Congressional Budget Office
Cost Estimate

September 1, 2020

H.R. 7445, a bill to amend title 38, United States Code, to expand eligibility for home loans from the Secretary of Veterans Affairs to certain members of the reserve components of the Armed Forces, and for other purposes

As ordered reported by the House Committee on Veterans' Affairs on July 30, 2020

By Fiscal Year, Millions of Dollars	2020	2020-2025	2020-2030
Direct Spending (Outlays)	0	*	*
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	*	*
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	Yes	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2031?	< $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between -$500,000 and $500,000.

H.R. 7445 would make two changes to the home loan guarantee program administered by the Department of Veterans Affairs (VA) that would affect net direct spending by an insignificant amount.

Under current law VA typically pays lenders up to 25 percent of the outstanding mortgage balance if a borrower defaults on a guaranteed loan. Those guarantees enable eligible borrowers to obtain better loan terms, such as lower interest rates or smaller down payments. Military personnel and veterans who have served at least 90 days on active duty or six years in the Selected Reserve are eligible for those loan guarantees. Most borrowers pay a fee to VA to participate, and they may use the benefit more than once after they have repaid a guaranteed mortgage. Fees are higher for subsequent uses of the benefit. The fees reduce the subsidy cost of the guarantees by partially offsetting the costs of defaults.[1] The subsidy costs

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.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

for VA loan guarantees are paid from mandatory appropriations; hence, changing the subsidy cost affects direct spending.

The bill would expand eligibility for loan guarantees to members of the Selected Reserve who serve at least 90 days on full-time duty with the National Guard, at least 30 of which are consecutive. On the basis of loan data provided by VA, CBO estimates that some reservists would become newly eligible to use loan guarantees and others would use the benefit sooner than they could under current law. CBO estimates that roughly 2,000 more reservists would obtain loan guarantees over the next 10 years. Overall, the loan fees paid by members of the Selected Reserve exceed the cost of defaults on such loans; accordingly, CBO estimates that the increase in the number of those loans would decrease direct spending by $5 million over the 2020-2030 period.[2]

Under the bill, borrowers with VA-guaranteed loans whose homes are substantially damaged or destroyed as a result of an event that is declared a major disaster by the President would be charged a lower fee if they get another VA-guaranteed loan to repair or replace the property within three years. The loan fee would be roughly one percentage point lower than under current law. On the basis of data from VA and the Federal Emergency Management Agency and on CBO's analysis of the mortgage market, we estimate that about 100 borrowers each year will obtain subsequent loans following a major disaster. That decrease in fees would raise the subsidy cost for those loans, increasing direct spending by $5 million over the 2020-2030 period, CBO estimates.

Considerable uncertainty surrounds the estimated number of homes that will be damaged or destroyed by major disasters and the number of homeowners who obtain another VA-guaranteed mortgage within three years. To the extent that either of those factors is higher or lower than CBO expects, the changes in direct spending attributable to the bill could differ from CBO's estimates.

The CBO staff contact for this estimate is Paul B.A. Holland. The estimate was reviewed by Leo Lex, Deputy Director of Budget Analysis.

2. Under current law, the loan fees decline beginning in 2030, such that they are insufficient to fully offset the anticipated cost of defaults; after 2029, the additional loan guarantees would increase direct spending