106TH CONGRESS, 2d Session | HOUSE OF REPRESENTATIVES | REPT. 106–553, Part 2

AMERICAN HOMEOWNERSHIP AND ECONOMIC OPPORTUNITY ACT OF 2000

APRIL 5, 2000.—Ordered to be printed

Mr. LEACH, from the Committee on Banking and Financial Services, submitted the following

SUPPLEMENTAL REPORT

[To accompany H.R. 1776]

This supplemental report shows the cost estimate of the Congressional Budget Office with respect to the bill (H.R. 1776), as reported, which was not included in the report submitted by the Committee on Banking and Financial Services on March 29, 2000 (H. Rept. 106–553).

This supplemental report is submitted in accordance with clause 3(a)(2) of rule XIII of the Rules of the House of Representatives.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 4, 2000.

Hon. JAMES A. LEACH,
Chairman, Committee on Banking and Financial Services, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1776, the American Homeownership and Economic Opportunity Act of 2000.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Carla Pedone.

Sincerely,

BARRY B. ANDERSON
(For Dan Crippen, Director).

Enclosure.

H.R. 1776—American Homeownership and Economic Opportunity Act of 2000

Summary: H.R. 1776 aims to promote homeownership among lower-income families who might otherwise not be able to afford it.

63–596

The bill would amend a number of existing statutes in an attempt to reduce regulations, to facilitate access by lower-income families to federal mortgage insurance and loan guarantees, and to increase the flexibility available to local governments in using both newly authorized and existing programs for providing homeownership assistance. The bill would authorize appropriations to fund existing housing programs as well as new initiatives.

CBO estimates H.R. 1776 would authorize the appropriation of about $36 billion over the fiscal year 2001–2005 period, assuming adjustments for inflation, and roughly $35 billion without adjustments for inflation. CBO estimates that enactment of the bill also would reduce direct spending by $675 million and federal revenues by $90 million over the five-year period. Therefore, pay-as-you-go procedures would apply.

H.R. 1776 contains several intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs of complying with these mandates would not exceed the threshold established under that act ($55 million in 2000, adjusted annually for inflation).

The bill also contains private-sector mandates as defined in UMRA. Because those new requirements would depend on specific standards that would be established by the Secretary of Housing and Urban Development, CBO cannot determine whether their direct cost to the private sector would exceed the threshold specified in UMRA ($109 million in 2000, adjusted annually for inflation).

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 1776 is summarized in Tables 1 and 2 below. Table 1 shows the authorizations of appropriations in the bill gradually increasing with inflation from $7.0 billion in fiscal year 2001 to an estimated $7.4 billion in fiscal year 2005. Appropriation of those sums would result in additional outlays of $223 million in 2001 and an estimated $20.1 billion over the 2001–2005 period. Table 2 shows similar figures but assumes no adjustments for inflation. Under that scenario, outlays would increase by an estimated $19.7 billion over the five-year period.

The bill would also reduce direct spending by an estimated $116 million in 2001 and a total of $675 million over the five-year period. In addition, the bill would reduce federal revenues by $17 million in 2001 and a total of $90 million over the five-year period.

The costs of this legislation would fall within budget functions 370 (mortgage and housing credit), 450 (community and regional development), and 600 (income security).

Basis of estimate: CBO assumes that H.R. 1776 will be enacted during fiscal year 2000 and that the authorized amounts would be appropriated by the beginning of each fiscal year.

Spending subject to appropriation

Where the bill specifies an authorization for 2001 and authorizes such sums as may be necessary in later years, CBO has computed authorizations for future years both with and without adjustments for inflation. The discussion below, however, focuses on the estimates with the adjustments for inflation (see Table 3).

Title I: Removal of Barriers to Housing Affordability

Title I would authorize the appropriation of an estimated $80 million, which would result in an estimated $47 million in additional outlays over the 2001–2005 period.

