CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 25, 2015

H.R. 189
Servicemember Foreclosure Protections Extension Act of 2015

As ordered reported by the House Committee on Veterans' Affairs on February 12, 2015

H.R. 189 would enhance certain protections for veterans with home mortgages. CBO estimates that any change in direct spending under the bill would be insignificant.

Under current law, veterans may receive a judicial stay of foreclosure proceedings on loans that were originated before they entered the military. Those veterans are currently eligible to obtain a stay during the one-year period after they leave military service; however, that period of eligibility will be shortened to nine months beginning on January 1, 2016. H.R. 189 would retain the one-year period of eligibility through December 31, 2016. (The duration of the stay of proceedings itself is determined by the courts.)

Some of the loans that would be affected by that foreclosure protection are guaranteed by the Department of Veterans Affairs (VA) or the Federal Housing Administration (FHA). Under its home loan program, VA pays lenders up to 25 percent of the outstanding loan debt in the event that the borrower defaults. Unpaid interest can be added to the guaranteed debt, within certain limits. FHA provides a similar guarantee on mortgages it insures, compensating lenders for up to 100 percent of the loss.

Delaying foreclosure on borrowers who default would lengthen the period during which unpaid interest would accrue, increasing the indebtedness of the borrower. If the loan is eventually terminated, the claim filed by the lender would be larger by the amount of the additional interest, and the subsequent claim payment from VA or FHA would rise as a result. Those larger claim payments would raise the costs of both agencies.

Loans that could be affected by the bill would be those that were originated prior to enactment of H.R. 189. Changes to the cost of extant mortgages would be treated as loan modifications and the increased costs would be recorded as direct spending when the modifications became effective—that is, at the start of calendar year 2016, when the eligibility period for the benefit would be shortened under current law.

CBO expects that only a small number of veterans would have loans guaranteed by VA or FHA and would obtain a stay of foreclosure in 2016 as a result of the three additional months of eligibility that H.R. 189 would provide. The bill would apply only to mortgages that were entered into before joining the military. Most veterans enter the military between the ages of 18 and 22, a stage in life when few people have mortgages. Thus, CBO believes it is highly unlikely that such veterans would be responsible for federally guaranteed loans before they entered military service.

Furthermore, CBO estimates that the average additional indebtedness per borrower as a result of the forbearance is small—about $3,000. Therefore, any increase in direct spending would be insignificant. Because enacting H.R. 189 would affect direct spending, pay-as-you-go procedures apply. Enacting H.R. 189 would not affect revenues.

By extending through December 31, 2016, the one-year period of eligibility for veterans to receive a judicial stay of foreclosure proceedings, the bill would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The cost of the mandates would be any loss of income by public and private entities, such as mortgage lenders, that could otherwise enforce an obligation, sale, foreclosure or seizure of the property without the extension. CBO expects the number of veterans who face foreclosure within one year of separation to be small. CBO further expects that few additional mortgage lenders would be affected by the extension and that the size of their claims would be small. Consequently, CBO estimates that the costs of the mandates would fall below the annual thresholds established in UMRA for intergovernmental and private-sector mandates. (Adjusted for inflation, those thresholds are $77 million and $154 million in 2015, respectively.)

The CBO staff contacts for this estimate are David Newman (for federal costs), Jon Sperl (for state and local effects), and Paige Piper/Bach (for private-sector effects). This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.