CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 24, 2012

H.R. 4482

A bill to amend title 38, United States Code, to make permanent home loan guaranty programs for veterans regarding adjustable rate mortgages and hybrid adjustable rate mortgages

As ordered reported by the House Committee on Veterans' Affairs on April 27, 2012

H.R. 4482 would make permanent the authority of the Department of Veterans Affairs (VA) to guarantee adjustable-rate mortgages and hybrid adjustable-rate mortgages (that is, mortgages with a rate that is fixed for an initial period and adjustable thereafter). Subsidy costs of those additional loan guarantees—totaling $144 million over the 2013-2022 period—would be paid from a mandatory appropriation; therefore, pay-as-you-go procedures apply.[1]

Under its mortgage guarantee program, VA promises to pay lenders up to 25 percent of the outstanding loan balance (subject to some limitations on the original loan amount) in the event that the borrower defaults. Such guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments. VA charges fees to some borrowers who use the program, which offset some of the costs of subsequent defaults.

The authority in current law to guarantee adjustable-rate mortgages and hybrid adjustable-rate mortgages expires at the end of fiscal year 2012. Based on the number of such mortgages that VA has guaranteed in recent years, CBO estimates that VA would guarantee about $1.3 billion worth of additional loans a year over the next 10 years. Additional subsidy costs for those loans would increase direct spending by $144 million over the 2013-2022 period, CBO estimates.

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1. Under the Federal Credit Reform Act of 1990, the subsidy cost of a loan guarantee is the net present value of estimated payments by the government to cover defaults and delinquencies, interest subsidies, or other expenses, offset by any payments to the government, including origination fees, other fees, penalties, and recoveries on defaulted loans. Such subsidy costs are calculated by discounting those expected cash flows using the rate on Treasury securities of comparable maturity. The resulting estimated subsidy costs are recorded in the budget when the loans are disbursed.

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 4482 as ordered reported by the House Committee on Veterans' Affairs on April 27, 2012

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
	NET INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	8	8	10	11	15	17	18	18	19	20	52	144

H.R. 4482 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contact for this estimate is David Newman. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.