CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

December 28, 2001

H.R. 1291

Veterans Education and Benefits Expansion Act of 2001

As cleared by the Congress on December 12, 2001

SUMMARY

H.R. 1291 contains provisions that would affect a wide range of veterans' programs, including readjustment benefits, disability compensation, pension, housing, and burial benefits. In total, CBO estimates that the act would increase direct spending by $3.1 billion over the 2002-2006 period and $6.8 billion over the 2002-2011 period, as shown in Table 1. (H.R. 1291 would not affect receipts.) Only the estimated changes in the budget year and the succeeding four years are counted for pay-as-you-go purposes. The costs of this legislation fall within budget functions 550 (health) and 700 (veterans benefits and services).

TABLE 1. ESTIMATED IMPACT OF H.R. 1291 ON DIRECT SPENDING

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Readjustment Benefits	189	432	604	675	741	806	876	919	963	1,006
Compensation and Pension Benefits	20	84	73	80	73	61	74	-117	-111	-126
Housing Benefits	4	5	5	6	7	8	7	-247	-249	-253
Burial Benefits	16	18	19	19	19	18	19	19	19	19
Total Changes in Outlays	229	539	701	780	840	893	976	574	622	646

ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 1291 would affect direct spending on a wide range of veterans' programs. As shown above, CBO estimates the act would increase direct spending for veterans' readjustment benefits, disability compensation, pension, and burial benefits. The act also contains a few provisions with significant direct spending savings for veterans' housing programs.

Readjustment Benefits

H.R. 1291 would affect several provisions related to survivors' and dependents' education benefits provided under the Montgomery GI Bill (MGIB), and other readjustment benefits. As shown in Table 2, CBO estimates the act would increase spending on these programs by about $189 million in 2002, about $2.6 billion over the 2002-2006 period, and $7.2 billion over the 2002-2011 period.

TABLE 2. ESTIMATED COST OF PROVISIONS AFFECTING READJUSTMENT BENEFITS

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
CHANGES IN DIRECT SPENDING										
Increase in Basic Benefits	163	380	528	583	637	691	754	793	836	874
Survivors and Dependents Education Benefits	15	23	26	28	29	30	30	31	32	33
Payments for Technical Education	1	14	30	43	54	64	70	72	72	74
Restoration of Benefits	0	1	2	1	1	1	1	1	1	1
Clarification of Eligibility Period for Spouses	-1	-2	-3	-3	-3	-3	-3	-3	-3	-3
Distance Education	a	1	2	3	3	3	3	3	4	4
Enrollment of Vietnam-Era Veterans	0	1	2	3	3	3	2	2	1	1
MGIB Eligibility	0	0	a	a	a	a	2	3	3	4
Work Study	a	a	1	1	1	0	0	0	0	0
Restorative Training for Spouses	a	a	a	a	a	a	a	a	a	a
Adapted Housing Grants	4	4	5	5	5	5	5	5	5	5
Automobile and Adaptive Equipment Grants	1	1	2	2	2	2	2	2	2	2
Independent Living Services	6	9	9	9	9	10	10	10	10	11
Total	189	432	604	675	741	806	876	919	963	1,006

a. Less than $500,000.

Increase in Basic Benefits. Under current law, participants in MGIB who served at least three years on active duty are entitled to receive up to $672 a month in fiscal year 2002. Those who served two years are entitled to a maximum monthly benefit of $546. Section 101 would increase the monthly stipend of participating veterans who served at least three years on active duty to $800 in 2002, $900 in 2003, and $985 in 2004. Participating veterans with at least two years of active duty would be eligible for a maximum monthly benefit of $650 in 2002, $732 in 2003, and $800 in 2004. The cost-of-living adjustments scheduled for the 2003 and 2004 would not occur. Overall, the monthly benefit would increase by

19 percent in 2002, 30 percent in 2003, and 39 percent in 2004. Assuming an increase in the rate of participation in this program, CBO estimates that this section would cost $163 million in 2002, almost $2.3 billion over the 2002-2006 period, and $6.2 billion over the 2002-2011 period.

Survivors' and Dependents' Education Benefits. Section 102 would increase educational assistance to survivors and dependents to $670 a month beginning January 1, 2002, an increase of about 10 percent over current rates. Assuming an increase in the rate of participation in this program, CBO estimates this provision would increase direct spending by $15 million in fiscal year 2001, $121 million over the 2002-2006 period, and $277 million over the 2002-2011 period.

