CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 21, 2012

H.R. 5747
Military Family Home Protection Act

As ordered reported by the House Committee on Veterans' Affairs on July 11, 2012

SUMMARY

H.R. 5747 would reduce direct spending by extending for one month an expiring provision of law that limits pensions paid to certain veterans who are receiving Medicaid coverage in a Medicaid-approved nursing home.

The bill also would delay foreclosures on mortgages of certain military servicemembers, retirees, and surviving spouses of servicemembers who die on active duty. Because some of those mortgages are guaranteed by the Department of Veterans Affairs (VA) and the Federal Housing Administration (FHA), implementing that provision would increase both direct spending and spending subject to appropriation.

The bill would impose new civil fines, which would increase revenues. In total, CBO estimates that enacting H.R. 5747 would have an insignificant net effect on the deficit over the 2013-2022 period. Implementing the bill would increase spending subject to appropriation by $1 million over the 2013-2017 period, assuming appropriation of the necessary amounts.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

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 be small and would not exceed the thresholds established in UMRA for intergovernmental and private-sector mandates ($73 million and $146 million in 2012, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5747 is shown in the following table. The costs of this legislation fall within budget functions 700 (veterans benefits and services), 550 (health), 370 (commerce and housing credit), and 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
CHANGES IN DIRECT SPENDING												
Pensions for Veterans in Medicaid-Approved Nursing Homes												
Estimated Budget Authority	0	0	0	0	-20	0	0	0	0	0	-20	-20
Estimated Outlays	0	0	0	0	-20	0	0	0	0	0	-20	-20
Enhanced Mortgage Protection												
Estimated Budget Authority	8	*	*	1	1	1	2	2	2	2	10	20
Estimated Outlays	8	*	*	1	1	1	2	2	2	2	10	20
Total Changes												
Estimated Budget Authority	8	*	*	1	-19	1	2	2	2	2	-10	*
Estimated Outlays	8	*	*	1	-19	1	2	2	2	2	-10	*

Notes: The bill would increase revenues by an insignificant amount as a result of civil penalties for violating the enhanced mortgage protection in section 1. Implementing the bill also would increase spending subject to appropriation by an insignificant amount each year and by $1 million over the 2013-2017 period, assuming appropriation of the necessary amounts.

* = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5747 will be enacted near the start of fiscal year 2013, and that outlays will follow historical spending patterns for existing programs.

Direct Spending

H.R. 5747 would reduce direct spending for veterans' pensions and increase direct spending for federal loan guarantees. On net, the bill would have an insignificant effect on direct spending over the 2013-2022 period.

Pensions for Veterans in Medicaid-Approved Nursing Homes. Section 5 would extend for one month (from September 30, 2016, to October 31, 2016) the expiration date of a provision of current law that sets a $90 per month limit on pensions paid to any veteran who does not have a spouse or child and who is receiving Medicaid coverage in a Medicaid-approved nursing home; that provision also applies to any survivor of a veteran who is receiving such coverage. Using data provided by VA, CBO estimates that about 15,000 veterans and 19,000 survivors would be affected by this provision in 2017 and that the average monthly savings to VA in that year would be about $1,800 per veteran and $1,200 per survivor. (Those projections account for inflation, mortality rates, and new nursing home patients.) On that basis, CBO estimates that enacting the provision would reduce VA spending by $50 million.

Higher Medicaid payments to nursing homes would offset some of those savings. We estimate that those costs would total about $30 million in that month, resulting in a net reduction in direct spending of $20 million in 2017 and over the 2013-2022 period.

Enhanced Mortgage Protection. Section 1 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. Servicemembers who are convalescing would be protected from foreclosure for 12 months. Personnel who are transferred to the temporary disability retired list or who are medically discharged and retired also would be protected from foreclosure for 12 months after the date of retirement. Finally, surviving spouses of servicemembers who die from a service-connected cause while in military service would be protected from foreclosure for 12 months on a property that was jointly owned.

