Congressional Budget Office
Cost Estimate

September 26, 2022

H.R. 8875, Expanding Home Loans for Guard and Reservists Act

As ordered reported by the House Committee on Veterans' Affairs on September 21, 2022

By Fiscal Year, Millions of Dollars	2022	2022-2027	2022-2032
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 2033?	< $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between -$500,000 and zero.

The Department of Veterans Affairs (VA) provides guarantees to lenders for eligible borrowers to obtain better loan terms—such as lower interest rates or smaller down payments—when purchasing, constructing, or refinancing a home. VA typically pays lenders up to 25 percent of the outstanding mortgage balance if a borrower's home is foreclosed upon. Those payments, net of fees paid by borrowers and recoveries by lenders, constitute the subsidy cost for the loan guarantees and are paid from mandatory appropriations. Any changes to those costs affect direct spending.[1]

People serving on active duty or who have served at least 90 days, at least 30 consecutively, on active duty or full-time National Guard duty, or served at least six years in the Selected Reserve are eligible for VA home loan guarantees. H.R. 8875 would credit time spent in active duty for training by service members toward entitlement for loan guarantees. Such training includes full-time training, annual training, and attendance in military service schools.

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 or 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 or modified.

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.

Crediting the additional time spent on active duty for training would increase the number of people eligible for home loan guarantees or make them eligible sooner than they otherwise would have been. However, nearly all of those service members and veterans will become eligible under current law.

Overall, the VA home loan guarantee program is subsidized. On average, loans increase outlays because borrowers with service-connected disabilities are exempt from paying the funding fees to obtain the guarantee. The people who would become eligible for loan guarantees under H.R. 8875 would not have such disabilities at the time they became eligible, and thus would pay the funding fees. Those fees more than offset the other subsidy costs of the guarantees and result in a negative subsidy; consequently, the increase in loan guarantees under the bill would decrease net federal outlays.

CBO expects that the number of newly eligible borrowers described above would be small and estimates that enacting the bill would decrease direct spending by an insignificant amount over the 2022-2032 period.

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