Payments for Technical Education. Two provisions in H.R. 1291 would affect payments for technical education. Section 110 would expand education allowed under MGIB to include training required for certification in high technology occupations. Section 104 would allow payment of 60 percent of the tuition and fees for such training, effective October 1, 2002, when the total cost of the training is more than double the amount that could otherwise be paid under MGIB. The payment would be made in a lump sum and the trainee's remaining months of MGIB entitlement would be reduced accordingly. Based on information from a number of technical training schools about the number of individuals in the general population who undergo training for high technology occupations, CBO estimates that about 25,000 veterans a year would eventually participate in such training. Assuming that half of these veterans would have used MGIB benefits even in the absence of this provision and thus only the other half represent new users, CBO estimates that sections 110 and 104 would together cost $1 million in 2002, $142 million over the 2002-2006 period, and $494 million in the 2002-2011 period.

Restoration of Benefits. Under current law, former servicemembers and eligible dependents are allowed a fixed period of time to use their veterans' education benefits. Section 103 would allow that period to be increased when those individuals are called to active duty as reservists. Under section 103, the time allowed for such individuals to use their education benefits would be extended by an amount of time equal to the period of active duty plus four months.

In addition, under section 103, any payment of education assistance made to such a reservist would not be charged against his or her entitlement, if the reservist did not receive credit for the course or lost training time due to being called up for active duty. Any servicemember prevented from receiving credit for a course because of military duties would also have his or her entitlement similarly protected.

Based on information from the Department of Defense (DoD) and the Department of Veterans Affairs (VA), CBO estimates that the call of reserves to active duty after September 11, 2001, has caused about 1,200 eligible reservists and servicemembers to lose course credit or training time that they would need to make up at a cost of about $2 million over the 2003-2005 period. In addition, CBO estimates about 1,600 reservists who were called up after September 11, 2001, would use an average of an extra year of eligibility at a cost over the 2003-2011 period of about $8 million. CBO is not able to estimate the increased cost of education benefits under this section that may result from activation of the reserves or changes in operational tempo in the future.

Clarification of Eligibility Period for Spouses. Section 108 would impose a 10-year limit on the period of eligibility for education benefits of spouses of certain disabled veterans. VA had enforced a 10-year limit on these benefits, until a recent court case, *Ozer vs. Principi*, declared the regulation void. Since VA did not appeal that finding, the spouses of certain veterans, whose service-connected disability is rated as "total," may now use their education benefits for an indefinite period. By creating a 10-year limit, section 108 would reduce the usage of education benefits that would be expected under current law.

According to VA, 7 percent of spouses using education benefits are constrained by the 10-year limit. Assuming that in the absence of a time limit, these spouses would receive benefits for an additional three years, CBO estimates that, on average, an additional 750 spouses a year would use an average annual benefit of $4,000. Thus, the savings from this provision would total $1 million in 2002, $12 million over the 2002-2006 period, and $27 million over the 2002-2011 period.

Distance Education. Under current law, independent study programs are allowed under MGIB only if they lead to a standard college degree. Section 111 would allow independent study in certificate-granting programs. Based on information from VA, CBO estimates this provision would gradually increase the trainee population by 0.2 percent over several years and increase direct spending by less than $500,000 in 2002, $9 million over the 2002-2006 period, and $26 million over the 2002-2011 period

Enrollment of Vietnam-Era Veterans. Section 105 would grant MGIB eligibility to certain Vietnam-era veterans who were not on active duty during the 1985 conversion to MGIB, but later rejoined the armed forces. Based on information from DoD, CBO estimates that almost 9,000 servicemembers and veterans would now qualify for MGIB benefits. Because this is an older population and many of these veterans have been out of the service for some time, CBO assumes that only 25 percent of those eligible would become trainees and that they would, on average, train at one-quarter of the full-time rate over a period of four years. Assuming these individuals would start training over a period of years, as they leave the military or hear about their new eligibility, CBO estimates the provision would cost $9 million over the 2003-2006 period and $18 million over the 2003-2011 period.