Some of the loans that would be affected by the enhanced foreclosure protection in section 1 are guaranteed by VA or FHA. Under its mortgage guarantee program, VA pays lenders up to 25 percent of the outstanding loan debt (subject to some limitations on the original loan amount) 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. The larger claim payments would raise the loan subsidy costs of both agencies.[1] For loans that were originated before enactment of H.R. 5747, 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, upon enactment of the bill. The higher subsidy costs for loans made subsequent to enactment 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 525,000 servicemembers, retirees, and surviving spouses would be eligible for the enhanced foreclosure protection in 2013. (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 newly eligible beneficiaries under the bill would total 290,000 in 2013. That population would decline to 260,000 each year by 2016 and thereafter, as the projected number of deployed personnel falls. 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, 1.5 percent would default, for a total of about 1,000 loans annually, CBO estimates. Under H.R. 5747, the average claim payments for those defaults would increase by about $2,000 for VA loans and by about $3,000 for FHA loans.

In 2013, the increased subsidy costs for loans originated in prior years would total $6 million for VA-guaranteed loans and almost $2 million for FHA-backed loans. Higher subsidy costs for loans guaranteed by VA in subsequent years would increase direct spending by less than $500,000 initially, growing to $2 million a year by 2019. In total, section 1 would increase direct spending by $8 million in 2013 and $20 million over the 2013-2022 period. (Higher subsidy costs for loans guaranteed by FHA in 2013 and later

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.

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.)

Section 1 also would extend a limited foreclosure protection that is afforded to all servicemembers under current law. Foreclosure proceedings on mortgages that were originated prior to the date a person enters the military can be stayed by a court for an unspecified period of time while the borrower is in the military and for nine months after they leave the service. On January 1, 2013, the period of protection after leaving the military will be shortened to 90 days under current law. Section 1 would permanently extend the nine months of post-service protection. That extension would increase direct spending by an insignificant amount, CBO estimates.

Revenues

Section 1 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.

Spending Subject to Appropriation

As described above, section 1 would increase the subsidy costs of FHA loans guaranteed in 2013 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. 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 appropriation act must specify the maximum amount of loans that an agency can commit to guarantee. As a result of the provisions in section 1, net receipts under the FHA program would decrease by less than $500,000 each year, and by a total of $1 million over the 2013-2017 period, assuming enactment of the commitment limit at baseline levels.

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. 5747 as ordered reported by the House Committee on Veterans' Affairs on July 11, 2012

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	8	0	0	1	-19	1	2	2	2	2	-10	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

The bill would impose a number of mandates, as defined in UMRA, on employers and public and private lending institutions. In aggregate, CBO estimates that the costs of complying with the mandates in H.R. 5747 would fall below the annual thresholds established in UMRA for both intergovernmental and private-sector mandates ($73 million and $146 million in 2012, respectively, adjusted annually for inflation).

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 whose military service has ended;
- Expand stays of civil proceedings for surviving spouses;
- 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 to institutions of complying with the stay of civil proceedings would be small because relatively few servicemembers, retirees, and surviving spouses would 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 require employers to continue to employ veterans who are absent to receive medical treatment for a service-connected disability. Employers also would be required to grant such veterans seniority and other rights and benefits as if they had not been absent. Those rights to employment, seniority, and benefits would accrue to veterans regardless of their length of employment. Benefit levels would, however, be limited to those provided to similar employees. Based on leave and benefits data for individuals who are covered by the Family Medical Leave Act, CBO estimates that the costs of the mandate would be small.

Section 4 of UMRA excludes from the application of that act any legislative provisions that establish or enforce any statutory rights that prohibit discrimination on the basis of race, color, religion, sex, national origin, age, handicap, or disability. CBO has determined that section 4(d) of the bill would fall within that exclusion and has not reviewed the section for mandates.

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