



# FY 2008 PROPOSED FEDERAL BUDGET SUMMARY AND HIGHLIGHTS FOR REALTORS®

A REPORT FROM THE REGULATORY AND INDUSTRY RELATIONS DIVISION

February 21, 2007

## INTRODUCTION

On February 5, 2007, the President released his proposed budget for FY 2008. The FY 2007 federal budget was not completed by the 109<sup>th</sup> Congress, and the federal government is currently operating on a Continuing Resolution at FY 2006 funding levels. With the \$2.9 trillion budget he submitted to Congress, President Bush is attempting to limit spending on health care, education, housing and other domestic programs. Overall domestic spending would be held below the rate of inflation in the fiscal year that begins Oct. 1 and frozen thereafter.

A summary below provides a preliminary analysis of how the Administration's budget would affect the real estate industry. This report (a) specifies the total discretionary budget authority for each of the key agencies (and the percentage change from FY 2007 actual appropriations, for rough comparison purposes), (b) summarizes the funding for programs of particular interest to REALTORS®, and (c) describes significant authorizing/budget-related proposals. Tax proposals are not discussed, but changes under consideration in Congress could have an impact on the real estate profession. While details are sparse on many of these proposals, NAR will continue to work to obtain more information. The FY08 budget is available at: <http://www.whitehouse.gov/omb/budget/fy2008/>

## Key Highlights

### **American Dream Downpayment Initiative (ADDI)**

- As part of the HOME program, ADDI increases the number of minority and first-time homebuyers by helping low-income people overcome barriers to homeownership, such as down payment and closing costs.
- The 2008 budget doubles the 2006 commitment to ADDI to \$50 million. The Administration plans to ask Congress to reauthorize ADDI, which sunsets in 2007.

### **Community Development Block Grant program (CDBG)**

- The budget proposes \$2.98 billion for the CDBG, a cut of \$736 million below the 2007 CR level and \$807 million below the CR level adjusted for inflation. This is a 28% reduction in funding for the CDBG. There are other proposed reforms and consolidations of CDBG activities, but no plans to transfer this program to the Commerce Department.

### **Federal Housing Administration (FHA) Mortgage Program**

- The Administration continues to press for risk-based pricing for FHA, based on the borrower's credit history and other risk factors. Premiums for FHA mortgage insurance currently do not vary according to a borrower's credit risk. This has driven borrowers to seek alternatives offered in the conventional market and pay higher prices than they otherwise would have if offered FHA risk-based pricing.

- The Administration is also reintroducing two new FHA mortgage products: (1) the zero-downpayment program for borrowers with good credit, and (2) a Payment Incentives Program that would require a higher downpayment but allow borrowers with weak credit histories to get a loan but with higher mortgage insurance premiums.
- The budget also indicates that FHA will go into the red for the first time ever if the program is not updated to reflect modern mortgage markets and products.

### **FHA Single-Family Programs**

- The Administration again plans to support FHA modernization legislation which would establish risk-based premiums for FHA single family programs.
- The budget would also increase the FHA single family loan limit from 87 percent to 100 percent of the conforming loan limit, and remove the cap on the number of Home Equity Conversion Mortgages (HECMs) insured by FHA.

### **USDA Rural Housing Service**

- The Rural Housing Service (RHS) budget for fiscal 2008 has no funds for either Section 515 rural rental housing loans or Section 502 direct homeownership loans.
- The proposed budget would increase by 50 percent, from 2 to 3 percent, the guarantee fee on new 502 loans.

### **Government Sponsored Enterprises**

- The Administration proposes a new regulator for the housing GSEs. After Congress adopts legislation, the HUD functions of establishing affordable housing goals, OFHEO's safety and soundness oversight of Fannie Mae and Freddie Mac, and the Federal Housing Finance Board's oversight of the Federal Home Loan Banks would be authorized for the new regulator. The new safety and soundness regulator would be funded by assessments on Freddie Mac, Fannie Mae, and the Federal Home Loan Banks.
- Although this new regulatory function is contemplated, the Administration has moderated its views on the GSE's portfolio limit and the FY 08 budget proposal does not include the harsh critique of GSE operations and risks to the financial system from previous budgets.

