CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 26, 2007

H.R. 1315
Veterans' Benefits Improvement Act of 2007

As ordered reported by the House Committee on Veterans' Affairs on July 17, 2007

SUMMARY

H.R. 1315 would make several changes to programs for servicemembers and veterans, including expanding eligibility for certain housing grants, extending the period of protection against foreclosure and rising interest rates on mortgages, and establishing a new scholarship program. Enacting H.R. 1315 would increase direct spending by requiring lenders to reduce interest rates on mortgages for some military members by an additional 180 days. That provision would modify the cost of some existing loan guarantees and would increase direct spending by $8 million in 2008, CBO estimates. In addition, CBO estimates that implementing H.R. 1315 would result in discretionary costs of $2 million over the 2008-2012 period, assuming the availability of appropriated funds. Enacting the bill would have no effect on federal revenues.

H.R. 1315 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. H.R. 1315 contains a private-sector mandate as defined in UMRA, but CBO estimates that the annual cost of the mandate would not exceed the threshold established in UMRA ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1315 is shown in the following table. The cost of this legislation falls primarily within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2008-2012	2008-2017
CHANGES IN DIRECT SPENDING [a]												
Estimated Budget Authority	8	*	*	*	*	*	*	*	*	*	8	9
Estimated Outlays	8	*	*	*	*	*	*	*	*	*	8	9

Note: * = less than $500,000.

a. Implementing H.R. 1315 also would have discretionary costs of less than $500,000 a year and about $2 million over the 2008-2012 period, subject to the availability of appropriated funds.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1315 will be enacted near the beginning of fiscal year 2008. Most of the costs of H.R. 1315 would stem from a modification of existing loan guarantees. Such costs are estimated on a present value basis and recorded in the year in which the legislation is enacted. (If this bill is enacted prior to October 1, 2007, the costs would be recorded in the current year.)

Direct Spending

H.R. 1315 would increase direct spending primarily by lowering the interest rate on the government-guaranteed mortgages held by certain servicemembers. CBO estimates that under H.R. 1315, direct spending would increase by $8 million in 2008 and by $9 million over the 2008-2017 period.

Reduced Interest Rates on Mortgages. Under the Soldiers' and Sailors' Civil Relief Act (SSCRA) (50 U.S.C. App. 501 et. seq.), a servicemember with a mortgage that existed prior to starting active duty is eligible to have the interest rate on the mortgage reduced to 6 percent while the member continues to serve on active duty. Any interest payments coming due during that time period in excess of 6 percent must be forgiven by the lender. Section 3 would extend this 6 percent cap on mortgage interest payments to 180 days after the member leaves active duty. CBO expects extending the lower interest rate to 180 days would primarily benefit reserve members, who are more likely to have mortgages that exist prior to active-duty service.

Some military members have mortgages guaranteed by the Department of Veterans Affairs (VA) or the Federal Housing Administration (FHA). Those mortgages are generally included in the Government National Mortgage Association's (GNMA's) Mortgaged-Backed Securities (MBS) program. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back those securities. Thus, GNMA is responsible for covering any loss of payments, including those stemming from a reduced interest rate.

Based on information from GNMA and assuming enactment in early fiscal year 2008, CBO estimates that enacting section 3 would increase direct spending by $8 million in 2008 by requiring GNMA to pay forgone interest on certain mortgages included in its MBS program to lenders and issuers. (Such forgone interest is the difference between the interest payments at 6 percent and the payments at a higher interest rate currently being paid by the borrower.) Because enacting this provision would change the cash flows associated with some underlying mortgages in GNMA's MBS program, paying the forgone interest expense on securities with those mortgages would be a modification of existing GNMA loan guarantees. Under credit reform procedures, the costs of such modifications are estimated on a present value basis and recorded in the year in which the legislation is enacted.

Extension of Mortgage Foreclosure Protection. Section 3 would also prevent an entity from foreclosing on a mortgage within 180 days after a servicemember leaves active duty. SSCRA currently prevents such a foreclosure within 90 days after a member leaves active duty. Federal agencies such as VA and FHA, which currently guarantee the mortgages of some servicemembers, are responsible for the payment of any interest that accrues between the period when the payments on the mortgage cease and the agency finally settles the loan with the originator. Therefore, delaying some foreclosures could result in additional costs to the federal government. Because of the low number of affected mortgages, CBO estimates such costs would be less than $500,000 in 2008 and $1 million over the 2008-2017 period.

Expansion of Specially Adaptive Housing Grants. VA currently administers a grant program to assist severely disabled veterans and servicemembers to modify housing to adapt it to their disabilities. While both servicemembers and veterans may receive those grants to adapt a permanent residence, only veterans are currently allowed to use this program to modify a residence owned by a family member where the veteran intends to reside temporarily. Section 2 would allow servicemembers that same assistance for such temporary housing.

CBO estimates that most of the servicemembers who would be affected by this provision would have only a few months of active-duty time remaining before being separated or retired for disability. Thus, the effect of this section would be to accelerate by a few months the use of this benefit. Based on the small number of likely recipients and the fact that the program will expire in 2011, CBO estimates that this provision would have no significant impact on direct spending over the 2008-2017 period.

Spending Subject to Appropriation

Section 4 would require VA to establish a scholarship program to provide tuition and fee assistance to certain students in exchange for an agreement to work for three years at the department following the completion of the required course work. Eligible students would be those training to assist blind or visually impaired individuals in learning how to move about safely, manage a household, or gain vocational skills.

According to the Association for Education and Rehabilitation of the Blind and Visually Impaired, most schools that provide the necessary education and training to be a qualified vision rehabilitation and education professional are four-year public universities. H.R. 1315 would limit each recipient to no more than three years of tuition and fee assistance. VA reports that under H.R. 1315 it likely would grant about 20 individuals a three-year scholarship each year. Based on an average cost of about $6,000 for four-year public universities, and assuming a 6 percent increase in tuition and fees each year, CBO estimates that implementing this provision would cost less than $500,000 each year and about $2 million over the 2008-2012 period, assuming the availability of appropriated funds.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1315 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

Section 3 would extend the period after release of a servicemember from active duty during which the member is protected from mortgage foreclosure under the Servicemembers Civil Relief Act (SCRA) from 90 days to 180 days. Furthermore, it would extend the existing period of interest rate limitation under the SCRA by 180 days. This would constitute a mandate upon mortgage collectors, and the cost of the mandate would be the loss associated with delayed mortgage payments, delayed foreclosure, and interest rate limitations.

Based on historical separation rates, foreclosure rates, and mortgage interest rates, CBO estimates that the annual cost of the mandate would not exceed the threshold for private-sector mandates established in UMRA ($131 million in 2007, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Costs:
Veterans' Readjustment Benefits—Mike Waters
Commerce and Housing Credit—Susanne S. Mehlman
Veterans' Housing—Sunita D'Monte
Military Personnel—Matthew Schmit
Medical Care—Michelle S. Patterson

Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Victoria Liu

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis