



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 7, 2011

S. 745

A bill to amend title 38, United States Code, to protect certain veterans who would otherwise be subject to a reduction in educational assistance benefits, and for other purposes

*As ordered reported by the Senate Committee on Veterans' Affairs
on June 29, 2011*

SUMMARY

S. 745 would modify the amount of education benefits payable to certain veterans and qualifying dependents through December 31, 2014. It also would temporarily increase the fees certain veterans pay to receive a guarantee on their home loans. If enacted, CBO estimates that, on net, the bill would decrease direct spending by \$1 million over the 2012-2021 period.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending. Enacting the bill would not affect revenues.

S. 745 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 745 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

BASIS OF ESTIMATE

S. 745 would temporarily modify certain education and loan guarantee benefits provided by the Department of Veterans Affairs (VA). This estimate is based on information from VA, the National Center for Education Statistics, and the College Board. CBO assumes the bill will be enacted near the beginning of fiscal year 2012.

	By Fiscal Year, in Millions of Dollars											2012-	2012-	
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2016	2021		
CHANGES IN DIRECT SPENDING														
Fees for Guaranteed Loans														
Estimated Budget Authority	-30	-17	-14	0	0	0	0	0	0	0	-61	-61		
Estimated Outlays	-30	-17	-14	0	0	0	0	0	0	0	-61	-61		
Higher Cap on Tuition and Fees														
Estimated Budget Authority	29	15	11	5	0	0	0	0	0	0	60	60		
Estimated Outlays	29	15	11	5	0	0	0	0	0	0	60	60		
Total Changes														
Estimated Budget Authority	-1	-2	-3	5	0	0	0	0	0	0	-1	-1		
Estimated Outlays	-1	-2	-3	5	0	0	0	0	0	0	-1	-1		

Fees for Guaranteed Loans

Section 2 would increase the fees that VA charges for guaranteeing certain mortgages obtained by veterans. VA guarantees lenders a payment of up to 25 percent of the outstanding loan balance (subject to some limitations on the original loan amount) in the event that the veteran defaults. Such guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments.

Under current law, veterans who get a mortgage with a VA guarantee and make a down payment of at least 5 percent but less than 10 percent of the sales price must pay an upfront fee equal to 1.50 percent of the principal for loans taken in 2011. In 2012 and thereafter, the fee for such loans will decline to 0.75 percent. Similarly, veterans who take guaranteed loans and make a down payment of 10 percent or more must pay a fee of 1.25 percent in 2011, declining to 0.50 percent in 2012 and thereafter. (Reserve veterans pay an additional fee of 0.25 percent for loan guarantees. Fees for all veterans are higher if they have previously used the loan-guarantee benefit.)

Section 2 would postpone those scheduled fee reductions. Under this provision, veterans who make at least a 5 percent down payment would pay a fee of 1.50 percent for guaranteed loans taken during the 2012-2014 period and veterans who put down at least 10 percent would pay a fee of 1.25 percent of the loan in 2012. The fees would revert to the amounts scheduled under current law in 2015 and 2013, respectively. Keeping the fees unchanged would increase collections by VA during fiscal years 2012 through 2014,

thereby lowering the subsidy cost of the loan guarantees and reducing direct spending by \$61 million over that three-year period, CBO estimates.¹

Higher Cap on Tuition and Fees

Beginning August 1, 2011, under provisions of Public Law 111-377, the amount of education assistance payable under the Post-9/11 GI Bill for programs at private institutions will be limited to the actual cost of tuition and fees (net of scholarships and other financial assistance) or \$17,500, adjusted annually for inflation, whichever is less. Prior to the enactment of P.L. 111-377, the amount of assistance payable was the actual cost of tuition and fees up to the highest in-state tuition and fees charged by a public educational institution in the state where the school is located.

Students attending private institutions where tuition and fees exceed the \$17,500 cap may be eligible for assistance under the Yellow Ribbon G.I. Education Enhancement Program. Institutions entering into Yellow Ribbon Program (YRP) agreements with VA agree to cover a portion of the student's tuition shortfall. VA then matches the institution's contribution to further reduce or eliminate the student's out-of-pocket expenses. Even with the availability of YRP assistance, CBO expects that certain students attending private institutions with high tuition and fees will experience significantly more out-of-pocket expenses than they would have faced prior to enactment of P.L. 111-377.

To protect current beneficiaries under the Post-9/11 GI Bill from a mid-stream reduction in education benefits, section 1 of S. 745 would allow certain veterans to continue to receive tuition and fee assistance based on the pre-P.L. 111-377 formula through December 31, 2014. To qualify for the higher cap, those beneficiaries would have to have been enrolled in a private institution on or before January 4, 2011, in a state where a public institution charged in-state students more than \$700 per credit hour during the 2010-2011 academic year. Those beneficiaries also would have to maintain enrollment at the same institution in which they were enrolled on January 4, 2011.

Based on information from VA, CBO estimates that about 4,000 veterans and dependents attending private four-year and graduate institutions in seven states—Arizona, Michigan, New Hampshire, New York, Pennsylvania, South Carolina, and Texas—would qualify for the modified amounts of education assistance.

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 recorded in the budget when the loans are disbursed.

Drawing on information from the National Center for Education Statistics and the College Board, CBO calculates that the average amount of tuition and fees for the 2010-2011 academic year for students seeking bachelor's and master's degrees at private institutions is about \$27,300 and \$24,400, respectively. After adjusting for average benefit levels, average attendance rates, and the higher YRP threshold, CBO estimates that each qualifying beneficiary would receive, on average, about \$6,300 more in education benefits each academic year than he or she is eligible for under current law. Assuming that a percentage of the eligible population would either graduate or otherwise depart from their respective programs each year, CBO estimates that this provision would increase direct spending by \$60 million over the 2012-2015 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. CBO estimates that by temporarily modifying the amount of education benefits payable to certain veterans and the amount of fees veterans must pay for mortgage guarantees, S. 745 would decrease direct spending for veterans' education benefits. 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 S. 745 as ordered reported by the Senate Committee on Veterans' Affairs on June 29, 2011

	By Fiscal Year, in Millions of Dollars												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011-2016	2011-2021
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-1	-2	-3	5	0	0	0	0	0	0	-1	-1

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 745 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On May 18, 2011, CBO transmitted an estimate for H.R. 1383, the Restoring GI Bill Fairness Act of 2011, as ordered reported by the House Committee on Veterans' Affairs on May 12, 2011. Section 1 of S. 745 contains language similar to that in H.R. 1383. The difference in the estimated costs between the two proposals reflects different eligibility dates, different levels of education assistance payable for tuition and assistance, and different expiration dates.

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