

### At a Glance

## H.R. 3504, Ryan Kules Specially Adaptive Housing Improvement Act of 2019

As ordered reported by the House Committee on Veterans' Affairs on July 11, 2019

By Fiscal Year, Millions of Dollars	2019	2019-2024	2019-2029
Direct Spending (Outlays)	0	-109	-86
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	-109	-86
Spending Subject to Appropriation (Outlays)	0	0	0
Statutory pay-as-you-go procedures apply?	Yes	<b>Mandate Effects</b>	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2030?	< \$5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

#### The bill would

- Increase the fees that the Department of Veterans Affairs (VA) charges veterans for home loan guarantees
- Expand eligibility for the Fry Scholarship to the dependents of certain deceased individuals who served in the Selected Reserve of the U.S. Armed Forces
- Raise the maximum number and aggregate amounts of housing grants to disabled veterans
- Modify eligibility criteria of certain housing grants for blind veterans
- Authorize benefits under the Post-9/11 GI Bill for preparatory courses for licensing and certification tests
- Change how VA pays allowances for veterans in work-study programs

#### Estimated budgetary effects would primarily stem from

- Increasing fees charged by VA for home loan guarantees
- Increasing beneficiaries of the Post-9/11 GI Bill
- Providing additional housing grants for disabled veterans

#### Areas of significant uncertainty include

- Projecting the number and characteristics of home loans guaranteed by VA
- Estimating the number and amount of housing grants awarded above current limits
- Estimating the number of dependents of deceased reservists who would utilize the Fry Scholarship

**Detailed estimate begins on the next page.**

## Bill Summary

H.R. 3504 would modify the home loan, housing grants, and education benefits programs administered by the Department of Veterans Affairs. The bill would raise the fees for VA-guaranteed home loans, increase the number and amount of grants to adapt the houses of disabled veterans, and expand eligibility for the Marine Gunnery Sergeant John David Fry Scholarship.

## Estimated Federal Cost

The estimated budgetary effect of H.R. 3504 is shown in Table 1. The bill would decrease net direct spending by \$86 million over the 2019-2029 period; it would not affect revenues or spending subject to appropriation. The effects of the legislation fall within budget function 700 (veterans benefits and services).

**Table 1.**  
**Estimated Increases or Decreases in Direct Spending**

	By Fiscal Year, Millions of Dollars											2019- 2024	2019- 2029
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		
	<b>Increases or Decreases (-) in Direct Spending Outlays</b>												
Home Loan Fees	0	0	0	-85	-98	-83	-85	-88	-90	0	0	-266	-529
Fry Scholarship	0	0	15	24	27	29	32	34	38	41	43	95	283
Housing Grants	0	2	13	13	14	15	16	17	18	19	20	57	147
Preparatory Courses	0	1	1	1	1	1	1	1	2	2	2	5	13
Total Changes in Direct Spending	0	3	29	-47	-56	-38	-36	-36	-32	62	65	-109	-86

## Basis of Estimate

For this estimate, CBO assumes that H.R. 3504 will be enacted early in fiscal year 2020 and that the provisions would take effect upon enactment or on the dates specified by the bill.

### Home Loan Fees

Section 8 would increase the fees that VA charges veterans for home loan guarantees provided between January 1, 2022, and October 1, 2027. VA typically provides a lender with a payment of up to 25 percent of the outstanding mortgage balance (subject to some limitations on the original loan amounts) if a veteran defaults on a guaranteed loan. Those guarantees enable veterans to obtain better loan terms, such as lower interest rates or smaller down payments. Increasing the fees for such loans would lower the subsidy cost of the

guarantees by partially offsetting the costs of subsequent defaults.<sup>1</sup> The subsidy cost of VA loan guarantees are paid from mandatory appropriations; hence, changing the subsidy cost would affect direct spending.

The fees in the loan program vary depending on the size of the down payment and whether the veteran has previously used the loan-guarantee benefit. Veterans who receive compensation for service-connected disabilities are exempt from paying any fee. The fees that would be affected by section 8 are currently set as follows:

- 2.30 percent of the loan amount for loans with no down payment or cash-out refinancing loans on the first use of the guarantee benefit,
- 3.60 percent of the loan amount for loans with no down payment or cash-out refinancing loans on subsequent uses of the guarantee benefit,
- 1.65 percent of the loan amount for loans with a 5 percent down payment, and
- 1.40 percent of the loan amount for loans with a 10 percent down payment.

Under current law, those fees are scheduled to decline on January 1, 2022 to 2.15 percent, 3.30 percent, 1.50 percent, and 1.25 percent, respectively. Section 8 would extend the fees at the current level through September 30, 2027. On October 1, 2027, the fees would revert to the lower rates through September 30, 2029, after which they would further decline to 1.4 percent, 1.25 percent, 0.75 percent, and 0.50 percent, respectively.

On the basis of our analysis of information from VA about the number and amounts of loans guaranteed in recent years, the default rates for those loans, and the amount of fees collected CBO estimates that enacting those fee increases would reduce direct spending by \$529 million over the 2019-2029 period.

### **Fry Scholarship**

Section 6 would expand eligibility for the Marine Gunnery Sergeant John David Fry Scholarship to the spouses and children of service members of the Selected Reserve who, on or after September 11, 2001, die in the line of duty or from a service-connected disability within four years of discharge. Under current law, only the spouses and children of service members who die in the line of duty while serving on active duty are eligible for education benefits under the Fry Scholarship. Spouses and children of deceased reservists are only

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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.

eligible for education benefits under the Survivors' and Dependents' Education Assistance program (DEA).