TABLE 1.—ESTIMATED BUDGETARY EFFECTS OF H.R. 1776, WITH ADJUSTMENTS FOR INFLATION

	By fiscal year, in millions of dollars—					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law:						
Budget Authority	6,694	0	0	0	0	0
Estimated Outlays	5,518	5,739	4,226	2,093	980	438
Proposed Changes:						
Estimated Authorization Level	0	6,993	7,113	7,205	7,303	7,429
Estimated Outlays	0	223	2,119	4,848	6,098	6,779
Proposed Spending Under H.R. 1776:						
Estimated Authorization Level [1]	6,694	6,993	7,113	7,205	7,303	7,429
Estimated Outlays	5,518	5,962	6,345	6,941	7,078	7,217
DIRECT SPENDING						
Spending Under Current Law [2]:						
Budget Authority Authority	−2,345	−2,414	−2,487	−2,561	−2,637	−2,717
Estimated Outlays	−2,344	−2,414	−2,487	−2,561	−2,637	−2,717
Proposed Changes:						
Estimated Budget Authority	0	−124	−134	−138	−142	−145
Estimated Outlays	0	−116	−134	−138	−142	−145
Proposed Spending Under H.R. 1776 [2]:						
Estimated Budget Authority	−2,345	−2,538	−2,621	−2,699	−2,779	−2,862
Estimated Outlays	−2,344	−2,530	−2,621	−2,699	−2,779	−2,862
REVENUES						
Revenues Under Current Law [3]	15	17	17	18	19	19
Proposed Changes	0	−17	−17	−18	−19	−19
Proposed Revenues Under H.R. 1776 [3]	15	0	0	0	0	0

[1] The amount shown for 2000 is the amount appropriated for these programs.
[2] Includes offsetting receipts generated by the FHA single-family loan guarantee program and outlays for HUD's manufactured housing activities.
[3] Fees from inspection of manufactured homes.

TABLE 2.—ESTIMATED BUDGETARY EFFECTS OF H.R. 1776, WITHOUT ADJUSTMENTS FOR INFLATION

	By fiscal year, in millions of dollars—					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law:						
Budget Authority	6,694	0	0	0	0	0
Estimated Outlays	5,518	5,739	4,226	2,093	980	438
Proposed Changes:						
Estimated Authorization Level	0	6,993	6,996	6,971	6,946	6,946
Estimated Outlays	0	223	2,114	4,809	5,979	6,558
Proposed Spending Under H.R. 1776:						
Estimated Authorization Level [1]	6,694	6,993	6,996	6,971	6,946	6,946
Estimated Outlays	5,518	5,962	6,340	6,902	6,959	6,996
DIRECT SPENDING						
Spending Under Current Law [2]:						
Estimated Budget Authority	−2,345	−2,414	−2,487	−2,561	−2,637	−2,717
Estimated Outlays	−2,344	−2,414	−2,487	−2,561	−2,637	−2,717
Proposed Changes:						
Estimated Budget Authority	0	−124	−134	−138	−142	−145
Estimated Outlays	0	−116	−134	−138	−142	−145

TABLE 2.—ESTIMATED BUDGETARY EFFECTS OF H.R. 1776, WITHOUT ADJUSTMENTS FOR INFLATION—Continued

	By fiscal year, in millions of dollars—					
	2000	2001	2002	2003	2004	2005
Proposed Spending Under H.R. 1776 [2]:						
Estimated Budget Authority	−2,345	−2,538	−2,621	−2,699	−2,779	−2,862
Estimated Outlays	−2,344	−2,530	−2,621	−2,699	−2,779	−2,862
REVENUES						
Revenues Under Current Law [3]	15	17	17	18	19	19
Proposed Changes	0	−17	−17	−18	−19	−19
Proposed Revenues Under H.R. 1776 [3]	15	0	0	0	0	0

[1] The amount shown for 2000 is the amount appropriated for these programs.
[2] Includes offsetting receipts generated by the FHA single-family loan guarantee program and outlays for HUD's manufactured housing activities.
[3] Fees from inspection of manufactured homes.

