CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

February 25, 2009

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As you requested, CBO has reviewed H.R.1106, the Helping Families Save Their Homes Act, as introduced on February 23, 2008. The bill would:

- Authorize bankruptcy courts to modify the terms of some mortgages on principal residences during Chapter 13 bankruptcy proceedings;

- Allow the Federal Housing Administration (FHA) and the Rural Housing Service (RHS) to pay claims on losses stemming from the judicial modification of mortgage loans that they insure;

- Modify the Hope for Homeowners loan-guarantee program authorized by the Housing and Economic Recovery Act of 2008;

- Permanently increase the amount of deposits insured by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration from $100,000 to $250,000 and modify other terms of both deposit insurance programs; and

- Protect mortgage servicers from legal liability if they perform loan modifications according to specific criteria established under the legislation.

CBO estimates that enacting H.R. 1106 would increase direct spending by $7.6 billion over the 2009-2014 period, and would reduce direct spending by $14.9 billion over the 2009-2019 period. Enacting H.R 1106 would increase revenues by $19 million over the 2009-2014 period and by $23 million over the 2009-2019 period.

The effects on direct spending 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 direct spending by $14.0 billion over the 2009-2013 period, but would reduce direct spending by $14.3 billion over the 2009-2018 period. Enacting the legislation would increase revenues by $18 million over the 2009-2013 period and by $23 million over the 2009-2018 period.

Title I

Subtitle A of title I would authorize bankruptcy courts to modify the terms of some mortgages on principal residences during Chapter 13 bankruptcy proceedings. CBO estimates that enacting this provision would reduce direct spending by $27 million over the 2009-2014 period and by $31 million over the 2009-2019 period. Enacting the bankruptcy provision would increase revenues by $19 million over the 2009-2014 period and by $23 million over the 2009-2019 period.

Subtitle B includes a provision affecting loan guarantee payments made by FHA and RHS. Under this bill, FHA and RHS could pay claims on losses stemming from the judicial modification of mortgage loans that they insure. This legislation also would expand FHA's authority to offer partial payment of claims, which is a type of loss-mitigation tool used by FHA to assist troubled borrowers.

To the extent that enacting H.R. 1106 would result in modification of federally insured loans that otherwise would not have occurred, FHA and RHS could realize some budgetary savings under this provision. On the other hand, it is possible that enacting this legislation could result in some loan modifications that are potentially more expensive than other options for assisting distressed borrowers. Based on information from FHA and RHS, CBO estimates that, on balance, allowing for the modification of federally insured loans would have no significant net budgetary effect.

Title II

Section 201 of title II would protect mortgage servicers from legal liability if they perform loan modifications according to specific criteria established under the legislation. CBO estimates that, on balance, enacting this provision would probably not result in a significant number of additional modifications and thus would not have a significant impact on the federal budget.

Section 202 would modify the Hope for Homeowners loan-guarantee program authorized by the Housing and Economic Recovery Act of 2008. Enacting this provision would increase direct spending by $579 million over the 2009-2014 period, CBO estimates. The provision would reduce the authority of the Troubled Asset Relief Program (TARP) to purchase troubled assets by about $2.3 billion; assuming a subsidy rate of 25 percent, that reduction would reduce federal spending by $579 million, thus offsetting the additional costs associated with modifications to the Hope for Homeowners program.

Section 204 would permanently increase the amount of deposits insured by the Federal Deposit Insurance Corporation and National Credit Union Administration from $100,000 to $250,000 and modify other terms of both deposit insurance programs. It would allow those agencies to replenish the insurance funds over a longer period of time and increase the amounts each agency can borrow from the Department of the Treasury. CBO estimates that enacting this provision would increase direct spending by $7.6 billion over the 2009-2014 period but would decrease direct spending by $14.9 billion over the 2009-2019 period.

Previous CBO Cost Estimates

CBO has completed several cost estimates since January 2009 for bills with provisions similar to those in H.R. 1106. Those bills include:

- H.R. 200, the Helping Families Save Their Homes in Bankruptcy Act, as ordered reported by the House Committee on the Judiciary on January 27, 2009;

- H.R. 786, a bill to make permanent the temporary increase in deposit insurance coverage, as ordered reported by the House Committee on Financial Services on February 4, 2009;

- H.R. 787, a bill to make improvements in the Hope for Homeowners program, as ordered reported by the House Committee on Financial Services on February 4, 2009; and

- H.R. 788, a bill to provide safe harbor for mortgage servicers who engage in specified mortgage loan modifications, as ordered reported by the Committee on Financial Services on February 4, 2009.

The cost estimates for those bills provide more detail on CBO's analysis of various provisions of H.R. 1106.

Intergovernmental and Private-Sector Mandates

H.R. 1106 includes a number of intergovernmental and private-sector mandates that CBO identified in H.R. 200, H.R. 786, and H.R.788, but also would impose an additional intergovernmental and private-sector mandate by preventing certain investors from seeking damages for violations of contracts between those investors and servicers of mortgages. The cost of that mandate would equal the net value of the forgone awards, but CBO has no basis for estimating that value. In aggregate, the total costs of the private-sector mandates in the bill would exceed the annual threshold established in the Unfunded Mandates Reform Act ($139 million in 2009, adjusted annually for inflation). CBO cannot determine, however, whether the costs to comply with the intergovernmental mandates in the bill would exceed the annual threshold for intergovernmental mandates ($69 million in 2009, adjusted annually for inflation).

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts for federal costs and revenues are Leigh Angres (bankruptcy), Kathy Gramp (FDIC), Susanne Mehlman (FHA), and Chad Chirico (Hope for Homeowners). The CBO staff contacts for mandates are Melissa Merrell and Elizabeth Cove Delisle (intergovernmental) and Paige Piper Bach (private-sector).

Sincerely,

Douglas W. Elmendorf

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Director

Enclosure

cc: Honorable Paul Ryan
Ranking Member

Honorable Barney Frank
Chairman
Committee on Financial Services

Honorable Spencer Bachus
Ranking Member

ESTIMATED BUDGET IMPACT OF H.R. 1106, THE HELPING FAMILIES SAVE THEIR HOMES ACT, AS INTRODUCED ON FEBRUARY 23, 2009

	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													
Title I: Bankruptcy Provision													
Estimated Budget Authority	-4	-9	-6	-4	-3	-1	-1	-1	-1	-1	*	-27	-31
Estimated Outlays	-4	-9	-6	-4	-3	-1	-1	-1	-1	-1	-1	-27	-31
Title II													
Section 202: Hope for Homeowners, TARP Amendments													
Estimated Budget Authority	-319	193	126	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-345	200	133	12	0	0	0	0	0	0	0	0	0
Section 204: FDIC Insurance													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	2,300	5,200	4,500	2,000	-6,400	-8,960	-6,800	-6,100	-40	-600	7,600	-14,900
Total, Title II													
Estimated Budget Authority	-319	193	126	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	-345	2,500	126	0	0	0	0	0	0	0	0	0	0
Total Spending Changes													
Estimated Budget Authority	-323	184	120	-4	-3	-1	-1	-1	-1	-1	0	-27	-31
Estimated Outlays	-349	2,491	5,327	4,508	1,997	-6,401	-8,961	-6,801	-6,101	-41	-600	7,573	-14,931
CHANGES IN REVENUES													
Title I: Bankruptcy Provision													
Estimated Revenues	3	6	4	3	2	1	1	1	1	1	*	19	23

Notes: * = less than $500,000; TARP = Troubled Assets Relief Program.
Positive revenues reflect additional receipts to the federal government.