Federal Programs That Guarantee Mortgages—CBO's January 2020 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 guaranteed or issued during a 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

January 28, 2020

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Value of Mortgage Originations	1,988,054	1,935,498	2,083,499	2,223,311	2,434,207	2,625,859	2,803,857	2,977,122	3,102,236	3,208,666	3,305,000
Fannie Mae and Freddie Mac											
Value of Annual Loans	914,505	851,619	937,575	1,000,490	1,095,393	1,181,637	1,261,736	1,339,705	1,396,006	1,443,899	1,487,250
Annual Subsidy Costs [a]	n.a.	1,100	3,600	3,200	3,400	3,700	3,900	4,100	4,300	4,300	4,700
Cash Receipts [b]	-4,200	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Share of Originations (Percent)	46.0	44.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0	45.0
Subsidy Rate (Percent)	n.a.	0.13	0.38	0.32	0.31	0.31	0.31	0.31	0.31	0.30	0.31
Federal Housing Administration Mutual Mortgage Insurance Program [c]											
Value of Annual Loans	229,500	219,000	220,000	235,000	255,000	275,000	295,000	310,000	325,000	335,000	350,000
Annual Subsidy Receipts	-5,118	-8,541	-6,397	-5,793	-5,987	-5,500	-5,900	-6,200	-6,500	-6,700	-7,000
Share of Originations (Percent)	11.5	11.3	10.6	10.6	10.5	10.5	10.5	10.4	10.5	10.4	10.6
Subsidy Rate (Percent)	-2.2	-3.9	-2.9	-2.5	-2.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Department of Veterans Affairs Home Loan Program [d]											
Value of Annual Loans	180,009	170,944	160,058	148,701	136,957	141,951	128,639	133,236	118,266	122,464	126,775
Annual Subsidy Costs	1,699	1,558	1,522	1,426	1,320	1,380	1,260	1,318	1,181	1,238	1,819
Share of Originations (Percent)	9.1	8.8	7.7	6.7	5.6	5.4	4.6	4.5	3.8	3.8	3.8
Subsidy Rate (Percent)	0.94%	0.91%	0.95%	0.96%	0.96%	0.97%	0.98%	0.99%	1.00%	1.01%	1.43%
Government National Mortgage Association Mortgage-Backed Securities Program [e]											
Annual Subsidy Receipts	-1,250	-1,200	-1,180	-1,180	-1,210	-1,270	-1,290	-1,340	-1,340	-1,380	-1,430

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 2021 through 2030, 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 2020, 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 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, which is calculated using FCRA methods, is estimated to be -0.29 percent annually over the 2020-2030 period.