MGIB Eligibility. Section 106 would increase the number of Reserve Officer Training Corps (ROTC) graduates that are eligible to participate in MGIB. Currently, reservists who receive ROTC scholarships for tuition and fees totaling more than $2,000 for every year they participate in the program may not subsequently participate in the MGIB. This act would raise that maximum to $3,400 a year. Based on information from DoD, CBO estimates that an extra 800 ROTC graduates a year would enter the military eligible to participate in MGIB, beginning in fiscal year 2002. Using normal retention patterns and MGIB usage rates, CBO estimates this provision would increase direct spending by less that $500,000 a year over the 2004-2006 period and $12 million over the 2004-2011 period.

Work Study. Section 107 would expand, for five years, the opportunities of veterans receiving education benefits to receive work-study stipends. Currently, the jobs available under the work-study program are limited to providing services required in connection with VA activities, or the administration of veterans' education programs for the military reserves, the National Guard or the Coast Guard. Under this act, eligible veterans would be paid work-study stipends for work in a national or a state veterans' cemetery or in certain state-operated facilities that assist veterans. Based on information from VA, CBO estimates that approximately 250 additional veterans would participate in the work-study program each year. CBO estimates this increased participation would increase direct spending by less than $500,000 in 2002 and 2003, and $3 million over the 2004-2006 period.

Restorative Training for Spouses. Section 109 would extend eligibility for restorative training to include the spouses of certain disabled or deceased veterans. Based on information from VA, CBO expects few people would be affected by this provision and costs would be less than $500,000 a year over the 2002-2011 period.

Adapted Housing Grants. Section 404 would increase the amounts of grants provided to aid certain severely disabled veterans to acquire specially adapted housing or to modify their current residence. Under this provision, the grants to the most severely disabled would be increased from $43,000 to $48,000. For those veterans with certain specific but lesser disabilities, the grant of $8,250 would increase to $9,250. Assuming a slight increase in participation in the program, CBO estimates this provision would increase direct spending by about $4 million in 2002, $23 million over the 2002-2006 period, and $48 million over the 2002-2011 period.

Automobile and Adaptive Equipment Grants. Section 503 would increase the amount of grants available to certain severely disabled veterans for the purchase of an automobile and adaptive equipment. Based on current usage and allowing for an increase in demand for such grants, CBO estimates that increasing the grant from $8,000 to $9,000 would increase costs by about $1 million in 2002, $8 million over the 2002-2006 period, and $18 million over the 2002-2011 period.

Independent Living Services. Section 508 would expand to 2,500 the annual limit on the number of veterans in programs of independent living services and assistance. Although the current annual limit on veterans in these programs is 500, VA reports that 1,987 veterans were enrolled in independent living programs last year, at an average cost of $4,000 per participant. VA expects sharp growth in the eligible population, due to the aging of the Vietnam-era veteran population and new rules regarding presumptive disabilities. Absent this provision, CBO assumes that VA would reduce their caseload to come into compliance with the current limitation by 2003. Under section 508, CBO estimates the caseload for these programs would be about 2,400 in 2002 and reach the 2,500 cap in 2003. CBO estimates the average cost per participant would be about $4,250 in 2002 and would grow to over $5,300 in 2011. Based on these projections, CBO estimates section 508 would increase direct spending by $6 million in 2002, $42 million over the 2002-2006 period, and $93 million over the 2002-2011 period.

Compensation and Pension Benefits

Several provisions of H.R. 1291 would affect compensation and pension benefits. Some would increase spending while others would produce direct spending savings. Overall, as shown in Table 3, CBO estimates the act would increase direct spending on these programs by $20 million in 2002, $330 million over the 2002-2006 period, and $111 million over the 2002-2011 period.

Compensation Related to Agent Orange. Section 201 would eliminate the deadline to establish a service-related connection for certain cancers by veterans who are presumed to have been exposed to Agent Orange in Vietnam. Under current law, veterans who develop a respiratory cancer within 30 years of leaving Vietnam are eligible to collect compensation disability benefits. Section 201 would strike the time limit, thus allowing more veterans to receive compensation payments for lung, bronchus, larynx, and trachea cancers.

