



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 9, 2008

S. 3023 **Veterans' Benefits Improvement Act of 2008**

As cleared by the Congress on September 27, 2008

SUMMARY

S. 3023 would affect several veterans' programs, including pension, housing, education, readjustment benefits, and other purposes. CBO estimates that enacting S. 3023 would decrease direct spending by \$23 million over the 2009-2013 period and \$4 million over the 2009-2018 period. Enacting S. 3023 would have no impact on federal revenues.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3023 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

BASIS OF ESTIMATE

For this estimate, CBO assumes S. 3023 will be enacted early in fiscal year 2009.

	By Fiscal Year, Outlays in Millions of Dollars ^a											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009- 2013	2009- 2018
CHANGES IN DIRECT SPENDING												
Extension of Income Verification	-2	-4	-6	-5	-6	-6	-5	-5	-5	-5	-24	-50
Guarantees of Mortgage Refinancing Loans	0	0	0	4	3	3	3	5	5	5	7	28
Education Assistance for Spouses of Severely Disabled Veterans	*	1	1	2	2	2	2	1	1	1	6	13
Increased Cap on Participation in Independent Living	1	1	1	1	1	1	1	1	2	2	5	12
Guarantees of Adjustable-Rate Mortgages	-4	-4	-4	-1	0	0	0	1	0	1	-13	-11
Certification Requirement for Self-Employment On-the-Job Training	*	*	*	*	*	1	1	1	1	1	2	7
Temporary Increase in the Maximum Loan Guarantee	<u>-1</u>	<u>-3</u>	<u>-4</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>-6</u>	<u>-3</u>
Total Changes	-6	-9	-12	3	0	2	2	5	4	6	-23	-4

Notes: Components may not sum to totals because of rounding. POW = Prisoners of War; PTSD = Post-Traumatic Stress Disorder.

* = less than \$500,000.

a. Annual changes in budget authority would be equal to the estimated changes in outlays.

Extension of Income Verification

Section 802 would extend authorities in current law that enable the Department of Veterans Affairs (VA) to verify income reported by recipients of VA pension benefits by allowing it to acquire information on income reported to the Internal Revenue Service (IRS). The authorization allowing the IRS to provide income information to VA was made permanent by Public Law 110-245, but the authorization allowing VA to acquire the information is scheduled to expire on September 30, 2008. Section 802 would extend VA's authority to acquire IRS data through September 30, 2011. VA saved, on average, \$5 million each year

in new pension benefit payments by using the IRS data to verify veterans' incomes over the 2001-2007 period.

In 2007, the President signed into law Public Law 110-157, which includes a provision allowing VA to use the National Directory of New Hires (NDNH) database as an alternate source of income-verification data. That authority is set to expire on September 30, 2011. The NDNH database, though using more up-to-date information, does not include a large segment of the workforce that might self-report work income. The IRS data reflect information on self-reported income.

If VA were to use both systems over the three-year period from 2009 through 2011, CBO estimates that the incremental savings from utilizing the IRS data for income verification would be about \$2 million in new savings each year. Those savings would compound in subsequent years (rising to about \$4 million in year two, and so on), with cost-of-living and mortality adjustments, until 2011 when savings would decline after the authority to use IRS data expires. CBO estimates that section 802 would reduce direct spending by \$50 million over the 2009-2018 period.

Guarantees of Mortgage Refinancing Loans

Section 504 would authorize VA to provide the same maximum loan guarantee for veterans refinancing a non-VA loan as is provided for loans that are guaranteed by VA. Under current law, VA can provide a guarantee of only \$36,000 for refinancing non-VA loans compared with a guarantee of \$104,250 for refinancing VA loans. The section also would eliminate the equity requirement for such refinancing loans. Under current law, loan amounts cannot exceed 90 percent of the property's value when refinancing non-VA loans with the VA.

Based on information from VA, CBO estimates that those changes would result in an additional 1,100 loans in 2009, increasing to an additional 2,200 loans a year in 2012 and subsequent years. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate reflecting relatively low default rates and the collection of up-front fees. However, certain loan fees will be reduced (under current law) on October 1, 2011, resulting in a positive subsidy rate after that date. Because most of the additional loans would occur after the loan fees are reduced, the additional loans would result in a net increase in direct spending of \$28 million over the 2009-2018 period, CBO estimates.

Educational Assistance for Spouses of Severely Disabled Veterans

Section 321 would allow spouses of veterans who are permanently and totally disabled to use education assistance over a 20-year period. Under current law, eligible spouses have a 10-year window in which to use their benefits. CBO expects that approximately 200 additional spouses each year would receive an average benefit that would equal \$5,200 in 2009 and would grow by an annual cost-of-living increase thereafter. Therefore, CBO estimates that, over the 2009-2018 period, enacting section 321 would increase direct spending by \$13 million.

Increased Cap on Participation in Independent Living

Section 332 would raise the annual cap on the number of individuals allowed to enter the Independent Living program from 2,500 to 2,600 individuals. The Independent Living program provides services to maximize independence in daily living for veterans who are too severely disabled to pursue employment. CBO estimates that this section would increase participation in the program by about 90 veterans annually, at a cost of approximately \$14,000 per participating veteran. CBO estimates that enacting section 332 would increase direct spending by \$12 million over the 2009-2018 period.

