CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 23, 2013

H.R. 2481
Veterans Economic Opportunity Act of 2013

As ordered reported by the House Committee on Veterans' Affairs on August 1, 2013

SUMMARY

H.R. 2481 would decrease direct spending by increasing the fees charged to certain veterans who obtain loans guaranteed by the Department of Veterans Affairs (VA). In addition, the bill would increase direct spending by enhancing certain protections for servicemembers and veterans with home mortgages, and by expanding eligibility for education scholarships. On net, the bill would decrease direct spending by $149 million over the 2014-2018 period and by $120 million over the 2014-2023 period, CBO estimates. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. (The effect on revenues would be insignificant.)

H.R. 2481 also would increase spending subject to appropriation, primarily by extending the authorization of appropriations for a program that serves homeless veterans. CBO estimates that implementing H.R. 2481 would have a discretionary cost of $218 million over the 2014-2018 period, subject to appropriation of the necessary amounts.

The bill would impose intergovernmental and private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) by adding and expanding protections for servicemembers under the Servicemembers Civil Relief Act (SCRA). CBO estimates that the costs to public and private entities of complying with the mandates would not exceed the thresholds established in UMRA for intergovernmental and private-sector mandates ($75 million and $150 million, respectively, in 2013, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2481 is shown in Table 1. The costs of this legislation fall within budget functions 700 (veterans benefits and services), 370 (commerce and housing credit), and 750 (administration of justice).

TABLE 1. ESTIMATED BUDGETARY EFFECTS OF H.R. 2481

	By Fiscal Year, in Millions of Dollars					
	2014	2015	2016	2017	2018	2014-2018
CHANGES IN DIRECT SPENDING[a]						
Estimated Budget Authority	0	12	5	5	-171	-149
Estimated Outlays	0	12	5	5	-171	-149
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	50	65	55	55	55	282
Estimated Outlays	4	47	55	55	55	218

Note: Details may not add to totals because of rounding.

a. Enacting H.R. 2481 may also lead to an insignificant increase in revenues. In addition to the effects shown above, CBO estimates that enacting H.R. 2481 would decrease direct spending by $120 million and increase revenues by an insignificant amount over the 2014-2023 period.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that the legislation will be enacted near the beginning of fiscal year 2014, that the necessary amounts will be appropriated each year, and that outlays will follow historical spending patterns for similar and existing programs.

Direct Spending and Revenues

H.R. 2481 would decrease direct spending by increasing a fee that VA charges for guaranteeing certain home loans. That effect would be partially offset by increases in direct spending that would arise from providing additional protections for certain military personnel and veterans with home mortgages and by expanding eligibility for educational assistance under the Marine Gunnery Sergeant John David Fry Scholarship (Fry Scholarship) program. The bill also would have an insignificant effect on revenues.

Loan Guarantee Fees. Under its home-loan program, VA provides lenders guarantees on mortgages made to veterans; those guarantees enable veterans to get better loan terms, such as lower interest rates or smaller down payments. The loan guarantees provide lenders a payment of up to 25 percent of the outstanding loan balances (subject to some limitations on the original loan amounts) in the event that a veteran defaults on a guaranteed loan.

TABLE 2. IMPACT OF H.R. 2481 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars											
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2014-2018	2014-2023
CHANGES IN DIRECT SPENDING												
Loan Guarantee Fees												
Estimated Budget Authority	0	0	0	0	-177	0	0	0	0	0	-177	-177
Estimated Outlays	0	0	0	0	-177	0	0	0	0	0	-177	-177
Enhanced Mortgage Protection												
Estimated Budget Authority	0	9	2	3	3	3	3	3	3	3	17	32
Estimated Outlays	0	9	2	3	3	3	3	3	3	3	17	32
Mortgage Refinancing Qualifications												
Estimated Budget Authority	0	3	2	1	1	1	1	2	2	2	7	15
Estimated Outlays	0	3	2	1	1	1	1	2	2	2	7	15
Education Benefits for Surviving Children												
Estimated Budget Authority	0	*	1	1	2	2	1	1	1	1	4	10
Estimated Outlays	0	*	1	1	2	2	1	1	1	1	4	10
Total Changes												
Estimated Budget Authority	0	12	5	5	-171	6	5	6	6	6	-149	-120
Estimated Outlays	0	12	5	5	-171	6	5	6	6	6	-149	-120

Note: * = less than 500,000.