CBO used the average age of a soldier in Vietnam, age-appropriate death rates for males, respiratory cancer incidence rates from the Cancer Institute, and the number of soldiers in Vietnam from 1962 through 1972 (for subsequent years, the number is too small to be significant) to determine the number of qualified veterans who would be diagnosed with a respiratory cancer after the 30-year time limit. CBO estimates that this section would affect about 45,000 veterans. Most of those will have lung cancer, which is the most common respiratory cancer and has a very low survival rate. CBO assumes that those veterans who survive the cancer will be rated by the VA at about 90 percent disabled for two years and at 40 percent disabled thereafter. Based on data from VA, CBO also assumes that 75 percent of those who do not survive would leave behind a surviving spouse who would be eligible for dependency and indemnity compensation benefits and that only 60 percent of all eligible veterans and surviving spouses would apply for and receive benefits. Using an average annual benefit in 2002 of about $17,000 for veterans in their first years of cancer and about $11,000 for surviving spouses, CBO estimates that this section would increase direct spending by $13 million in 2002, $362 million over the 2002-2006 period, and almost $1.3 billion over the 2002-2011 period.

TABLE 3. ESTIMATED COST OF PROVISIONS AFFECTING COMPENSATION AND PENSION BENEFITS

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Agent Orange	13	62	76	100	111	119	150	174	203	257
Persian Gulf Undiagnosed Illnesses	2	34	24	23	22	21	21	20	19	18
Extension of COLA Round Down	0	-17	-34	-52	-71	-90	-110	-131	-152	-175
Veterans in Medicaid Nursing Homes	0	0	0	0	0	0	0	-195	-197	-243
Incompetent Institutionalized Veterans	4	4	4	5	5	4	5	5	5	5
Eligibility of Veterans Age 65 and Older for Pensions	2	3	5	6	8	9	10	12	13	14
Limited Compensation for Incarcerated Veterans	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2
Preserve Benefits for Research Participants	a	a	a	a	a	a	a	a	a	a
Presumption of Qualification for Pension Benefits	a	a	a	a	a	a	a	a	a	a
Eliminate Benefits for Fugitives	-a	-a	-a	-a	-a	-a	-a	-a	-a	-a
Total	20	84	73	80	73	61	74	-117	-111	-126

NOTE: COLA = Cost-of-Living Adjustment.

a. Less than $500,000.

Compensation Related to Undiagnosed Illnesses. Section 202 would expand the definition of undiagnosed illness for the purpose of granting service-connected disability compensation to more veterans of the Persian Gulf War. Under current law, veterans who served in the Persian Gulf from August 2, 1990, to the present are presumed to have a compensable disability if they exhibited symptoms that could be attributed to any diagnosable illness before December 31, 2001. Such symptoms include joint pain, headaches, sleep disorders, and respiratory problems. This section would expand eligibility to those Gulf War veterans who are diagnosed with a medically unexplained chronic multisymptom illness, including chronic fatigue syndrome (CFS), fibromyalgia, and irritable bowel syndrome (IBS). In addition to the diseases listed in the act, CBO assumes that other diseases for which veterans could receive service-connected disability include multiple chemical sensitivity (MCS) and autoimmune disorder.

CBO obtained data from the VA on the number of Gulf War veterans who have been diagnosed with CFS, fibromyalgia, and IBS and have had their claims for compensation denied. VA was unable to provide similar data for MCS because it does not have diagnostic data for this illness. CBO used data from a comprehensive study of Gulf War veterans' health to estimate the incidence of MCS within that population. Because chronic multisymptom illness often exhibits similar symptoms as CFS or fibromyalgia, CBO assumed that most veterans with MCS are likely to have already been diagnosed as having these other diseases.

From the data provided by VA, CBO could not estimate the prevalence of autoimmune disorders that might be attributed to service in the Gulf War. VA does not have a single diagnostic code for this illness but, instead, classifies over a dozen widely varying diseases as autoimmune disorders.

Assuming that some of the diagnoses are overlapping and that some previously denied cases would likely be resubmitted, CBO estimates that section 202 would result in about 3,000 additional veterans being granted compensation for a service-connected disability. Prior to enactment of this legislation, a veteran had to exhibit and document signs and symptoms of an illness before December 31, 2001, to receive benefits for a service-connected disability relating to Persian Gulf service, so CBO assumes most claims made in response to this provision would probably be submitted in 2002. Because this section of the act would take effect on March 1, 2002, and since VA takes an average of six months to adjudicate reopened claims, CBO expects that 2002 outlays would be very small. Based on payment data from VA for approved claims for CFS, fibromyalgia, and similar illnesses, CBO estimates the average annual benefit for such illnesses would be about $8,000 in 2003. As a result, CBO estimates that section 202 would increase direct spending by $2 million in 2002, $105 million from 2002 through 2006, and $204 million over the 2002-2011 period.