TABLE 3.—ESTIMATED AUTHORIZATIONS AND SPENDING SUBJECT TO APPROPRIATION, WITH ADJUSTMENTS FOR INFLATION, BY PROVISION

	By fiscal year, in millions of dollars—				
	2001	2002	2003	2004	2005
TITLE I					
Additional Administrative Costs for Housing Impact Analyses:					
Estimated Authorization	([1])	([1])	([1])	([1])	([1])
Estimated Outlays	([1])	([1])	([1])	([1])	([1])
Grants for Regulatory Barrier Removal Strategies:					
Estimated Authorization	15	15	16	16	16
Estimated Outlays	([1])	5	11	14	15
TITLE III					
Down Payment Assistance:					
Estimated Authorization [2]	0	0	0	0	0
Estimated Outlays [2]	1	2	3	4	0
Pilot Program:					
Estimated Authorization	2	0	0	0	0
Estimated Outlays	([1])	1	1	0	0
TITLE IV					
Community Development Block Grants:					
Estimated Authorization	4,900	4,983	5,062	5,150	5,238
Estimated Outlays	98	1,668	3,754	4,502	4,821
Housing Opportunities for Persons with AIDS:					
Estimated Authorization	260	264	269	274	278
Estimated Outlays	5	73	147	222	268
TITLE V					
Home Investment Partnerships:					
Estimated Authorization	1,641	1,669	1,698	1,727	1,758
Estimated Outlays	33	247	776	1,183	1,515
Loan Guarantees:					
Estimated Authorization	9	9	9	9	9
Estimated Outlays	1	3	6	8	9
TITLE VI					
Neighborhood Reinvestment Corporation:					
Estimated Authorization	90	92	93	95	96
Estimated Outlays	90	92	93	95	96
Homeownership Zone Grants:					
Estimated Authorization	25	25	0	0	0
Estimated Outlays	1	6	15	18	9
Local Capacity Building:					
Estimated Authorization	25	25	26	26	27
Estimated Outlays	1	9	19	23	25

TABLE 3.—ESTIMATED AUTHORIZATIONS AND SPENDING SUBJECT TO APPROPRIATION, WITH ADJUSTMENTS FOR INFLATION, BY PROVISION—Continued

	By fiscal year, in millions of dollars—				
	2001	2002	2003	2004	2005
Assistance for Self-Help Housing Providers:					
Estimated Authorization	25	25	26	0	0
Estimated Outlays	1	9	19	25	17
TITLE VII					
Lands Title Commission:					
Estimated Authorization	1	0	0	0	0
Estimated Outlays	([1])	([1])	0	0	0
Indian Loan Guarantees:					
Estimated Authorization	0	6	6	6	7
Estimated Outlays	0	6	6	6	7
TITLE XI					
Manufactured Housing Improvement:					
Estimated Authorization	0	0	0	0	0
Estimated Outlays	−8	−2	−2	−2	−3
Total:					
Estimated Authorization	6,993	7,113	7,205	7,303	7,429
Estimated Outlays	223	2,119	4,848	6,098	6,779

[1] Less than $500,000 per year.
[2] The estimate assumes that funds would be appropriated for renewing all Section 8 contracts. Allowing the use of Section 8 rental assistance for down payment assistance for homeowners would speed up the spending of Section 8 funds initially, as increasing numbers of families would take advantage of this provision. The estimated outlays represent that initial increase in spending patterns. Budget authority would not be affected.

Housing Impact Analysis. Section 102 of H.R. 1776 would require certain federal agencies, when publishing proposed and final rules, to either certify that their rule would not have a significant impact on the affordability of housing or to prepare a regulatory analysis of the rule's impact on the affordability of housing. CBO estimates that these requirements would increase the overall administrative costs to the federal government by about $2 million over the 2001–2005 period.

Few of the roughly 4,000 rules issued each year would have an estimated annual economic impact of $100 million or more on the housing industry, and thus trigger the requirement for an impact analysis. Preparing the impact analyses where required, including the costs incurred by the agencies for reviewing public comments and those incurred by the Department of Housing and Urban Development (HUD) for collecting and publishing the information, would cost no more than $200,000 per year starting in 2002, when that requirement is assumed to be fully implemented. The additional costs of certifying rules would add an estimated $300,000 per year.

Grants for Regulatory Barrier Removal Strategies. Section 103 would authorize the appropriation of $15 million for fiscal year 2001 and such sums as may be necessary over the 2002–2005 period for grants to state and local governments to develop strategies to remove regulatory barriers. Under current law, $15 million is authorized through set-asides from Community Development Block Grant (CDBG) funds. This provision would eliminate the use of CDBG set-asides for these grants. CBO estimates that section 103 would result in outlays of about $45 million over the five-year period.

