporarily increases (until December 31, 2013) the amount of individual deposits insured by the FDIC and NCUA from $100,000 to $250,000. It also allows those agencies to replenish their insurance funds over a longer period of time and increases the amounts each agency can borrow from the Department of the Treasury.

S. 896 also modifies the Hope for Homeowners loan guarantee program authorized by the Housing and Economic Recovery Act of 2008 and reduces the Secretary of the Treasury's authority to purchase troubled assets under the Emergency Economic Stabilization Act of 2008.

CBO estimates that S. 896 will increase direct spending by $11.3 billion over the 2009-2014 period and reduce direct spending by $3.1 billion over the 2009-2019 period. CBO estimates that the act will not affect revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of S. 896 is shown in the following table. The costs of this act fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2014	2009-2019
CHANGES IN DIRECT SPENDING													
Changes to FDIC Deposit Insurance													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	3,800	7,290	2,850	2,660	2,230	-8,700	-3,700	-3,620	-2,720	-2,060	-660	10,130	-2,630
Changes to NCUA Deposit Insurance													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	3,760	-980	-750	-750	-80	-790	-750	-50	-50	-40	1,200	-480
Changes to Hope for Homeowners													
Estimated Budget Authority	98	318	206	0	0	0	0	0	0	0	0	622	622
Estimated Outlays	88	296	217	21	0	0	0	0	0	0	0	622	622
TARP Inspector General													
Estimated Budget Authority	8	0	0	0	0	0	0	0	0	0	0	8	8
Estimated Outlays	8	0	0	0	0	0	0	0	0	0	0	8	8
Reduction in TARP Authority													
Estimated Budget Authority	-630	0	0	0	0	0	0	0	0	0	0	-630	-630
Estimated Outlays	-630	0	0	0	0	0	0	0	0	0	0	-630	-630
Total Changes													
Estimated Budget Authority	-524	318	206	0	0	0	0	0	0	0	0	0	0
Estimate Outlays	3,266	11,346	2,087	1,931	1,480	-8,780	-4,490	-4,370	-2,770	-2,110	-700	11,330	-3,110

Note: FDIC = Federal Deposit Insurance Corporation; NCUA = National Credit Union Administration; TARP = Troubled Asset Relief Program.

BASIS OF ESTIMATE

CBO estimates that S. 896 will increase direct spending by $11.3 billion over the 2009-2014 period, but will reduce direct spending by $3.1 billion over the 2009-2019 period as a result of changes related to federal deposit insurance programs, the Hope for Homeowners program, and the Troubled Asset Relief Program (TARP).

Changes to FDIC Deposit Insurance

CBO estimates that implementing this act will increase FDIC outlays by about $10.1 billion over the 2009-2014 period but result in net savings of about $2.6 billion over the 2009-2019 period. Most of those effects stem from raising the limit on insured deposits, which increases the government's liabilities for failed institutions. CBO estimates that the FDIC will pay an additional $9.1 billion over the 2009-2014 period as a result of the higher coverage limit and will subsequently raise premiums by about

$11.3 billion to restore the Deposit Insurance Fund to the level required by law, resulting in a net reduction of about $2.2 billion over the 2009-2019 period.

In addition, the act permanently increases the FDIC's authority to borrow from $30 billion to $100 billion and provides a temporary increase of up to $500 billion under certain conditions. Raising the FDIC's borrowing authority will give the agency more flexibility in setting the insurance premiums it charges depository institutions, managing the resolution of failed institutions, and providing alternative forms of assistance to financial institutions (for example, guaranteeing debt issued by banks). CBO estimates that such changes will increase net outlays by about $1 billion over the 2009-2014 period but will result in net savings of $440 million over the 2009-2019 period. We assume that the FDIC will reduce certain special assessments on the financial industry that otherwise would take effect within the next 12 months, resolve certain cases more quickly, and reduce its reliance on loss-sharing methods to resolve failed institution in some situations.