Extension of Provision to Round Down Cost of Living Adjustments. Section 205 would extend through 2011 a provision of law that requires the increased monthly rates due to the cost-of-living adjustment to be rounded down to the next lower whole dollar. This provision of law applies to both compensation disability and dependency and indemnity compensation payments. These provisions are currently due to expire at the end of 2002. Based on the number of beneficiaries and number of payments made each year, CBO estimates that this section would result in savings of $17 million in 2003, $174 million over the 2003-2006 period, and $832 million over the 2003-2011 period.

Extension of Provision Affecting Veterans in Medicaid Nursing Homes. Section 504 would extend from September 30, 2008, to September 30, 2011, the expiration date on a provision of law that sets a $90 per month limit on pensions for any veteran without a spouse or child, or for any survivor of a veteran, who is receiving Medicaid coverage in a Medicaid-approved nursing home. It also allows the beneficiary to retain the pension instead of having to use it to defray nursing home costs. Using data provided by VA, CBO estimates that in 2002 there would be about 19,000 veterans and 27,000 survivors affected by this provision and that the average savings to VA associated with this provision would be about $14,000 per veteran and $9,000 per survivor in the same year. Extrapolating from this estimate to account for mortality and new nursing home patients, CBO estimates gross savings for VA of $1.6 billion over the 2009-2011 period. Higher Medicaid payments to nursing homes offset some of the savings credited to VA. CBO estimates that those costs would total $969 million over the 2009-2011 period, resulting in a net savings of $635 million over the same period.

Incompetent Institutionalized Veterans. Section 204 would eliminate the requirement that VA withhold benefit payments from certain incompetent veterans who are institutionalized at the government's expense and whose estates are valued above $10,180. Under current law, these veterans cannot have their benefits reinstated until the value of their estates fall to no more than $5,090. Data from VA indicates that about 1,900 veterans covered by this provision have estates valued over $10,180 and would thus begin receiving benefits under this provision. In 1999, the average length of time for which veterans lost their benefit payments was 45 days. Data from VA indicates these veterans have neither a spouse nor a child and receive an average monthly benefit of $1,604. CBO estimates that this section would increase direct spending for veterans' entitlements by about $4 million in 2002, $22 million over the 2002-2006 period, and $46 million over the 2002-2011 period.

Eligibility of Veterans Age 65 and Older for Veterans Pension Benefits. Section 207 would change the qualifying requirements for pension benefits to automatically include certain veterans. In order to receive a pension under current law, a veteran must have served during a period of war, be totally disabled for reasons other than those related to military service, and have an annual income below a limit set by VA. This section would allow those veterans age 65 or older, who would meet the other two criteria to receive a pension, to be presumed totally disabled without providing any medical evidence.

VA recently conducted a study of their pension cases that revealed that 3 percent of applicants age 65 or over were denied pension benefits because they were not totally disabled. Based on this data, an estimate of the number of claims expected in the future from those over the age limit, and an expected appeals reversal rate of about 40 percent from VA, CBO estimates that about 300 veterans per year would qualify to receive a pension under this provision. Using an average yearly payment of about $5,200, CBO estimates that this provision would increase direct spending by about $2 million in 2002, $24 million over the 2002-2006 period, and $82 million over the 2002-2011 period.

Limited Compensation for Incarcerated Veterans. Section 506 would reduce payments to veterans who were incarcerated on or before October 7, 1980, for a felony committed before that date and remain incarcerated for conviction of that felony. Current law allows for reduced payments to veterans who were convicted and incarcerated after October 7, 1980. Veterans convicted and incarcerated after October 7, 1980, who have a service-connected disability rating of 20 percent or more are paid at the 10 percent rate. Incarcerated veterans who are rated at 10 percent receive payments of half that amount. VA has identified 230 veterans who would meet the criteria stipulated in section 506. Based on information provided by VA on the average annual payment to incarcerated veterans, CBO estimates that this provision would result in direct spending savings of about $2 million a year or $19 million over the 2002-2011 period.

Other Provisions. CBO estimates that the following provisions would increase or decrease direct spending for compensation and pension programs by less than $500,000 a year.