Title III: Section 8 Homeownership Option

Title III would authorize the appropriation of $2 million in 2001 and increase outlays, primarily for Section 8 housing subsidies, by $12 million over the 2001–2005 period.

Down Payment Assistance. In lieu of 12 months of rental assistance payments, section 301 would authorize public housing agencies to provide a single up-front grant to eligible households, which would be used to help families purchase a home. CBO expects that this provision would initially speed up the spending of Section 8 funds until the number of households taking advantage of this provision each year levels off. CBO estimates that this provision would add $1 million to Section 8 outlays in fiscal year 2001. The increment would grow to $4 million in 2004, at which point CBO expects that the number of households using this provision would no longer increase. At that point, the additional outlays in 2005 from the shift of payments from 2006 into 2005 would roughly equal the outlay savings in 2005 from the shift of payments from 2005 into 2004. The estimate assumes that sufficient budget authority would be appropriated each year to renew all expiring Section 8 contracts. Because the provision would require approval in advance in appropriation acts, it would not affect direct spending.

CBO expects that relatively few households would use this provision because the low incomes of households eligible for Section 8 make it difficult for most to qualify for a mortgage. Of the Section 8 certificates and vouchers that become available in 2001 because of turnover, CBO assumes that roughly 0.25 percent would be used for this purpose, with that percentage rising to 2 percent by 2004. As a result, the number of participating households would grow from around 400 in fiscal year 2001 to about 3,600 per year by 2004.

Homeownership Pilot Program. Section 303 would authorize the appropriation of $2 million for fiscal year 2001 for homeownership pilot programs authorized under the Quality Housing and Work Responsibility Act of 1998, subject to the availability of matching funds from other sources. No funds are authorized for later years. CBO estimates that roughly one-half of these funds would be spent in 2002 and the remainder in 2003.

Title IV: Community Development Block Grants

CBO estimates that, over the 2001–2005 period, Title IV would authorize the appropriation of $26.7 billion, assuming adjustments for inflation. Resulting outlays would total $15.6 billion over the five-year period.

Community Development Block Grant (CDBG) Program. Section 401 would authorize $4.9 billion for fiscal year 2001 for CDBG and such sums as may be necessary for the 2002–2005 period. The appropriation for 2000 was $4.8 billion. CBO estimates that the bill would authorize a total of $25.3 billion over the five-year period and that outlays would increase by $14.8 billion over that period.

Housing Opportunities for Persons with AIDS (HOPWA) Program. Section 408 would authorize the appropriation of $260 million for fiscal year 2001 for HOPWA and such sums as may be necessary for the 2002–2005 period. For 2000, $232 million was appropriated for this program. CBO estimates that the bill would authorize a total of $1.3 billion over the 2001–2005 period, increasing outlays by $715 million.

Title V: Home Investment Partnerships Program

Title V would authorize the appropriation of an estimated $8.5 billion in budget authority, resulting in $3.8 billion in estimated outlays over the 2001–2005 period.

HOME Program. Section 401 would authorize $1.65 billion for fiscal year 2001 for the Home Investment Partnerships Program (HOME) and such sums as may be necessary for each of the following four years. Under Section 504, a certain amount of these appropriations would be set aside for credit subsidies for a new loan guarantee program. That provision would authorize the Secretary of HUD to guarantee a cumulative total of up to $2 billion in loans issued by eligible local jurisdictions for financing the acquisition, new construction, or rehabilitation of affordable housing. CBO assumes that local jurisdictions would borrow $400 million per year over the 2001–2005 period. CBO further assumes that the credit subsidy rate for these obligations would be 2.3 percent, the same rate that is experienced under a similar program authorized by section 108 of the Housing and Community Development Act of 1974. Therefore, CBO estimates that of the total HOME appropriation, about $9 million per year would be set aside for the credit subsidies.

Based on the historical spending rate for the HOME program, CBO estimates that appropriation of the authorized amounts for the HOME program would result in additional outlays of $3.8 billion over the five-year period, including $27 million for the new loan guarantee program.

Title VI: Local Homeownership Initiatives

CBO estimates that Title VI would authorize the appropriation of $721 million and increase outlays by $663 million over the 2001–2005 period.

