Congressional Budget Office
Cost Estimate

August 5, 2019

H.R. 2162, Housing Financial Literacy Act of 2019
As passed by the House of Representatives on July 9, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	0	0
Revenues	0	0	0
Deficit Effect	0	0	0
Spending Subject to Appropriation (Outlays)	0	*	not estimated

Statutory pay-as-you-go procedures apply?	No	**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

* = between -$500,000 and $500,000.

Summary

For this estimate, CBO assumes that H.R. 2162 will be enacted near the end of fiscal year 2019, before fiscal year 2020 appropriations for the Federal Housing Administration (FHA) have been enacted but late enough in the year that the act's provisions would not apply to mortgage guarantees made in 2019. If H.R. 2162 were enacted after 2020 appropriations were completed, any budgetary effect for 2020 would be treated as a change in direct spending.

H.R. 2162 would require FHA to provide a form of risk-based pricing by offering a discount of 25 basis points on the up-front premium charged to first-time homebuyers receiving FHA-insured mortgages who have completed an agency-approved mortgage-counseling program.[1] (A basis point is one-hundredth of a percentage point.) To qualify for the discount, homebuyers would need to complete the counseling before applying for a mortgage.

CBO estimates that implementing the act would have no significant effect on discretionary offsetting collections from the FHA mortgage insurance program in any year over the 2020-2024 period.

1. Risk-based pricing means that borrowers with lower risk of default pay lower fees or interest rates for mortgage credit or guarantees and borrowers with higher risk of default pay higher fees or interest rates.

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.

Basis of Estimate

A limited body of evidence suggests that receiving mortgage counseling before buying a home can help borrowers better understand their obligations and reduce their likelihood of default. Prepurchase counseling is intended to improve borrowers' knowledge of the consequences of their housing decisions and the requirement for repayment before they decide to apply for a mortgage but the effectiveness of prepurchase counseling has been debated.[2] Studies are rare, and the literature generally does not identify a strong causal link between counseling and lessened rates of default. However, some studies show that providing prepurchase counseling to first-time homebuyers and low- and middle-income families promotes informed decisionmaking by increasing buyers' understanding of the risks of a mortgage.[3]

Under current law, the Department of Housing and Urban Development (HUD) has designated over 1,800 approved housing counseling agencies that provide prepurchase counseling. Counseling is offered online, over the phone, and in person. Although charges vary, those services tend to be offered at little to no cost to the prospective borrower.

Under H.R. 2162, CBO expects, HUD would designate currently approved housing counseling agencies as the source of prepurchase counseling for buyers to receive the premium discount. CBO also expects that any associated costs would be paid by prospective borrowers.

Borrowers would need to complete the counseling before applying for a mortgage, HUD would not be required to widely advertise the availability of counseling, and borrowers could still receive FHA insurance without completing counseling. Therefore, CBO estimates that about 25 percent of eligible prospective borrowers would obtain counseling and receive the discount which, on average, would equal about $500 per mortgage. Furthermore, CBO expects that any increased demand for FHA insurance that would stem from the discount would be offset by a reduction in insurance applications from prospective borrowers who, after counseling, decided not to purchase a home.

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2. See, for example, the testimony of Alicia Puente Cackley, Director of Financial Markets and Community Investment, Government Accountability Office, before the Subcommittee on Insurance, Housing and Community Opportunity of the House Committee on Financial Services, *Homeownership Counseling: Although Research Suggest Some Benefits, Implementation and Evaluation Challenges Exist*, GAO-11-925T (September 14, 2011), www.gao.gov/products/GAO-11-925T.

3. See, for example, Neil S. Mayer and Kenneth Temkin, "Prepurchase Counseling Effects on Mortgage Performance: Empirical Analysis of NeighborWorks America's Experience," *Cityscape*, vol. 18, no 2 (July 2016), https://go.usa.gov/xyjex. A randomized field experiment showed that prepurchase counseling had positive long-term effects on people's credit scores, debt levels, and delinquency on debt; see Marvin Smith, Daniel Hochberg, and William H. Greene, *The Effectiveness of Pre-Purchase Homeownership Counseling and Financial Management Skills: A Special Report by the Community Development Studies and Education Department* (Federal Reserve Bank of Philadelphia, April 2014), http://tinyurl.com/y58oxwjy.

On the basis of research findings, CBO expects that providing the average FHA borrower with prepurchase counseling would decrease their likelihood of default. However, because the prepurchase counseling under H.R. 2162 would not be mandatory or widely advertised, CBO expects that the prospective borrowers who would choose to participate in such counseling would have, on average, a lower risk of default than the typical FHA borrower. Therefore, CBO estimates that the additional prepurchase counseling completed by prospective FHA borrowers under the act may not significantly decrease those borrowers' likelihood of default as seen in some research findings.

On that basis, CBO expects that any reduction in the probability of default would be roughly equally offset by the 25 basis point reduction in FHA's upfront fee; thus, implementing H.R. 2162 would have almost no effect on the overall FHA subsidy rate. Under current law, CBO estimates that FHA's insurance program will have a subsidy rate of -2.69 percent in 2020 using the methodology specified in the Federal Credit Reform Act.[4] Therefore, CBO estimates that implementing H.R. 2162 would have no significant effect on discretionary offsetting collections from the FHA mortgage insurance program in any year over the 2020-2024 period.

Uncertainty

This estimate is uncertain because of the difficulty in estimating how many eligible prospective borrowers would choose to complete prepurchase counseling and how effective that counseling would be at decreasing default risk. If the number of borrowers who complete such counseling is higher than CBO estimates, or if the effectiveness of the counseling is greater than CBO estimates, there could be a decrease in the subsidy rate, which could result in savings to the program. Alternatively, if the effectiveness of the counseling is less than CBO estimates, there could be an increase in the subsidy rate, which could result in a cost to the program.

The CBO staff contact for this estimate is Robert Reese. The estimate was reviewed by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

4. On a fair-value basis CBO estimates that FHA's insurance program will have a subsidy rate of 2.80 percent in 2020. For more information on fair-value estimates see CBO's May 2019 report on the topic, https://www.cbo.gov/publication/55278.