Section 10 would increase a fee that VA charges to certain veterans for providing those guarantees. By partially offsetting the costs of subsequent defaults, those fees lower the subsidy cost of the guarantees.[1]

Under current law, the up-front fee for veterans who have previously used the loan-guarantee benefit is 3.30 percent of the loan amount. That fee is scheduled to decline to 1.25 percent on October 1, 2017.

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.

Under section 10, that scheduled fee reduction would be delayed by one year, until October 1, 2018. Continuing the fee at the current level in 2018 would increase collections by VA in that year, thereby lowering the subsidy cost of the loan guarantees. Based on data from VA, CBO estimates that enacting section 10 would reduce direct spending by $177 million in 2018.

Enhanced Mortgage Protection. Section 11 would prohibit lenders from initiating or completing foreclosure proceedings on mortgages issued to certain servicemembers and surviving spouses. Lenders could not foreclose on mortgages held by military personnel who are deployed in support of a contingency operation for the duration of that deployment and for the 12 months following deployment. The following individuals also would be protected from foreclosure for 12 months:

- Servicemembers who are convalescing;
- Personnel who are transferred to the temporary disability retired list or who are medically discharged and retired; and
- Surviving spouses of servicemembers who die from a service-connected cause while in military service in regards to property that was jointly owned.

The enhanced protections afforded by section 11 would take effect on October 1, 2014.

Some of the loans that would be affected by the enhanced foreclosure protection in section 11 are guaranteed by 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. Unpaid interest can be added to FHA-guaranteed debt, but it accrues at a rate similar to that for federal borrowing, rather than the interest rate of the defaulted loan.

Delaying foreclosure on borrowers who default would lengthen the period during which unpaid interest accrues, 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 loan subsidy costs of both agencies.

For loans that were originated before enactment of H.R. 2481, such changes would be treated as loan modifications and the increased subsidy costs would be recorded as direct spending when the modifications became effective—that is, at the start of fiscal year 2015, the effective date of section 11, as specified in the bill. The higher subsidy costs for loans made subsequent to the effective date would increase mandatory costs for VA loans and discretionary costs for FHA loans in the year those loans are originated.

Based on information from the Department of Defense, CBO estimates that approximately 300,000 servicemembers, retirees, and surviving spouses would be eligible for the enhanced foreclosure protection in 2015. (The majority of those beneficiaries are personnel who are currently deployed or were deployed in the previous year.) However, some of those eligible personnel currently receive similar protection under the national mortgage settlement, an agreement regarding foreclosure practices that was signed by the five largest mortgage servicers, the Department of Justice, and state attorneys general. Under that settlement, the servicers agreed not to foreclose without a court order on property owned by servicemembers who deployed and received hostile fire or imminent danger pay, during their deployment and for nine months thereafter. That agreement expires in October 2015.

CBO estimates that about 175,000 people would be newly eligible in 2015 for the enhanced mortgage protection under the bill. After the national mortgage settlement expires and borrowers no longer benefit from the similar protections that it provides, the population of beneficiaries under section 11 would increase to 260,000 in 2016 and each year thereafter. On the basis of information from VA, CBO estimates that about 25 percent of potential beneficiaries have loans guaranteed by VA and another 5 percent have loans guaranteed by FHA. Of those loans, CBO expects that about 1.5 percent will default, for a total of about 1,100 loans annually. Under H.R. 2481, CBO estimates that the average claim payments for those defaults would increase by about $3,800 for VA loans and by about $3,000 for FHA loans.

On that basis, we estimate that, the increased subsidy costs for loans originated in prior years would total almost $6 million for VA-guaranteed loans and nearly $2 million for FHA-backed loans. In addition, higher subsidy costs for loans guaranteed by VA after the effective date would increase direct spending by about $2 million in 2015, and by an average of $3 million a year over the 2016-2023 period. In total, CBO estimates that enacting section 11 would increase direct spending by $32 million over the 2014-2023 period. (Higher subsidy costs for loans guaranteed by FHA in 2015 and later years would result in an increase in discretionary spending, assuming appropriation action necessary to implement FHA’s single-family program. Those costs are described in the section on discretionary spending below.)

In addition, section 11 would establish civil penalties for lenders who foreclose on property in violation of the enhanced mortgage protection that would be provided by the bill. Civil fines are recorded as revenues. CBO expects that any additional revenues would not be significant because of the relatively small number of cases likely to be affected.