Neighborhood Reinvestment Corporation. Section 601 would authorize $90 million for fiscal year 2001 for a payment to the Neighborhood Reinvestment Corporation, and such sums as may be necessary for the 2002–2005 period to support neighborhood preservation projects. The appropriation for 2000 totaled $75 million. This provision would add an estimated $466 million to outlays over the 2001–2005 period.

Homeownership Zones. Section 602 would authorize the appropriation of $25 million for fiscal year 2001 and such sums as necessary for 2002 for Homeownership Zone Grants. No appropriation as provided for Homeownership Zone Grants in 2000. Based on information from the Department of Housing and Urban Development, CBO estimates that this provision would add $49 million to outlays over the five-year period.

Local Capacity Building. Section 604 would authorize the appropriation of such sums as necessary for the Capacity Building for Community Development and Affordable Housing program. In fiscal year 2000, grants for capacity building were funded through CDBG at $20 million. This provision would add the National Association of Housing Partnerships to the list of organizations eligible to provide housing assistance with funds that would be authorized under this section. To reflect this change, CBO assumed that the funding level would grow to $25 million in fiscal year 2001. CBO expects that appropriation of these funds would result in discretionary outlays of $77 million over the 2001–20005 period.

Self-Help Housing Providers. Section 606 would authorize the appropriation of $25 million for fiscal year 2001 and such sums as may be necessary for 2002 and 2003 for assistance to providers of self-help housing. For 2000, funding for this program was provided as a set-aside of $20 million in the appropriation for the CDBG program. CBO estimates that the appropriation of the authorized funds would add $71 million to outlays over the 2001–2005 period.

Title VII: Native American Homeownership

CBO estimates that Title VII would authorize the appropriation of $26 million and add the same amount in outlays over the 2001–2005 period.

Lands Title Commission. Section 701 would establish a Lands Title Commission to facilitate home loan mortgages on Indian trust lands. The commission would examine the system used by the Bureau of Indian Affairs for maintaining ownership records relating to trust lands and determine how to improve or replace that system in order to ensure that Native Americans are not restricted in their ability to obtain conventional mortgage loans. The bill would authorize a one-time appropriation of $0.5 million for expanses, which CBO estimates would be spent by the end of fiscal year 2002.

Loan Guarantees. Section 702 would limit commitment authority for Indian housing loan guarantees to the levels specified in appropriations acts for each fiscal year, and authorize such sums as may be necessary to carry out this program for each fiscal year after 2001. (Under current law, the program is already authorized for 2001). CBO estimates that appropriations of $6 million to $7 million a year would increase discretionary outlays by $25 million over the 2002–2005 period.

Native American Housing Assistance. Section 703 would amend certain provisions of the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). Most changes concern participation and oversight requirements and enforcement of program rules, many of which have already been implemented under current law. Although these provisions could increase the costs of administering the program, CBO estimates that any increase would be negligible.

Title XI: Manufactured Housing Improvement

Under current law, HUD charges manufacturers fees for the cost of inspecting manufactured homes. These fees are recorded in the budget as revenues, and the spending of the fees does not require further appropriation. CBO estimates that under current law such spending will be $18 million a year over the 2001–2005 period. Title XI would make federal spending associated with manufactured housing subject to appropriation, thus reducing direct spending for this program. (Collection of the fees would also became subject to appropriation action.)

Title XI would require HUD to establish committee to set regulations for the industry, a program to resolve disputes and a program to monitor the installation of manufactured housing. These new responsibilities would significantly increase federal spending to more than $50 million a year, but such costs would be offset through higher fees. Because CBO expects such fees to be collected more quickly than they would be spent, CBO estimates that Title XI would reduce discretionary outlays by $17 million over the 2001–2005 period.

Direct Spending and Revenues

H.R. 1776 would make several changes affecting the Federal Housing Administration's (FHA's) single-family program and HUD's program governing standards for manufactured housing, resulting in a net decrease in both spending and revenues (see Table 4)

Title II: Homeownership through Mortgage Insurance and Loan Guarantees

CBO estimates that Title II would reduce net direct spending by a total of $593 million over the 2001–2005 period. This title would permanently change the process for determining down payments for single-family mortgages insured by FHA and provide authority for FHA to offer guarantees for two new loan guarantee programs.

