Congressional Budget Office
Cost Estimate

December 6, 2021

At a Glance

H.R. 1836, Guard and Reserve GI Bill Parity Act of 2021

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

By Fiscal Year, Millions of Dollars	2022	2022-2026	2022-2031
Direct Spending (Outlays)	-108	-641	-20
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	-108	-641	-20
Spending Subject to Appropriation (Outlays)	0	0	0

Statutory pay-as-you-go procedures apply?	**Yes**	**Mandate Effects**	
		Contains intergovernmental mandate?	**No**
Increases on-budget deficits in any of the four consecutive 10-year periods beginning in 2032?	**> $5 billion**	Contains private-sector mandate?	**No**

The bill would
- Increase the fees that borrowers pay to the Department of Veterans Affairs (VA) for home loan guarantees
- Credit certain time spent training while serving in the reserve components toward entitlement for Post-9/11 GI Bill benefits

Estimated budgetary effects would mainly stem from
- Higher fees charged by VA for home loan guarantees
- Increased use of Post-9/11 GI Bill benefits

Areas of significant uncertainty include
- Predicting the number of reservists and guard members who would become eligible for benefits under the Post-9/11 GI Bill solely as a result of time spent on active duty for training

Detailed estimate begins on the next page.

Bill Summary

H.R. 1836 would raise the fees that the Department of Veterans Affairs (VA) collects from borrowers to partially offset the cost of home loan guarantees. The bill also would credit time spent on active duty for training in the reserve components toward entitlement for education benefits under the Post-9/11 GI Bill.

Estimated Federal Cost

The estimated budgetary effects of H.R. 1836 are shown in Table 1. The bill would decrease direct spending by $20 million over the 2022-2031 period. The costs of the legislation fall within budget function 700 (veterans benefits and services).

Table 1.
Estimated Budgetary Effects of H.R. 1836

	By Fiscal Year, Millions of Dollars											
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2026	2022-2031
	Increases or Decreases (-) in Direct Spending											
Home Loan Fees	-108	-205	-180	-173	-152	-152	-140	0	0	-850	-818	-1,960
Post-9/11 GI Bill	0	0	0	14	163	263	301	328	356	515	177	1,940
Total Changes in Direct Spending	-108	-205	-180	-159	11	111	161	328	356	-335	-641	-20

Budget authority is equal to the outlays shown here for all provisions.

Basis of Estimate

For this estimate, CBO assumes that H.R. 1836 will be enacted in 2022 and that the bill's provisions will take effect on the specified dates. Estimated outlays are based on historical spending patterns for the affected programs.

Direct Spending

H.R. 1836 would make changes to VA's home loan program and the Post-9/11 GI Bill program. On net, enacting the bill would decrease direct spending by $20 million over the 2022-2031 period, CBO estimates.

Home Loan Fees. VA provides loan guarantees to lenders to help eligible borrowers obtain better loan terms—such as lower interest rates or smaller down payments—for 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. Those payments, net of fees paid by borrowers and recoveries by lenders, constitute the subsidy cost of VA loan guarantees, which is paid from mandatory appropriations; hence, changing the subsidy cost affects direct spending.[1]

Under current law, most of the fees borrowers pay to VA for loan guarantees after 2030 will decline from a weighted average of 2.5 percent of the loan amount to 1.2 percent. H.R. 1836 would extend the higher rates through 2031. The bill also would raise fees for guarantees of certain refinancing loans from 0.5 percent to 0.85 percent over the period from July 1, 2022, to September 30, 2028. Using information from VA about the volume of guaranteed loans in recent years, the default rate for those loans, and the amount of fees collected for the guarantees, CBO estimates that extending the higher fee rates would decrease direct spending by almost $2 billion over the 2022-2031 period.

Post-9/11 GI Bill. Under the Post-9/11 GI Bill, VA pays tuition, housing, and other expenses for up to 36 months for beneficiaries who pursue approved education or training programs. People who serve at least 30 days on active duty in the armed forces are eligible for benefits. Those who serve at least six years in any of the uniformed services and agree to serve another four years may be approved to transfer benefits to their spouse or children. The amount of those benefits depends on the period of time that service members are on active duty.

Full benefits are paid to or on behalf of those who served on active duty for at least 36 months or for 30 continuous days if they were discharged because of a service-connected disability. The benefits consist of an amount equivalent to in-state tuition and fees at a public postsecondary institution or up to $26,043 (for the 2021-2022 academic year) annually for a private or a foreign institution, a monthly housing allowance (national average of $1,896) for students enrolled more than half-time, and a stipend for books and supplies (up to $1,000 each year). Entitlement to benefits for veterans who spent less than 36 months on active duty are reduced on the basis of the period of time served.

For reservists and guard members who serve on or after August 1, 2025, H.R. 1836 would count time in active duty for training toward for Post-9/11 GI Bill benefits. For the reserve components, active duty for training consists of nearly all full-time duty other than during mobilizations, including the two weeks of annual training required of every reservist and guard member. That training is not counted towards entitlement for the Post-9/11 GI Bill under current law.

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.

By counting the time spent in active duty for training, H.R.1837 would increase benefit amounts for some people who already will be using benefits under current law, CBO anticipates, and it would increase the number of people who would use benefits because the amounts would be larger than they are under current law. The provision also would make some people eligible for benefits solely because of participation in two weeks of annual training. According to the Department of Defense, the average member of the reserve components serves for eight years; those reservists or guard members would accrue an additional four months of service toward entitlement for Post-9/11 GI Bill benefits.

Using information from VA, CBO estimates that the additional time counted would increase annual benefits, on average, by about $2,500 each for the roughly 15,000 beneficiaries who are eligible under current law for reduced benefits. In addition, roughly 2,500 people who would not use benefits under current law would use the larger benefit amounts under the bill, at an average annual cost of about $13,500 per beneficiary. Lastly, roughly 23,000 people who became eligible solely because of their time in active duty for training would use the benefits, at an annual cost of about $9,000 each, on average.

CBO estimates that in total, those larger benefit amounts and additional beneficiaries would increase direct spending by $1.9 billion over the 2022-2031 period.

Uncertainty

A significant source of uncertainty for CBO's estimate involves the number of reservists and guard members who would become newly eligible for benefits under the Post-9/11 GI Bill solely as a result of serving on active duty for training. If that number is higher or lower than projected, the cost of the bill could differ significantly from the estimated amounts.

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. 1836 would increase on-budget deficits by more than $5 billion in each of the four consecutive 10-year periods beginning in 2032 because a provision taking effect on August 1 of that year would count both active and inactive duty for training before, on, or after that date for benefits under the Post-9/11 GI Bill. The increases in home loan fees under the bill would expire before 2032 and thus would have no long-term effects on deficits.

Mandates: None.

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