- *Preserve Benefits for Research Participants.* Section 203 would allow veterans of the Persian Gulf War who receive compensation benefits for undiagnosed illnesses to participate in medical research projects identified by the Secretary of Veterans Affairs and keep receiving the benefits even if they are diagnosed with a non-service-connected illness as a result of the research. Based on information provided by VA, CBO estimates that few veterans would be affected by this provision and that there would be little effect on direct spending.

- *Automatic Presumption for Qualification for Pension Benefits.* Section 206 would change the qualifying requirements for pension benefits to automatically include veterans who are in a nursing home, who are unemployable, or who have been declared disabled by the Commissioner of Social Security. Assuming they met the other requirements of wartime service and low income, these veterans would no longer need to provide medical evidence of total disability to receive a pension. Based on information provided by VA, CBO estimates that this provision would grant few pension benefits to veterans who would not otherwise qualify.

- *Eliminate Benefits for Fugitives.* Section 505 would add VA benefits to the list of federal benefits which fugitive felons are prohibited from receiving. Based on information provided by VA, CBO estimates that any savings that result from this provision would be negligible.

Housing Benefits

Several provisions of H.R. 1291 would affect housing benefits for veterans. As shown in Table 4, CBO estimates the act would reduce direct spending on veterans' housing programs primarily by extending provisions that pertain to loan fees, resale losses, and loan sales. The act also contains a few provisions with small direct spending costs. On balance, CBO estimates that the effect of H.R. 1291 on direct spending for housing benefits would be an increase in direct spending of $4 million in 2002, an increase in direct spending of $27 million over the 2002-2006 period, and a net savings in direct spending of $707 million over the 2002-2011 period.

TABLE 4. ESTIMATED COST OF PROVISIONS AFFECTING HOUSING PROGRAMS

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Extension of Provisions Affecting Loan Fees, Resale Losses, and Loan Sales	0	0	0	0	0	0	0	-255	-259	-264
Members of Selected Reserve	0	0	0	0	0	0	-2	-2	0	0
Increase in Loan Guarantee Amount	4	5	5	6	7	8	9	10	10	11
Native American Veterans	a	a	a	a	a	0	0	0	0	0
Total	4	5	5	6	7	8	7	-247	-249	-253

a. Less than $500,000.

Extension of Provisions Affecting Housing. Section 405 would extend through 2011 three provisions that affect housing programs for veterans, thus reducing direct spending by $778 million over the 2009-2011 period.

- *Loan fees.* Subsection 405(c) would reduce the VA loan subsidy in 2009-2011 by charging veterans a fee surcharge of 0.75 percent of the loan amount at the time the loan is made. CBO estimates this provision would affect 170,000 new loans a year over the 2009-2011 period and raise collections, and thus reduce subsidies, by an average of $182 million a year over the same time period. Under current law, veterans can reuse their home loan guarantee benefit if their previous debt is paid in full. Subsection 405(c) would extend the requirement for VA to collect a fee of 3 percent of the total loan amount from veterans who reuse their benefit through fiscal year 2011. CBO estimates this provision would affect roughly 22,800 new loans a year and raise collections (lower subsides) by an average of $59 million a year for 2009 through 2011.

- *Resale losses*. Subsection 405(d) would extend a provision of law that requires VA to consider losses it might incur when selling a property acquired through foreclosure. Under current law, VA follows a formula defined in statute to decide whether to acquire the property or pay off the loan guarantee instead. The formula requires appraisals that might be valid at the time they are made, but does not account for changes in market conditions that might occur while VA prepares to dispose of the property. The act would extend the requirement for VA to take account of losses from changes in housing prices that the appraisal does not capture. Losses of this type might be prevalent when housing prices are particularly volatile or if appraisals are biased for other reasons. Based on information from VA, CBO estimates this provision would save $10 million a year over the 2009-2011 period.

- *Loan sales.* Subsection 405(b) would extend VA's authority to guarantee the real estate mortgage conduits that are used to sell certain direct loans on the secondary mortgage market. Without this authority, VA could market direct loans under other provisions of current law, but by guaranteeing the certificates issued on a pool of loans, VA obtains a better price for the loans sold. CBO estimates this provision would save VA $8 million a year for 2009 through 2011.

Housing for Members of the Selected Reserves. Section 405(a) would extend home loan benefits for reservists and raise fees charged for this benefit through 2009. Under current law, the benefit expires in 2007, and the fees expire in 2008. CBO estimates that this provision would result in VA guaranteeing an additional 7,000 loans a year over the2008-2009 period, with an average loan amount of $140,000. Because loan fees would more than offset the subsidy cost of additional loan guarantees, CBO estimates that the provision would lower net spending by $2 million annually over the 2008-2009 period.