Simplification of Down Payment. Section 203 would permanently change the process FHA uses to determine the amount of down payments that are necessary for mortgages on single-family homes that are insured by FHA. Under current law, the down payment requirement is calculated using a formula established in a 1996 pilot program. Under this formula, the maximum mortgage amount that can be insured by FHA is determined by using a fixed percentage of the home value, excluding closing costs. Authority to use this formula expires at the end of fiscal year 2000, and this provision would make its use permanent

Based on information from FHA, CBO estimates that continuing the use of the down payment formula would slightly increase the loan-to-value (LTV) ratios for about 15 percent of the loans guaranteed each year after 2000. The LTV ratio, which indicates how much equity a borrower initially has in the home, serves as a good predictor of the likelihood of default. As such, CBO assumes that borrowers with less equity (that is, higher LTV ratios) would have higher default rates. Thus, we estimate that this provision would increase the cost of guaranteeing some loans, resulting in a decrease in offsetting receipts of $7 million in 2001 and $39 million over the 2001–2005 period. (Under current law, FHA guarantees of new single-family mortgages result in net offsetting receipts to the government because the credit subsidy is estimated to be negative. That is, guarantee fees for new mortgages more than offset the costs of expected defaults, resulting in net receipts from the single-family loan guarantee program.) The estimated changes in the loan subsidy receipts would be recorded in each of the years when new loans are disbursed.

TABLE 4.—ESTIMATED DIRECT SPENDING AND REVENUE EFFECTS, BY PROVISION

	By fiscal year, in millions of dollars—				
	2001	2002	2003	2004	2005
TITLE II					
Down Payment Simplification:					
Estimated Budget Authority	7	8	8	8	8
Estimated Outlays	7	8	8	8	8
Reduced Down Payments for Teachers and Municipal Workers:					
Estimated Budget Authority	−24	−33	−34	−35	−36
Estimated Outlays	−24	−33	−34	−35	−36
Hybrid ARMs:					
Estimated Budget Authority	−90	−92	−94	−96	−98
Estimated Outlays	−90	−92	−94	−96	−98
TITLE XI					
Manufactured Housing Improvement:					
Estimated Budget Authority	−17	−17	−18	−19	−19
Estimated Outlays	−9	−17	−18	−19	−19
Estimated Revenues	−17	−17	−18	−19	−19
Total:					
Estimated Budget Authority	−124	−134	−138	−142	−145
Estimated Outlays	−116	−134	−138	−142	−145
Estimated Revenues:	−17	−17	−18	−19	−19

Reduced Down Payment Requirements. Section 204 would reduce the down payment requirements for federally insured mortgages for teachers and uniformed municipal employees. Enacting this provision could enable certain teachers and uniformed municipal employees to purchase homes within their work regions with a FHA guarantee, by providing a down payment as low as one percent of the mortgage amount instead of a minimum of 3 percent that is currently required. In addition, for each year that the loan is held and the borrower continues to teach or work in the designated school district or jurisdiction, FHA would waive 20 percent of the up-front cost of obtaining the loan. Normally, FHA charges a fee of 2.25 percent of the loan amount as the up-front cost of obtaining a FHA loan guarantee.

The budgetary impact of this new loan program would depend on how people would react to the incentive it would create for households to seek homeownerships—in particular, how many households would use this provision to help them become homeowners and how long would homeowners remain in their homes. Based on information from associations representing teachers and mortgage bankers, CBO expects that about 50,000 loans (worth about $5 billion) under this program would be guaranteed each year. Furthermore, we assume that, of this expected volume, 50 percent would come from entirely new FHA borrowers and 50 percent would come from borrowers who have used the FHA program anyway but who would switch now to this more attractive option. On balance, CBO expects that this new program would be profitable (and thus generate negative subsidies), though not as profitable as the current single-family program where fees are not waived or reduced and the default rates are slightly lower. We estimate that this new program would have a negative subsidy rate of 2.0 percent, compared to a negative subsidy rate of 2.6 percent for FHA's current single-family program. CBO estimates the program would result in net additional receipts of $24 million in 2001 and $162 million over the 2001–2005 period.