### **Cooperative Conservation**

- The Administration is proposing a Conservation Tax Incentive. This proposal would permanently extend the deductions for lands donated for conservation purposes, thereby helping "land-rich, cash-poor" land owners, such as farmers and ranchers, who donate lands for open space.

## DEPARTMENT OF AGRICULTURE

2008 Proposed Discretionary Budget Authority: \$20.2 billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 3.5%

**Natural Resource Protection and Preservation:** The budgets and programs below address environmental protection and preservation on working private lands.

**Wetlands Reserve Program:** This program pays private landowners to preserve, protect and restore wetlands.

- FY07 estimated appropriation: \$264 million
- FY08 Bush Budget proposal: \$455million ( 72 % increase)

**Farm and Ranch Lands Protection Program:** This program pays private landowners to limit nonagricultural use of prime and unique farm and ranch land.

- FY07 estimated appropriations: \$50 million
- FY08 Bush Budget proposal: \$97 million (94 % increase)

**Conservation Security Program:** This program provides financial and technical assistance to private working property to protect and improve the land's natural resources.

- FY07 estimated appropriations: \$259 million
- FY08 Bush Budget proposal: \$316 million (22% increase)

**Rural Housing and Development:** The budget and programs below reflect a preference for loan guarantees and vouchers to provide low-income, tenant-based housing in rural America.

**Section 502 Direct Single-family Loan Program:** This program provides direct low-interest loans to low-income rural residents.

- FY07 estimated appropriation: \$1.16 billion
- FY08 Bush budget proposal: \$0.0 billion (100% decrease)

**Section 502 Guaranteed Single-family Loan Program:** This program provides home loans to low- and moderate-income families. The loans are made by a local bank and guaranteed by the Rural Housing Service.

- FY07 estimated appropriation: \$3.6 billion
- FY08 Bush budget proposal: \$4.8 billion (32% increase)

**Section 515 Direct Multifamily Housing Loan Program:** This program provides loans with interest rates as low as 1% to developers of affordable rural rental housing.

- FY07 estimated appropriation: \$100 million
- FY08 Bush budget proposal: \$0 million (100 % decrease)

**Section 538 Guaranteed Multifamily Loan Program:** The program guarantees loans for the development of affordable rental housing for families.

- FY07 estimated appropriation: \$100 million
- FY08 Bush budget proposal: \$200 million (100% increase)

Rural Housing Voucher Program: This program will help Section 515 rural rental housing loan tenants who are displaced when the owner opts to prepay their loan and get out of the program.

- FY07 estimated appropriation: \$16 million
- FY08 Bush budget proposal: \$27.8 million (74% increase)
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Rural Rental Assistance: The program is designed to reduce rents paid by very low-income and low income families living in RHS-financed rural rental and farm labor housing projects.

- FY07 estimated appropriation: \$616 million
- FY08 Bush budget: \$567 million (8% decrease)

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## DEPARTMENT OF ENERGY

2008 Proposed Discretionary Budget Authority: \$24.26 billion

Decrease from 2007 Estimated Appropriated Discretionary Budget Authority: 6.2%

Office of Electric Transmission and Distribution: This office leads the efforts to modernize and expand the electricity transmission and distribution system. This will help reduce the likelihood of blackouts and disruptions, and will help mitigate the impacts if they do occur.

- FY07 estimated appropriation: \$164 million
- FY08 Bush Budget proposal: \$115 million (30% decrease)

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## DEPARTMENT OF HOMELAND SECURITY

2008 Proposed Discretionary Budget Authority: \$34.28 billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 7.1%

Emergency Preparedness and Response: The Federal Emergency Management Agency implements laws to mitigate and reduce the number of properties subject to floods and other natural hazards, and develops the floodplain maps.

### Repetitive Loss Pilot Program

- FY07 estimated appropriation: \$50 million
- FY08 Bush Budget proposal: \$90 million (80% increase)

### Pre-disaster Mitigation Grant Program

- FY07 estimated appropriation: \$134 million
- FY08 Bush Budget proposal: \$100 million (25% decrease)

### Flood Map Modernization

- FY07 estimated appropriation: \$203 million
- FY08 Bush Budget proposal: \$195 million (4% decrease)

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## DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

2008 Proposed Discretionary Budget Authority: \$35.2 billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 4.7%

Office of Lead Hazard Control: Implements program to eradicate lead hazards in housing.