Changes to NCUA Deposit Insurance

Section 204 makes the following changes to the NCUA's Share Insurance Fund (SIF):

- Creates the Temporary Corporate Credit Union Stabilization Fund to pay certain corporate credit union losses that otherwise would be paid from the SIF;
- Increases the borrowing authority from $100 million to $6 billion and allows for additional borrowing of up to $30 billion under certain circumstances;
- Temporarily increases the amount of deposits insured by the NCUA from $100,000 to $250,000 through December 31, 2013 (the Emergency Economic Stabilization Act of 2008 raised the limit to $250,000 through December 31, 2009); and
- Lengthens the amount of time available to restore the fund balances of the SIF from 1 percent to at least 1.2 percent of insured deposits.

NCUA's annual cash flows will change primarily from the creation of the new stabilization fund. Under the act, the new fund will borrow from the U.S. Treasury to pay, over the next three years, about $6 billion in anticipated losses associated with an NCUA program that guarantees all deposits held at corporate credit unions. The repayment of the loans through special assessments of credit unions will occur over seven years. Prior to enactment of S. 896, those losses would have been paid by the SIF and the credit unions would have been assessed premiums to restore the SIF's balance to at least 1.2 percent of insured deposits within one year.

CBO estimates that lengthening the time to collect assessments through the stabilization fund, plus other modifications under S. 896, will increase NCUA's net outlays by about $1.2 billion over the 2009-2014 period but will decrease outlays by $480 million over the 2009-2019 period. Prior to enactment of S. 896, NCUA used its borrowing authority through the Central Liquidity Facility (CLF) to address certain liquidity needs. Based on information provided by NCUA, the agency will likely substitute borrowing from the CLF with borrowing under the law's new authority. Therefore, CBO estimates that the increased borrowing authority will have no net effect on direct spending.

Hope for Homeowners

Section 202 amends the Hope for Homeowners loan guarantee program authorized by the Housing and Economic Recovery Act of 2008. Those changes, which are aimed at increasing the number of loans refinanced through the program, include reducing the up-front and annual insurance premiums and authorizing payments to mortgage servicers and originators.

The Federal Credit Reform Act requires the federal budget to record the up-front cost of subsidizing loan guarantees on a net-present-value basis. CBO estimates that section 202 of S. 896, which directly appropriates the subsidy cost of loan guarantees, will increase direct spending by $622 million over the 2009-2019 period. To determine this subsidy cost, CBO estimated the volume of loans that will be refinanced under this voluntary program and the likelihood that borrowers will default on their refinanced mortgages. Based on participation in the current Hope for Homeowners program, the FHASecure program, and information from mortgage industry participants, CBO estimates that as many as 25,000 additional loans will be refinanced as a result of the amendments to the program, representing a loan volume of about $5 billion over the next four years. (As of June 2008, only one loan has been guaranteed under the Hope for Homeowners program. In addition, about 4,000 delinquent borrowers refinanced their loans under FHASecure over the 16-month lifetime of the program.)

CBO estimates that the program, as modified by the bill, will have a subsidy rate of 14 percent of the loan value. This estimated subsidy rate assumes that the cumulative default rate for the program will be about 40 percent and that recoveries on defaulted mortgages will be about 60 percent of the outstanding loan amount. Those rates reflect CBO's view that mortgage holders will have an incentive to direct their highest-risk loans to the program and are based on the expectation that the underwriting standards established for the new program will be less restrictive than those currently in place for FHA's single-family loan-guarantee program, thereby allowing FHA to insure loans with a greater risk of default.

Provisions Related to TARP

Section 402 reduces, by about $1.3 billion, the amount the Secretary of the Treasury can purchase in troubled assets under the Emergency Economic Stabilization Act of 2008. Under that act, the subsidy costs of purchases of such assets are recorded in the budget on a credit-reform basis, adjusted to account for market risk. CBO expects the Secretary to use all remaining authority to purchase troubled assets by the end of 2009 and estimates that the subsidy rate for those purchases will average 50 percent. Thus, CBO estimates that this provision reduces direct spending by $630 million in 2009.

Section 402 also requires that $15 million of existing TARP authority be provided to the TARP Inspector General for oversight activities. Directing TARP authority to be used for that purpose—which provides no possibility of future repayment—effectively increases the subsidy rate for that increment of TARP authority to 100 percent. As a result, CBO estimates that this provision increases direct spending by $7.5 million in 2009.

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