Hybrid ARMS. Section 210 would authorize FHA to insure a relatively new mortgage product, known as hybrid adjustable-rate mortgages (ARMs). These mortgages carry an initial fixed interest rate for longer than one year and then are subject to interest rate adjustments. The hybrid ARMs authorized to be guaranteed under the bill would carry an initial fixed interest rate for a period of not less than three years of the mortgage term. Under currently law, FHA has the authority to insure mortgages with one-year ARMs, though this product has seen demand in recent years.

Based on information from FHA, CBO estimates that about 60,000 new loans (worth about $6 billion) would be guaranteed each year under this new authority. Because we expect such loans to result in fewer defaults than the one-year ARMs (but more defaults than conventional loans), CBO estimates a negative subsidy rate of 2.0 percent for such guarantees. As a result, we anticipate that enacting this provision would increase receipts by $90 million in 2001 and $470 million over the next five years.

Title XI: Manufactured Homes

Title XI would make HUD's spending associated with manufactured housing, and the collection of the related fees, subject to appropriation. CBO estimates that such a change would reduce revenues by about $90 million and direct spending by $82 million over the 2001–2005 period.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

TABLE 5.—ESTIMATED IMPACTS FOR H.R. 1776 ON DIRECT SPENDING AND RECEIPTS

	By fiscal year, in millions of dollars—										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays	0	−116	−134	−138	−142	−145	−149	−152	−157	−161	−163
Changes in receipts	0	−17	−17	−18	−19	−19	−20	−21	−22	−23	−24

Estimated impact on state, local, and tribal governments: Title XI, the manufactured housing section, contains several preemptions of state authority:

- From the date of enactment of the bill until the date that HUD finalizes its standard governing the installation of manufactured housing, states would be prohibited from lowering their standards from those that are already in place;
- Once the federal installation standard is finalized, if they choose to create their own installation standard and program, states would be required to set standards that are no less rigorous than the federal program. State installation programs

that do not meet the federal minimum would be superseded by the HUD standards; and

- Similarly, states that choose to create a dispute resolution program would be required to set standards that are at least as stringent as the federal program; otherwise HUD would administer the program in the state.

CBO treats such preemptions of state law as mandates under UMRA. The mandates would impose no costs on state, local, or tribal governments, however, because the affected entities are not required to take any action. States that choose not to establish their own standards would be regulated and monitored by HUD.

Other provisions of Title XI would broaden the activities HUD is authorized to include in its calculation of inspection fees for manufactured housing, and expand its authority to collect those fees in states where such collections are prohibited under current law. Though these provisions would change the method by which inspection fees are calculated and levied on manufacturers of manufactured housing, CBO estimates that states would continue to receive at least the same amount of funding under this program as they collect under current law.

Estimated impact on the private sector: Title XI also contains private-sector mandates as defined in UMRA. Currently, manufacturers of manufactured housing must pay a fee to cover the cost of construction and safety inspections and other administrative activities. The bill would increase the cost of that mandate by expanding the activities covered by the fee to include items such as the onsite inspection of newly installed homes and the operation of a dispute resolution program. CBO estimates that those changes would increase private-sector costs by $9 million in 2001 and by a total of $108 million over the 2001–2005 period, assuming that 25 percent of new-home installations would be inspected. (The added cost could be higher or lower depending on the requirements specified by the Secretary of HUD.)

The bill would also impose new federal standards on the installation of manufactured homes, including requiring installation inspections and mandating that all installers be trained and licensed. The cost of those new requirements to the private sector would also depend on the specific standards established by the Secretary of HUD.

Overall, because the requirements imposed by the bill would depend in large part on future actions of the Secretary of HUD, CBO cannot determine whether their direct cost to private-sector entities would exceed the threshold specified in UMRA ($109 million in 2000, adjusted annually for inflation).

Previous CBO estimates: Section 703 of H.R. 1776 incorporates the revisions in S. 400 as passed in the Senate on February 28, 2000. In its cost estimate for S. 400, dated July 14, 1999, CBO stated that enactment could have a small impact on the federal cost of administering the programs authorized by NAHASDA, but would not have a significant impact on the federal budget.

Estimate prepared by: Federal Cost: Carla Pedone, Susanne Mehlman, Lanetee Keith, Mark Hadley, and John Righter. Federal Revenues: Hester Grippando. Impact on State, Local, and Tribal

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Estimate approved by: Robert A. Sunshine, Assistant Director for Budget Analysis.

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