Congressional Budget Office
Cost Estimate

August 13, 2021

H.R. 4657, Veteran Home Energy Savings Act

As ordered reported by the House Committee on Veterans' Affairs on July 28, 2021

By Fiscal Year, Millions of Dollars	2021	2021-2026	2021-2031
Direct Spending (Outlays)	0	3	9
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	3	9
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?	**< $5 billion**	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's home is foreclosed upon. Such payments, net of fees and recoveries, comprise the subsidy cost for VA loan guarantees, which is paid from mandatory appropriations; hence, changing the subsidy cost affects direct spending.[1]

To obtain a loan guarantee from VA, lenders must determine that each applicant satisfies the department's underwriting standards, including verifying that their income will be sufficient to repay the mortgage. H.R. 4657 would permit lenders to consider expected cost savings documented in an energy efficiency report prepared for a home in determining the sufficiency of an applicant's income. The bill would first require VA to prescribe regulations concerning how the energy-efficiency reports are prepared and how lenders should consider savings from energy efficiency features when evaluating income.

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.

On the basis of data published by the U.S. Census Bureau on the number of owner-occupied housing units, information from the Residential Energy Service Network on the number of homes rated for energy efficiency, and projections of VA loan guarantees under current law, CBO expects that VA would guarantee about 240 additional loans each year, averaging about $400,000, as a result of lenders including energy efficiency savings in their evaluation of applicants' income. The average subsidy rate for those new loans would be about 1 percent, increasing direct spending by $9 million over the 2021-2031 period, CBO estimates.

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