



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

April 4, 2003

H.R. 1257
Selected Reserve Home Loan Equity Act
As introduced on March 13, 2003

H.R. 1257 would permanently extend the home loan benefits guaranteed by the Department of Veterans Affairs (VA) to members of the selected reserve and amend certain fees charged for the program. CBO estimates that enacting the bill would reduce direct spending by \$51 million over the 2004-2013 period, but would not affect administrative expenses for the program, which are provided for in annual appropriations acts. The changes in direct spending are shown in the following table. The budgetary impact of this bill falls within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	-4	*	*	*	*	*	-2	-2	-21	-21
Estimated Outlays	-4	*	*	*	*	*	-2	-2	-21	-21

* = Between -\$500,00 and zero.

Under current law, reservists are eligible for home loans guaranteed by VA through 2009. CBO estimates that under the bill, VA would guarantee 9,000 additional loans a year over the 2010-2013 period, with an average loan amount of \$153,000. The bill also would alter the fee structure for the VA home loan program in two ways. First, it would require VA to charge the same fees for active-duty veterans and reservists by reducing the fees paid by reservists by 75 basis points. And second, it would increase the fee charged for repeated use (when a veteran uses the benefit more than once) of the home loan benefit by 30 basis points over the 2004-2011 period and by 90 basis points in 2012 and 2013.

CBO estimates that revising fees in the manner specified above would reduce direct spending by \$4 million in 2004, but have no significant effect on direct spending over the 2005-2009 period as the fee changes would approximately offset each other over that period. Savings in 2004 result from lower interest rate assumptions for that year compared to those projected for the 2005-2009 period.

Starting in 2010, when VA would guarantee additional loans for reservists under the bill, CBO estimates direct spending would fall by \$2 million a year in 2010 and 2011, and by \$21 million a year in 2012 and 2013. Savings result because reservists have fewer home loan defaults than do other veterans, according to VA, and this lower default rate would reduce the subsidy rate for the program as a whole over the 2010-2013 period. Annual savings would increase significantly from 2011 to 2012 because the fees would rise substantially in 2012 under the bill.

H.R. 1257 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, and tribal governments.

The CBO staff contact is Sunita D'Monte. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.