- FY07 estimated appropriation: \$150 million
- FY08 Bush budget proposal: \$116 million ( 23% decrease)

HOME Investment Partnerships Program: Provides assistance to states and local governments to expand the supply and affordability of housing.

- FY07 estimated appropriation: \$1.8 billion
- FY08 Bush budget proposal: \$1.9 billion (5% increase)

The following activities are funded under the HOME Investment Partnerships Program heading in the FY07 proposed budget:

- Self-Help Homeownership Opportunity Program (SHOP): This program assists low-income buyers willing to contribute “sweat equity” toward the construction of their homes.

- FY07 estimated appropriation: \$20 million
- FY08 Bush budget proposal: \$40 million (100% increase)

- American Dream Downpayment Initiative: Provides assistance for low-income first-time homebuyers with high downpayments and closing costs.

- FY07 estimated appropriation: \$25 million
- FY08 Bush budget proposal: \$50 million (100% increase)

Community Development Block Grant (CDBG) Program: The CDBG program provides assistance to states and local governments for community development.

- FY07 estimated appropriation: \$4.215 billion
- FY08 Bush budget proposal: 3 billion (28% decrease)

Fair Housing Programs: The budget includes combined funding for the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP). FHAP provides funding to State and local agencies to assure prompt and effective processing of the fair housing law. FHIP provides assistance to educate the public on the Fair Housing Act.

- FY07 estimated appropriation for FHAP: \$26 million
- FY08 Bush budget proposal: \$26 million (no change)
- FY07 estimated appropriation for FHIP: \$21 million
- FY08 Bush budget proposal: \$20 million (5% decrease)

Tenant-based Section 8 Assistance (aka: Housing Choice Voucher Program): This program provides low-income families with subsidies to afford rental housing.

- FY07 estimated appropriation: \$15.9 billion
- FY08 Bush budget proposal: \$16 billion (<1% increase)
- Proposed budget would eliminate the cap on the number of families that could be served

**Project-based Section 8 Assistance:** This program provides assistance to maintain the stock of affordable housing. Unlike the tenant-based Section 8 program, subsidies in the project-based program are tied directly to the project.

- FY07 estimated appropriation: \$5.52 billion
- FY08 Bush budget proposal: \$5.52 billion (7% increase)
- Proposed budget would extend the authority for Mark-to-Market through 2011

**Housing Counseling Assistance Program:** This program helps prepare families homeownership, identify predatory lending practices, and help current homeowners avoid default:

- FY07 estimated appropriation: \$45 million
- FY08 Bush budget proposal: \$50 million (11% increase)

**FHA Single-family Loan Guaranty Limit:** FHA provides mortgage insurance to encourage lenders to make credit available to expand homeownership, especially those not served by the conventional market.

- FY07 guaranty commitment level: \$185 billion
- FY08 guaranty commitment level: \$185 billion (no change)
- Budget proposal would increase the premium fee (both upfront and monthly) for single family loans

**FHA Multifamily Loan Guaranty Limit:** FHA provides mortgage insurance to encourage lenders to make credit available to expand multifamily rental opportunities. The budget also proposes an increase in the Federal Housing Administration (FHA) monthly Mortgage Insurance Premium (MIP) for multifamily loans.

- FY07 guaranty commitment level: \$35 billion
- FY08 guaranty commitment level: \$35 billion (no change)
- Budget proposal would increase the premium fee in multi-family loans

**HOPE VI Program:** This program provides grants to public housing agencies for public housing demolition, site revitalization, and replacement housing.

- FY07 estimated appropriation: \$140 million
- FY08 Bush budget: zero funding (100% decrease)

**Section 202 Elderly Housing Program:** Program provides capital grants and operating subsidies for nonprofits to construct new apartment units for very low-income elderly families.

