Federal Programs That Guarantee Mortgages—CBO's May 2019 Baseline

The federal government facilitates homeownership by providing guarantees against losses from defaults on mortgages made by private lenders—mainly through the Federal Housing Administration (FHA) and the Department of Veterans Affairs (VA). The Government National Mortgage Association in turn guarantees securities that are backed by those mortgages. Fannie Mae and Freddie Mac (government-sponsored enterprises that CBO treats as part of the federal budget) purchase mortgages from banks and other originators, pool the loans into mortgage-backed securities (which they guarantee against losses from default on underlying mortgages), and sell the securities to private-sector investors.

The budgetary treatment of FHA's and VA's mortgage guarantees follows the provisions of the Federal Credit Reform Act of 1990 (FCRA): The cost of federal credit activity for those programs in a budget year is the net present value of all expected future cash flows from guarantees and direct loans disbursed in that year. (Net present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The number depends on the discount rate, which under FCRA is the rate of interest used to translate past and future cash flows into current dollars.) For loan guarantees, cash inflows consist primarily of fees charged to insured borrowers, and cash outlays consist mostly of payments to lenders to cover the cost of loan defaults. The discounted loss (or gain) is the estimated budgetary cost or subsidy value of the loans issued during the budget year.

The budgetary treatment of Fannie Mae and Freddie Mac's mortgage guarantees follows fair-value accounting methods: The subsidy cost of providing credit either corresponds to or approximates the market price of that credit. Under fair-value accounting, when the net present value of future cash flows is calculated, a premium is added to the discount rate—the interest rate paid on Treasury instruments—to account for market risk. The object is to more fully incorporate the cost to the government (and, by extension, taxpayers) of the risks inherent in federal credit transactions.

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Millions of Dollars, by Fiscal Year

May 2, 2019

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Value of Mortgage Originations	1,646,668	1,811,317	2,099,035	2,359,714	2,519,607	2,658,672	2,781,937	2,888,573	2,990,582	3,089,597	3,201,361
Fannie Mae and Freddie Mac											
Value of Annual Loans	793,694	833,206	923,575	1,061,871	1,133,823	1,196,402	1,251,872	1,299,858	1,345,762	1,390,319	1,440,612
Annual Subsidy Costs [a]	n.a.	1,500	1,600	3,100	3,000	3,300	3,600	3,900	4,100	4,100	4,300
Cash Receipts [b]	-24,000	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Share of Originations (Percent)	48.2	46.0	44.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Subsidy Rate (Percent)	n.a.	0.18	0.17	0.29	0.27	0.28	0.29	0.30	0.30	0.30	0.30
Federal Housing Administration Mutual Mortgage Insurance Program[c]											
Value of Annual Loans	205,000	210,000	225,000	250,000	265,000	280,000	295,000	305,000	315,000	325,000	335,000
Annual Subsidy Receipts	-6,560	-5,649	-5,625	-5,750	-5,830	-5,600	-5,900	-6,100	-6,300	-6,500	-6,700
Share of Originations (Percent)	12.4	11.6	10.7	10.6	10.5	10.5	10.6	10.6	10.5	10.5	10.5
Subsidy Rate (Percent)	-3.2	-2.7	-2.5	-2.3	-2.2	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Department of Veterans Affairs Home Loan Program[d]											
Value of Annual Loans	136,116	126,171	115,112	103,549	91,499	78,817	81,344	83,911	86,474	89,124	92,056
Annual Subsidy Costs	94	701	644	592	538	478	501	524	545	568	1,132
Share of Originations (Percent)	8.3	7.0	5.5	4.4	3.6	3.0	2.9	2.9	2.9	2.9	2.9
Subsidy Rate (Percent)	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	1.2
Government National Mortgage Association Mortgage-Backed Securities Program[e]											
Annual Subsidy Receipts	-1,620	-1,050	-1,060	-1,100	-1,100	-1,110	-1,150	-1,190	-1,220	-1,260	-1,290

FCRA = Federal Credit Reform Act; FHA = Federal Housing Administration; GNMA = Government National Mortgage Association; MMI = Mutual Mortgage Insurance Program; VA = Department of Veterans Affairs; n.a. = not applicable.

a. For 2020 through 2029, the baseline includes the projected subsidy costs of new mortgage loans and guarantees made by Fannie Mae and Freddie Mac in each year estimated on a fair-value basis. For more information about CBO's budgetary treatment of Fannie Mae and Freddie Mac, see Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887.

b. For fiscal year 2019, the baseline includes an estimate of mandatory cash payments from Fannie Mae and Freddie Mac to the Treasury.

c. Excludes Home Equity Conversion Mortgages; MMI subsidy receipts are recorded in the budget as offsetting collections to discretionary appropriations. The subsidy rate for the MMI program is calculated using FCRA methods.

d. Includes guaranteed loans and direct loans made by the VA on homes sold by the department; excludes loans acquired from other lenders and guarantees on securities of direct loans originated by VA. Costs associated with this program are recorded in the budget as mandatory expenditures. The subsidy rate for the VA program is calculated using FCRA methods.

e. GNMA securitizes over 90 percent of FHA's MMI loan guarantees and 98 percent of VA's loan guarantees, resulting in additional offsetting collections. The subsidy rate for GNMA is calculated using FCRA methods. The subsidy rate for that program is estimated to be -0.44 percent in 2019 and -0.29 percent annually over the 2020-2029 period.