Congressional Budget Office
Cost Estimate

May 25, 2021

H.R. 2419, Affordable Housing for Homeless Veterans Act of 2021

As ordered reported by the House Committee on Veterans' Affairs on May 4, 2021

By Fiscal Year, Millions of Dollars	2021	2021-2026	2021-2031
Direct Spending (Outlays)	10	10	10
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	10	10	10
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2032?	**No**	Contains intergovernmental mandate?	**No**
		Contains private-sector mandate?	**No**

The Department of Veterans Affairs (VA) provides guarantees to lenders for eligible borrowers to obtain better loan terms—such as lower interest rates or smaller down payments—when purchasing, constructing, or refinancing a home. VA typically pays lenders up to 25 percent of the outstanding mortgage balance if a borrower defaults on a guaranteed loan. Military personnel and veterans who have served at least 90 days on active duty or six years in the Selected Reserve are eligible for those loan guarantees. If a borrower defaults and the lender forecloses on the property, VA may purchase the property from the lender and resell it rather than pay the guaranteed portion of the loan if the department estimates that action will reduce the subsidy cost of the loan guarantee.[1]

H.R. 2419 would authorize the VA to sell or lease those properties at a discount to public entities or nonprofit organizations for use as temporary shelter or permanent housing for homeless veterans and their families. That authority would expire at the end of 2025. According to information from the department, VA would sell about 120 houses at a discount of approximately 50 percent, averaging roughly $100,000 lower than market prices.

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 or 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 or modified.

See also *CBO's Cost Estimates Explained*, www.cbo.gov/publication/54437;
How CBO Prepares Cost Estimates, www.cbo.gov/publication/53519; and *Glossary*, www.cbo.gov/publication/42904.

Proceeds from the sale of houses acquired by VA via foreclosure reduce the subsidy cost of loan guarantees by partially offsetting losses caused by defaults. Authorizing VA to sell the houses at a discount would reduce recoveries and increase the subsidy costs of the loan guarantees. Those costs are paid from mandatory appropriations; hence, changing the subsidy cost affects direct spending. Changes to the subsidy costs of extant mortgages are treated as loan modifications, and the budgetary effects would be recorded when the modifications became effective—that is, upon enactment in 2021. CBO estimates that the discounted sales would increase direct spending by $10 million over the 2021-2031 period.

The CBO staff contact for this estimate is Paul B.A. Holland. The estimate was reviewed by Leo Lex, Deputy Director of Budget Analysis.