CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 27, 2017

H.R. 3561

A bill to amend title 38, United States Code, to permit appraisers approved by the Secretary of Veterans Affairs to make appraisals for the purposes of chapter 37 of such title based on inspections performed by third parties

As ordered reported by the House Committee on Veterans' Affairs on October 12, 2017

SUMMARY

H.R. 3561 would modify the process for appraising homes purchased with loans that are guaranteed by the Department of Veterans Affairs (VA). CBO expects that those changes would slightly increase the number of loans that VA guarantees. The cost of those loan guarantees are paid from mandatory appropriations. CBO estimates that enacting H.R. 3561 would increase direct spending by $10 million over the 2018-2027 period.

Because enacting H.R. 3561 would affect direct spending, pay-as-you-go procedures would apply. Enacting the bill would not affect revenues.

CBO estimates that enacting H.R. 3561 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 3561 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 3561 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	1	1	1	1	1	1	1	1	1	1	5	10
Estimated Outlays	1	1	1	1	1	1	1	1	1	1	5	10

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3561 will be enacted near the start of calendar year 2018.

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

Home appraisals for loans guaranteed by VA must be performed by a provider that has been approved by the department. VA reports that a shortage of approved appraisers in some areas of the country has increased the cost of appraisals and the time it takes to complete them. H.R. 3561 would permit VA-approved appraisers to base their estimates of home values solely on information provided by third parties. That change would allow appraisers to estimate home values without visiting the property through the use of information from property tax records, real estate listings, and similar sources.

On the basis of the number and the average amount of loans that VA guarantees, CBO expects that streamlining the process and reducing closing costs for borrowers would increase the number of loans guaranteed by VA by a few hundred each year. The average subsidy cost of VA loan guarantees, which are paid from mandatory appropriations, is about $3,000.[1] Thus, increasing the number of loans would increase direct spending by about $1 million each year and $10 million over the 2018-2027 period, CBO estimates.

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.

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 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. 3561 as ordered reported by the House Committee on Veterans' Affairs on October 12, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	1	1	1	1	1	1	1	1	1	1	5	10

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2028.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3561 contains no intergovernmental or private-sector mandates as defined in UMRA.

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