Congressional Budget Office
Cost Estimate

June 5, 2019

At a Glance

H.R. 1988, Protecting Affordable Mortgages for Veterans Act of 2019

As ordered reported by the House Committee on Veterans' Affairs on May 8, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	-3	-3	-3
Revenues	0	0	0
Deficit Effect	-3	-3	-3
Spending Subject to Appropriation (Outlays)	0	0	0

Pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	**No**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**No**

The bill would

- Authorize the Government National Mortgage Association to guarantee securities that contain certain mortgages refinanced by the Department of Veterans Affairs mortgage guarantee program

Estimated budgetary effects would primarily stem from

- Fees collected by Government National Mortgage Association to guarantee securities for about 2,500 mortgages

Detailed estimate begins on the next page.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Bill Summary

H.R. 1988 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.

Estimated Federal Cost

The estimated budgetary effect of H.R. 1988 is shown in Table 1. The costs of the legislation fall within budget function 370 (commerce and housing credit).

Table 1.
Estimated Budgetary Effects of H.R. 1988

	By Fiscal Year, Millions of Dollars												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2019-2024	2019-2029
Decreases in Direct Spending													
Estimated Budget Authority	-3	0	0	0	0	0	0	0	0	0	0	-3	-3
Estimated Outlays	-3	0	0	0	0	0	0	0	0	0	0	-3	-3

Basis of Estimate

For this estimate, CBO assumes that H.R. 1988 will be enacted near the end of fiscal year 2019 and that Ginnie Mae will securitize the additional VA mortgages in fiscal year 2019.

Background

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 (Public Law 115-174) that prohibited VA from refinancing existing VA mortgages until they were determined to be seasoned and also prohibited Ginnie Mae from guaranteeing MBSs containing such mortgages. A mortgage is considered to be seasoned when the borrower has made six months of payments or when 210 days have passed since the first monthly payment was made; whichever occurs later.

In the weeks before P.L. 115-174 was enacted, CBO estimates 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 are not eligible to be included in MBSs guaranteed by Ginnie Mae.

Direct Spending

H.R. 1988 would authorize Ginnie Mae to guarantee MBSs containing those unseasoned mortgages from the weeks before P.L. 115-174 was enacted. Under the bill, CBO estimates that 98 percent of those 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. 1988 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. CBO estimates that the net present value of the fees collected by Ginnie Mae will exceed the cost of any default losses on those securities in each year. Using the methodology specified in the Federal Credit Reform Act (FCRA), CBO estimates that Ginnie Mae's MBS program will have a subsidy rate of -0.44 percent in 2019. A negative subsidy for a federal credit program can occur if the net present value of the up-front and annual fees charged for a loan guarantee is greater than the estimated default costs associated with that guarantee.[1] Multiplying the $620 million in mortgages that CBO estimates would be guaranteed by Ginnie Mae under H.R. 1988 by the subsidy rate of -0.44 percent results in additional offsetting collections (which are recorded in the budget as reductions in direct spending) from Ginnie Mae's MBS program of $3 million in 2019.

Alternative Budgetary Treatment

The estimated cost of H.R. 1988 depends on the method used to calculate the subsidy rate for MBSs guaranteed by Ginnie Mae. Under current law, the budgetary effects of Ginnie Mae's program are measured in the budget according to the procedures established in FCRA. However, 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. 1988 using a fair-value approach to estimating the budgetary 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-

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 FCRA. Under FCRA, projected future cash flows are discounted to the present using interest rates on Treasury Securities.

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 for Ginnie Mae guarantees is effectively zero because Ginnie Mae's fees are similar to what a private entity would charge for guaranteeing the same MBSs. Thus, under the fair-value method of estimating the subsidy rate for Ginnie Mae H.R. 1988 would have no significant net effect on the federal budget.

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 are shown in Table 1.

Increase in Long-Term Deficits: None.

Mandates: None.

Previous CBO Estimate

On June 5, 2019, CBO transmitted a cost estimate for H.R. 1988, the Protecting Affordable Mortgages for Veterans Act of 2019, as ordered reported by the House Committee on Financial Services on May 8, 2019. The two versions of the bill are similar and their estimated costs are the same.

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