



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

February 9, 2009

H.R. 787
**A bill to make improvements in the Hope for Homeowners program, and
for other purposes**

*As ordered reported by the House Committee on Financial Services
on February 4, 2009*

SUMMARY

H.R. 787 would modify the Hope for Homeowners loan guarantee program authorized by the Housing and Economic Recovery Act of 2008. The effects on direct spending and revenues over the 2009-2013 and 2009-2018 periods are relevant for enforcing pay-as-you-go rules under the current budget resolution. CBO estimates that enacting this legislation would increase deficits by \$675 million over the five-year period from 2009 through 2013, and by an equal amount over the 2009-2018 period. Implementing H.R. 787 would not affect spending subject to appropriation.

H.R. 787 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated cost of H.R. 787 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars												2009-	2009-
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2014	2019	
CHANGES IN DIRECT SPENDING														
Estimated Budget Authority	304	225	146	0	0	0	0	0	0	0	0	675	675	
Estimated Outlays	274	233	154	15	0	0	0	0	0	0	0	675	675	

BASIS OF ESTIMATE

H.R. 787 would make certain changes to 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:

- Eliminating the payment of an up-front insurance premium;
- Reducing the annual insurance premium;
- Increasing the maximum loan-to-value ratio of the refinanced mortgage to 93 percent;
- Eliminating the government's share of any appreciation in the homes' value at sale; and
- Authorizing a payment to the servicer of the existing mortgage.

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 enacting this legislation, which would directly appropriate the subsidy cost of loan guarantees, would increase direct spending by \$675 million over the 2009-2019 period.

To determine this subsidy cost, CBO estimated the volume of loans that would be refinanced under this voluntary program and the likelihood that borrowers would 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 could be refinanced as a result of the proposed changes, representing a loan volume of about \$5 billion over the next four years. (As of February 3, 2009, only 25 loans have 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, would have a subsidy rate of about 15 percent of the loan value. This estimated subsidy rate assumes that the cumulative default rate for the program would be about 40 percent and that recoveries on defaulted mortgages would be about 60 percent of the outstanding loan amount. Those rates reflect CBO's view that mortgage holders would 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 would 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.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 787 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On January 13, 2009, CBO transmitted a cost estimate for H.R. 384, the TARP Reform and Accountability Act, as introduced in the House of Representatives on January 9, 2009. H.R. 787 is similar to the HOPE for Homeowner provisions in title V of H.R. 384, and the estimated costs are the same.

ESTIMATE PREPARED BY:

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