Mortgage Refinancing Qualifications. Section 12 would make it easier for certain servicemembers to refinance mortgages on homes that they do not occupy. Under current law, borrowers must occupy their homes to be eligible for loan guarantees from VA on refinancing loans that allow borrowers to increase the principal amount owed (cash-out loans). Further, private-sector lenders generally charge higher interest rates for loans on homes that are not occupied by the borrower, which discourages some of those borrowers from refinancing. Section 12 would require servicemembers to be treated as if they occupied the home when they refinance, if they left the home because of change-of-station or deployment orders. That requirement would take effect on October 1, 2014. As a result, some additional borrowers would qualify for cash-out refinancing loans that are guaranteed by VA. Others would choose to refinance loans that they would otherwise not have because they would receive lower interest rates; some of those loans also would be guaranteed by VA.

Because the subsidy costs of VA loan guarantees are paid from mandatory appropriations, guaranteeing additional loans would increase direct spending. Based on the annual number of loan guarantees that VA currently provides for servicemembers, CBO expects that over the next 10 years, VA would guarantee an additional 5,000 loans under this provision. Providing those loan guarantees would increase direct spending by $15 million over the 2014-2023 period, CBO estimates.

Education Benefits for Surviving Children. The children of servicemembers who die in the line of duty while serving in an active-duty status are eligible for education benefits under the Fry Scholarship. Section 7 would expand eligibility for Fry Scholarships to the children of servicemembers who receive the Purple Heart for injuries sustained in combat and then die as a result of those injuries within 31 days of separating from active duty. Under current law, those children are only eligible for benefits under the Survivors' and Dependents' Education Assistance Program (DEAP).

The Fry Scholarship entitles qualifying recipients to education benefits under the Post-9/11 GI Bill. Those benefits include the payment of in-state tuition and fees for beneficiaries attending public schools, a monthly housing allowance, and a stipend to pay for books and supplies. DEAP currently provides education benefits to qualifying recipients at a maximum rate—for full-time students—of $987 per month.

Based on information from VA and the Department of Defense, CBO estimates that, if this provision was enacted, an average of about 80 children per year would elect to receive education benefits under the Fry Scholarship rather than DEAP. Each of those children would receive, on average, about $16,400 in Fry Scholarship benefits in 2015 and, after cost-of-living increases, that amount would increase to about $22,700 in 2023, CBO estimates. Under DEAP, we estimate that each of those children would have received about $5,700 in benefits in 2015 and, after cost of living increases, about $6,800 in benefits in 2023. On net, CBO estimates the change in eligibility would increase direct spending by $10 million over the 2014-2023 period.

Selection of Education Benefits. Section 8 would permit the Secretary to change an individual's choice of program for VA education benefits when the Secretary determines that the choice is not in the individual's best interest. If the Secretary makes an alternative selection on behalf of an applicant, the Secretary would be required to notify the individual within seven days. The applicant would then have 30 days to modify or revoke the Secretary's selection. Under current law, when a claims processor determines that an individual has not made the most advantageous choice of programs, the processor attempts to contact the applicant to recommend a change. By allowing VA to change the individual's selection proactively, claims processing and benefit payments would be accelerated. Based on information from VA, CBO estimates that the department would change the elections of very few people. Thus, we estimate that enacting this section would increase direct spending by an insignificant amount over the 2014-2023 period.

Spending Subject to Appropriation

H.R. 2481 would authorize appropriations for programs that benefit homeless veterans. It also would reorganize the VA's management structure by establishing a new administration to oversee certain benefit programs. Finally, it would increase the subsidy cost of loans guaranteed by FHA. In total, CBO estimates that implementing H.R. 2481 would increase the cost of veterans' benefits that are subject to appropriation by $218 million over the 2014-2018 period, assuming appropriation of the necessary amounts.

Homeless Veterans Reintegration Programs. Section 6 would authorize the appropriation of $50 million each year over the 2014-2018 period for Department of Labor programs that serve homeless veterans. The department provides grants to agencies and organizations that provide job placement, training, and vocational counseling to homeless veterans. Under current law, the authorization for this program will expire at the end of fiscal year 2013. CBO estimates that implementing this section would cost $187 million over the 2014-2018 period, assuming appropriation of the authorized amounts.

Veterans Economic Opportunity Administration. Under VA's current organizational structure, the Veterans Benefits Administration (VBA) manages the provision of the following benefits to veterans and other eligible individuals:

- Disability compensation;
- Pension, dependency and indemnity compensation, burial benefits, and fiduciary assistance programs;
- Readjustment benefits such as education funding, employment assistance, and vocational rehabilitation;
- Home-loans guarantees;
- Assistance to small businesses owned by veterans; and
- Life insurance.