- FY07 estimated appropriation: \$735 million
- FY08 Bush budget proposal: \$575 million (22% decrease)

**Office of Federal Housing Enterprise Oversight:** OFHEO regulates the safety and soundness of Fannie Mae and Freddie Mac. The Bush budget anticipates legislation for a new independent agency which would regulate Fannie Mae, Freddie Mac, and the 12 Home Loan Banks but maintains constant funding levels for both proposals.

- FY07 estimated OFHEO budget: \$62 million
- FY08 Bush budget proposal: for OFHEO or equivalent: \$66 million (6.4% increase)

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## DEPARTMENT OF THE INTERIOR

2008 Proposed Discretionary Budget Authority: \$10.6 billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 3%

**Landowner Incentive Program:** This program provides technical and financial assistance to help private landowners protect and manage endangered species and their habitat.

- FY07 estimated appropriation: \$24 million
- FY08 Bush budget proposal: \$0.0 million (100% decrease)

**Private Stewardship Grants Program:** This program provides grants and other assistance on a competitive basis to individuals and groups engaged in local voluntary conservation efforts.

- FY07 estimated appropriation: \$7.3 million
- FY08 Bush budget proposal: \$0.0 million (100% decrease)

**Wildland Fire Management Program:** This program provides for wildfire preparedness, suppression and hazardous fuels reduction on DOI-managed lands.

- FY07 estimated appropriation: \$853 million
- FY08 Bush budget proposal: \$851 million (<1% decrease)

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## DEPARTMENT OF THE TREASURY

2008 Proposed Discretionary Budget Authority: \$12.1 billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 6.2%

**Community Development Financial Institutions (CDFI) Fund Program:** The CDFI Fund provides equity investments, grants, loans, and technical assistance to community development financial institutions, matched by private funds. The Treasury Department, through the CDFI Fund, would continue to administer the NMTC Program by providing allocations of tax credits to community development entities..

- FY07 estimated obligations: \$43 million
- FY08 Bush budget proposal for obligations: \$30 million (30% decrease)

**Office of the Comptroller of the Currency (OCC):** OCC supervises the national bank system. It is funded primarily from assessments charged to national banks and interest from its reserves. OCC receives no appropriations.

- FY07 estimated obligations for bank supervision: \$671 million
- FY08 Bush budget proposal for obligations for bank supervision: \$706 million (5.2% increase)

Office of Thrift Supervision (OTS): OTS supervises federally chartered savings associations (formerly known as savings and loan associations) and their holding companies (unless a bank is in the structure, in which case the Federal Reserve Board supervises the holding company). It is funded primarily from assessments charged to savings associations and their holding companies and interest from its reserves. OTS receives no appropriations.

- FY07 estimated OTS obligations: \$232 million
- FY08 Bush budget proposed for obligations: \$238 million (2.6% increase)

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## DEPARTMENT OF VETERANS AFFAIRS

2008 Proposed Discretionary Budget Authority: \$41.8 Billion

Increase from 2007 Estimated Appropriated Discretionary Budget Authority: 18%

In 2007, the VA will finance Veterans Housing Guaranteed loans totaling nearly \$29.1 billion. In 2006, the VA guaranteed loans totaling nearly \$28.2 billion. The Veterans Housing Direct Vendee Loan Program will finance Vendee loans totaling \$530 million for 2008.

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## ENVIRONMENTAL PROTECTION AGENCY

2008 Proposed Discretionary Budget Authority: \$7.2 billion

Decrease from 2007 Estimated Appropriated Discretionary Budget Authority: 2.7%

Clean Water State Revolving Fund: The Clean Water State Revolving Fund provides funding and technical assistance to help States, Tribes, and local communities update their water treatment systems.

- FY07 estimated appropriation: \$1billion
- FY08 Bush budget proposal: \$600 million (40% decrease)

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## Federal Trade Commission

2008 Discretionary Budget Authority: \$242 million

Increase from 2008 Estimated Appropriated Discretionary Budget Authority: 13%

Federal Trade Commission: The Federal Trade Commission (FTC) enforces consumer protection laws that prevent fraud, deception, and unfair business practices. The Commission also enforces Federal antitrust laws, which prohibit anticompetitive mergers and other business practices that restrict competition and harm consumers.

- FY07 estimated appropriation: \$224 million.
- FY08 Bush Budget proposal: \$240 million. (7.1% increase)

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