Guarantees of Adjustable-Rate Mortgages

Section 505 would extend, through 2012, VA's authority to guarantee adjustable-rate mortgages and hybrid adjustable-rate mortgages. That authority expired at the end of fiscal year 2008.

Based on data from VA, CBO estimates that extending that authority would result in an additional 1,400 loans a year. Because the VA loan guarantee program has a negative subsidy rate during the period covered by the authority in section 505, those additional loans would increase receipts by \$13 million over the 2009-2012 period. CBO expects that some of those additional loans would become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. VA sells most vendee loans on the secondary-mortgage market and guarantees their timely repayment. Those vendee loans carry a positive subsidy, reflecting their potential defaults. Thus, the increased receipts for the new VA guarantees of adjustable-rate mortgages would be slightly offset by an additional \$2 million in subsidy costs related to vendee loans. In total, extending the authority to

guarantee adjustable-rate mortgages would reduce direct spending of \$11 million over the 2009-2018 period.

Certification Requirement for Self-Employment On-the-Job Training

Under section 325, veterans participating in on-the-job training for self-employment or operation of a franchise would no longer be required to certify to VA that they are being paid for the training and that the training will lead to employment. Because self-employment and franchise training are typically unpaid, veterans pursuing those goals who are otherwise eligible to receive payments for training are effectively excluded under current law. CBO estimates that under section 325 an additional 400 veterans annually would qualify for on-the-job training benefits during their training period. For a typical training period of five weeks, veterans would receive around \$1,600 in 2009 and that amount would increase by a cost-of-living adjustment each year. In total, CBO estimates that enacting section 325 would increase direct spending by \$7 million over the 2009-2018 period.

Temporary Increase in the Maximum Loan Guarantee

VA can provide lenders a guarantee of up to 25 percent of the value of home-acquisition loans made to veterans. Under current law, the maximum loan amount for which VA can provide a 25 percent guarantee is the Freddie Mac conforming loan limit of \$417,000. Section 501 would increase that maximum amount to 125 percent of the area median home price, not to exceed 175 percent of the current Freddie Mac limit, or \$729,750. The authority to increase the guarantee would expire on December 31, 2011.

Based on nationwide mortgage data and information from the VA, CBO estimates that under section 501 a total of 4,700 additional guaranteed loans would be made. CBO further estimates that the loan amounts for those additional loans would average 10 percent above the average amount of current loans. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about 0.4 percent. Because of that negative subsidy rate, CBO estimates that the added loans and higher loan amounts would increase receipts by \$8 million during fiscal years 2009 through 2011. However, certain loan fees will be reduced on October 1, 2011, resulting in higher subsidy rates. The additional loan guarantees that CBO estimates would occur in the final quarter before the authority expires would thus increase subsidy outlays by \$2 million.

CBO expects that some of those additional loans would become delinquent and go to foreclosure. As noted above, when a guaranteed loan goes into foreclosure, VA often acquires the property and issues a vendee loan when the property is sold. CBO estimates that the subsidy cost for those vendee loans in subsequent years would total \$3 million over the 2014-2018 period.

Taking into account the initial savings estimated for new loan guarantees and the expected costs for vendee loans, CBO estimates that this provision would reduce direct spending by \$6 million over the 2009-2013 period and \$3 million over the 2009-2018 period.

Other Provisions. The following provisions would have an insignificant impact on federal direct spending:

- Section 106 of the bill would add osteoporosis in veterans with post-traumatic stress disorder (PTSD) to the list of disabilities that VA assumes are service-connected for former prisoners of wars (POWs). Thus, under section 106, former POWs with PTSD who also have osteoporosis would be eligible for an increase in disability compensation. CBO estimates that fewer than 50 veterans would be eligible for a small increase in their disability compensation under this provision.
- Section 331 would extend the 24-month limitation on receiving Independent Living assistance for severely disabled veterans of the war on terrorism. The Independent Living program provides services to maximize independence in daily living for veterans who are too severely disabled to pursue employment. Based on current program usage rates from VA, CBO estimates that over the 2009-2018 period, fewer than 20 veterans would use more than 24 months of Independent Living services.
- Section 810 would grant eligibility for VA-provided memorial headstones to certain deceased surviving spouses of veterans. Based on information from VA, CBO expects that there would be very few requests for VA-memorial headstones from the survivors of those surviving spouses.

PREVIOUS CBO ESTIMATES

On July 23, 2008, CBO transmitted a cost estimate for S. 3023 as ordered reported by the Senate Committee on Veterans' Affairs on June 26, 2008. The two versions of S. 3023 have several similar provisions. Differences in the estimated costs of the two versions of S. 3023 reflect differences in the legislation.

On August 28, 2007, CBO transmitted a cost estimate for S. 1315, the Veterans' Benefits Enhancement Act of 2007, as ordered reported by the Senate Committee on Veterans' Affairs on June 27, 2007. Several sections of S. 3023, as cleared by the Congress, are similar to sections in S. 1315. Differences in the estimated costs of S. 3023 and S. 1315 reflect differences in the legislation.

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