The Fry Scholarship entitles qualifying recipients to education benefits under the Post-9/11 GI Bill. Those benefits include the payment of tuition and fees (at in-state rates for public schools and up to \$23,700 per year at private schools for academic year 2018-2019), a monthly housing allowance, and a stipend to pay for books and educational supplies. By comparison, DEA provides monthly payments to qualifying recipients at a maximum rate of \$1,224 for full-time students, during fiscal year 2019.

On the basis of information obtained from VA, CBO expects that an average of about 1,800 spouses and children per year over the next ten years would elect to receive education benefits under the Fry Scholarship; about 1,500 of them would have received DEA benefits under current law, while the remaining 300 who would not have used DEA benefits would use the Fry Scholarship because of the higher benefit value. Each of those beneficiaries would receive, on average, about \$18,700 in Fry Scholarship benefits in 2020. That amount would increase to an estimated \$25,800 in 2029 after adjusting for inflation. Under DEA, beneficiaries will receive an average of about \$6,700 in benefits in 2020 and about \$8,200 in benefits in 2029 after adjusting for inflation. CBO estimates the change in eligibility would increase net direct spending by \$283 million over the 2019-2029 period.

### **Housing Grants**

Section 3 of the bill would make several changes to housing grants administered by VA for veterans with service-connected disabilities. In total, those changes would increase direct spending by \$147 million over the 2019-2029 period.

VA provides housing benefits through two programs: Specially Adapted Housing (SAH) grants and Special Housing Adaption (SHA) grants. Eligibility for the grants is generally determined by the location and severity of veterans' disabilities. Under current law, a disabled veteran may receive up to three grant awards or up to a the maximum aggregate amount of \$93,876 for SAH grants and \$18,082 for SHA grants in 2020. Those dollar limits increase annually with inflation.

**Aggregate Grant Amounts.** Section 3 would increase the maximum aggregate amounts of each of the grant programs by an average of \$5,200 for SAH grants and by \$1,100 for SHA grants, over the 2021-2029 period. On the basis of data from VA on veterans who have received nearly the maximum aggregate grant amounts, CBO expects that, on average, about 2,300 veterans would receive an additional \$3,700 in grants each year. Those grants would increase direct spending by \$78 million over the 2019-2029 period, CBO estimates.

**SAH Application Limit.** Section 3 also would raise the maximum number of applications for SAH grants submitted by veterans who require assistance to walk because they lost the use of a lower extremity on or after September 11, 2001. Under current law, VA may

approve 30 such applications each year; the bill would increase that limit to 120 applications. Using data provided by VA on the number of such applications that it has received, approved, and awarded, CBO expects that VA would receive enough applications to approve 90 more each year. However, only a portion of approved applications are awarded. On the basis of historical disbursement rates, CBO expects approximately 50 grants would be awarded annually at an average amount of \$100,000. Those grants would increase direct spending by \$47 million over the 2019-2029 period, CBO estimates.

**Lifetime Grant Limit.** Section 3 would raise the maximum number of SAH or SHA housing grants that disabled veterans may receive over their lifetime from three to six grants. On the basis of data provided by VA about the number of veterans who have been awarded three grants and incorporating the increases in aggregate amounts described above, CBO expects that, on average, about 35 veterans would receive additional grants each year, of approximately \$5,800 per grant. Those additional grants would increase direct spending by \$2 million over the 2019-2029 period, CBO estimates.

**SAH Grants to Blind Veterans.** Section 9 would authorize VA to award SAH grants to veterans who are legally blind in both eyes. Under current law, such veterans are eligible only for the smaller SHA grants. On the basis of data provided by VA on the number and amount of SHA grants to blind veterans, CBO expects that VA would increase grants to 50 people by an average of \$40,000 each year. That change would increase direct spending by \$20 million over the 2019-2029 period, CBO estimates.

### **Preparatory Courses**

Section 7 would authorize the use of education benefits under the Post-9/11 GI Bill to cover preparatory courses for licensing and certification tests. Under current law, such payments are only authorized for the licensing and certification tests themselves and for preparatory courses for college admissions tests. Using data provided by VA, CBO expects that about 1,600 participants each year would receive an average benefit of about \$850 for these courses. This provision would increase direct spending by about \$13 million over the 2020-2029 period, CBO estimates.

### **Work-Study Payments**

Section 5 would require VA to make annual payments to educational institutions to cover work-study allowances of veterans participating in the work-study program. Under current law, VA makes those payments directly to veterans. Because the provision would change how payments are distributed but would not change eligibility to receive payments or the rate of payment, CBO estimates that this provision would not significantly affect direct spending.

**Uncertainty**

A significant source of uncertainty is the number of veterans who would use the loan guarantee and thus be subject to the increased fees provided for in the bill. Additionally, the number of dependents of deceased reservists who would use the Fry Scholarship could be more or less than CBO estimates. The number of adaptive housing grants that are awarded above current limits could also vary from CBO's estimates. Consequently, the changes to direct spending due to the bill could be significantly different than CBO estimated.

**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 Table 1.

**Increase in Long-Term Deficits:**

CBO estimates that enacting H.R. 3504 would not increase on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2030.

**Mandates:** None.

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