CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 17, 2018

H.R. 6737
Protect Affordable Mortgages for Veterans Act of 2018

As passed by the House of Representatives on September 26, 2018

SUMMARY

H.R. 6737 would authorize the Government National Mortgage Association (Ginnie Mae) to guarantee securities that contain certain mortgages refinanced by the Department of Veterans Affairs (VA) mortgage guarantee program. CBO estimates that enacting the legislation would reduce direct spending by $3 million in 2019; therefore, pay-as-you-go procedures apply. Enacting H.R. 6737 would not affect revenues.

CBO estimates that enacting H.R. 6737 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

H.R. 6737 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6737 is shown in the following table. The costs of the legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	-3	0	0	0	0	0	0	0	0	0	-3	-3
Estimated Outlays	-3	0	0	0	0	0	0	0	0	0	-3	-3

BASIS OF ESTIMATE

Ginnie Mae guarantees securities backed by pools of mortgages that are insured by federal agencies such as VA. Typically, 98 percent of VA mortgages are pooled into mortgage-backed securities (MBSs) and guaranteed by Ginnie Mae in the first few months after they are originated. In May 2018 the Congress enacted legislation that prohibited VA from refinancing existing VA mortgages until they are seasoned and prohibited Ginnie Mae from guaranteeing MBSs containing such mortgages. A mortgage is seasoned when the borrower has made six months of payments or 210 days after the first monthly payment was made; whichever occurs later.

In the weeks leading up to May 2018, about 2,500 unseasoned mortgages with a total value of about $630 million were refinanced under VA's mortgage program. According to Ginnie Mae, because those VA mortgages were unseasoned when they were refinanced they cannot be included in MBSs guaranteed by Ginnie Mae. H.R. 6737 would authorize Ginnie Mae to guarantee MBSs containing those unseasoned mortgages from the weeks before May 2018. Under the act, CBO estimates that 98 percent of those pre-May 2018 mortgages, with a value of about $620 million, would be included in Ginnie Mae's MBS program in 2019. After 2019, no additional mortgage guarantees would stem from enacting H.R. 6737 because the seasoning restrictions for mortgages refinanced by VA would still apply.

In exchange for the Ginnie Mae guarantee, issuers pay a fee on the pooled mortgages that back those securities. Because the value of the fees collected by Ginnie Mae is estimated to exceed the cost of default losses on those securities in each year, CBO estimates that Ginnie Mae's MBS program will have a subsidy rate of -0.44 percent in 2019, resulting in net federal receipts. A negative subsidy for a federal credit program can occur if the net present value of up-front and annual fees charged for a loan guarantee is greater than the estimated default losses associated with that guarantee.[1] Multiplying the $620 million in mortgages that could be guaranteed by Ginnie Mae under H.R. 6737 by the subsidy rate of -0.44 percent results in additional offsetting collections (which are recorded as reductions in spending) from Ginnie Mae's MBS program of $3 million in 2019.

On September 26, 2018, the Congress cleared legislation that set a limit on the dollar volume of guarantees that Ginnie Mae is authorized to issue in 2019. CBO estimates that enacting H.R. 6737 would increase the volume of Ginnie Mae's guarantees in 2019 by

1. A present value expresses a flow of past and future income or payments as a single amount received or paid at a specific time. The value depends on the rate of interest, known as the discount rate, used to translate past and future cash flows into current dollars at that time. Under current law, the budgetary effects for Ginnie Mae's guarantees are calculated under procedures specified in the Federal Credit Reform Act (FCRA). Under FCRA, projected future cash flows are discounted to the present using interest rates on Treasury Securities.

$620 million and because the limit for 2019 has already been set the budgetary effects stemming from any changes to that limit are treated as direct spending.

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 (-$3 million in 2019) that are subject to those pay-as-you-go procedures were shown in the table on page 2.

MANDATES

H.R. 6737 contains no intergovernmental or private-sector mandates as defined in UMRA.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 6737 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

ADDITIONAL INFORMATION

Under current law, the budgetary effects of Ginnie Mae's program are measured in the budget according to the procedures established in FCRA. As required by S. Con. Res 71, the Concurrent Resolution on the Budget for Fiscal Year 2018, CBO also has prepared a cost estimate for H.R. 6737 using a fair-value approach to estimating the effect on Ginnie Mae.

The fair-value approach is an alternative to the approach specified in FCRA. Both approaches rely on the same projections of future cash flows for guarantee programs, and both account for the lifetime cost of the new guarantees made in a given year (including the expected cost of losses net of fees collected). The fair-value estimates differ from FCRA estimates by recognizing that the government's assumption of financial risk has a cost that exceeds the average amount of losses that would be expected from defaults. The higher financial risk is reflected in higher fees private entities charge for similar guarantees on the basis of market prices. In practice, the main difference between FCRA estimates and fair-value estimates is the discount rate used to calculate the present value of estimated future guarantee costs and receipts. Fair value estimates use higher discount rates that incorporate a premium for market risk.

Using the fair-value approach, CBO estimates that the subsidy rate is effectively zero because Ginnie Mae's fees are similar to what a private entity would charge for guaranteeing the same MBSs. (A private entity would charge fees that were sufficient to cover expected costs from mortgage defaults plus the cost of market risk). Multiplying $620 million of mortgages that could be guaranteed by Ginnie Mae under H.R. 6737 by a fair-value subsidy rate that is effectively zero would result in little to no net effect on the federal budget.

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