Increase in Loan Guarantee Amount. Section 401 would increase the maximum loan guarantee amount on VA home loans from $50,750 to $60,000, thereby raising the maximum loan amount from $203,000 to $240,000. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) CBO estimates this provision would increase direct spending by $4 million in 2002, $27 million over the 2002-2006 period, and $75 million over the 2002-2011 period.

Based on information from VA, CBO estimates that the act would result in 7,000 new loans a year over the 2002-2011 period. In addition, roughly 3,000 loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. By boosting participation in the VA home loan program, the act would increase direct spending in three different ways. First, added subsidy costs for 10,000 guaranteed loans a year (7,000 new loans and 3,000 loans with larger loan amounts) would average roughly $6 million a year over the 2002-2011 period. Second, some of those 10,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. CBO estimates that the subsidy cost of these vendee loans would be less than $500,000 each year until 2011. Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such guarantees would be less than $500,000 each year until 2005, but would eventually reach $4 million a year by 2011.

Housing for Native American Veterans. Section 402 would extend the Native American Veteran Housing Loan Pilot Program through December 31, 2005. Under the program, VA makes direct loans to veterans living on trust lands for the purchase, construction, or improvement of a home. In 1993, Public Law 102-389 provided appropriations of $4.5 million for the subsidy cost of these loans. Since the program's inception, VA has made about 200 loans at a subsidy cost of $2 million. CBO estimates that under the act, VA would subsidize about 30 loans a year at an annual cost of about $250,000. Because the act would affect outlays from funds already appropriated and would not depend on future appropriation action, these additional outlays are considered direct spending.

Burial Benefits

Several provisions of H.R. 1291 would affect burial benefits for veterans. As shown in Table 5, CBO estimates the act would increase direct spending on these programs by $16 million in 2002, $91 million over the 2002-2006 period, and $185 million over the 2002-2011 period.

TABLE 5. ESTIMATED COST OF PROVISIONS AFFECTING BURIAL BENEFITS

	By Fiscal Year, Outlays in Millions of Dollars									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Increase Allowances for Burial Expenses and Burial Plots	15	17	18	18	18	18	19	19	19	19
Grave Markers	1	1	1	1	1	a	0	0	0	0
Total	16	18	19	19	19	18	19	19	19	19

a. Less than $500,000.

Increase Allowances for Burial Expenses and Burial Plots. Section 501 would increase the allowance to help cover burial and funeral expenses for veterans whose deaths are attributed to a service-connected disability from the current rate of $1,500 to $2,000. Based on information from the VA, CBO estimates that this provision would apply to between 9,600 and 9,800 burials per year and cost $5 million in 2002, $24 million over the 2002-2006 period, and $49 million over the 2002-2011 period.

Section 501 also would increase the burial plot allowance from $150 to $300. This allowance can be paid to a state or local veterans' cemetery or a public cemetery with a separate veterans' section that buries a qualified veteran without charging for the cost of a plot or interment. It can also be paid to the family of a qualified veteran who is buried in a private cemetery or in a general section of a public cemetery. Based on data from VA, CBO estimates that this provision would apply to 80,000 plots in 2002 and almost 100,000 plots by 2011, and would increase direct spending by $10 million in 2002, $62 million over the 2002-2006 period, and $131 million over the 2002-2011 period.

Grave Markers. Section 502 would allow VA to provide a marker to be placed on a grave or other appropriate location in a cemetery to commemorate a veteran's military service. Under current law, veterans buried in a private cemetery may only receive a commemorative headstone or marker from VA if the grave site is not already marked. Veterans buried in national or state veterans' cemeteries automatically receive a commemorative headstone or marker. This provision would apply to veterans who die after the date of enactment and would expire on December 31, 2006.

Based on projections about future deaths and the number of burials in private cemeteries, CBO estimates that about 125,000 requests for markers would be made over the next five years. The estimate reflects information from a VA study that showed only 27 percent of private cemeteries allow second markers and an assumption that only half of those eligible would participate in this program. With an average cost of about $55 for each marker, CBO estimates that this provision would result in an increase in spending for burial benefits of $1 million in 2002, $5 million over the 2002-2006 period, and $6 million over the 2002-2011 period.

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