Sections 4 and 5 would establish a Veterans Economic Opportunity Administration (VEOA) to oversee readjustment benefit programs, the home loan program, and small business programs. VBA and VEOA each would be led by an undersecretary responsible to the Secretary of Veterans Affairs. Section 5 would limit the total number of full-time equivalent positions serving in VBA and VEOA to the current workforce of 20,851 in fiscal years 2014 and 2015. Based on information from VA, about 20 percent of that workforce—roughly 4,500 people—oversee and carry out the benefits programs that would be transferred to VEOA under the bill.

CBO estimates that the personnel, records, property, and budgetary resources currently used by VBA to manage those programs would be transferred to the new entity. In addition, CBO estimates that VEOA would ultimately add 20 additional positions, such as an Under Secretary for Veterans Economic Opportunity, to manage the daily operations of the new administration.

TABLE 3. IMPACT OF H.R. 2481 ON SPENDING SUBJECT TO APPROPRIATION

	By Fiscal Year, in Millions of Dollars					
	2014	2015	2016	2017	2018	2014-2018
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Homeless Veterans Reintigration Programs						
Authorization Level	50	50	50	50	50	250
Estimated Outlays	4	34	49	50	50	187
Veterans Economic Opportunity Administration						
Estimated Authorization Level	0	15	5	5	5	30
Estimated Outlays	0	13	6	5	5	29
Enhanced Mortgage Protection						
Estimated Authorization Level	0	*	*	*	*	2
Estimated Outlays	0	*	*	*	*	2
Total Changes						
Estimated Authorization Level	50	65	55	55	55	282
Estimated Outlays	4	47	55	55	55	218

Notes: Details may not add to totals because of rounding.

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

On that basis, CBO estimates that establishing VEOA, transferring the programs, personnel, and accompanying assets, and hiring the additional 20 personnel would cost $29 million over the 2014-2018 period, assuming appropriation of the estimated amounts.

Enhanced Mortgage Protection. As described above, section 11 would increase the subsidy costs of FHA loans guaranteed in 2015 and later years by increasing the amount of unpaid interest that could accrue on defaulted loans before those loans are terminated. CBO estimates that the annual subsidy rate for the FHA single-family program would increase by less than 0.1 percent relative to the rates estimated under current law.[2] As a result of the provisions in section 11, net subsidy costs under the FHA program would increase by less than $500,000 each year, and by a total of $2 million over the 2014-2018 period, assuming enactment of the commitment limit at levels projected in CBO's baseline.

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. The net changes in outlays and revenues 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. 2481 as ordered reported by the House Committee on Veterans' Affairs on August 1, 2013

	By Fiscal Year, in Millions of Dollars												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2013-2018	2013-2023
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	12	5	5	-171	6	5	6	6	6	-149	-120

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would impose a number of mandates, as defined in UMRA, on public and private lending institutions. In aggregate, CBO estimates that the costs of complying with the mandates in H.R. 2481 would fall below the annual thresholds established in UMRA for both intergovernmental and private-sector mandates ($75 million and $150 million in 2013, respectively, adjusted annually for inflation).

2. The subsidy rate for that program is negative, resulting in net receipts to the federal government. Discretionary credit programs with negative subsidy rates do not require a subsidy appropriation, but an appropriations act must specify the maximum amount of loans that an agency can commit to guarantee.

Under the bill, public and private lending institutions that are subject to SCRA would have to:

- Extend the length of stay of civil proceedings relating to real or personal property, mortgages, evictions, and foreclosures for servicemembers, veterans, and surviving spouses (as those groups are defined in the bill);
- Designate an employee who would ensure compliance with the act;
- Consider active-duty servicemembers who have been relocated to be occupying the residence that secures a mortgage for refinancing inquiries or applications; and
- Maintain a toll-free telephone number to provide assistance to servicemembers if the institution has over $10 billion in annual assets.

CBO expects the cost of complying with the stay of civil proceedings would be small because relatively few servicemembers, retirees, and surviving spouses of servicemembers who die on active duty are likely to face foreclosure within the periods specified in the bill. Some of those costs would be offset by claim payments from VA and FHA.

Lending institutions currently employ compliance officers, and all large institutions maintain toll-free numbers. For that reason, CBO estimates that the extra training for employees and the maintenance of toll-free numbers would not impose significant costs on private entities. Because few lending institutions are public entities, CBO estimates that the intergovernmental costs of the mandates also would be small.

The bill also would preempt state laws, applicable to child custody protection, that provide less protection to servicemembers than the federal standard. The preemption would be an intergovernmental mandate as defined in UMRA because it would limit the application of state law; however, it would impose no duty on states that would result in additional spending.

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