

SELECTED RESERVE HOME LOAN EQUITY ACT

---

MAY 19, 2003.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

---

Mr. SMITH of New Jersey, from the Committee on Veterans' Affairs, submitted the following

R E P O R T

[To accompany H.R. 1257]

[Including cost estimate of the Congressional Budget Office]

The Committee on Veterans' Affairs, to whom was referred the bill (H.R. 1257) to amend title 38, United States Code, to make permanent the authority for qualifying members of the Selected Reserve to have access to home loans guaranteed by the Secretary of Veterans Affairs and to provide for uniformity in fees charged qualifying members of the Selected Reserve and active duty veterans for such home loans, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

INTRODUCTION

The reported bill reflects the Committee's consideration of H.R. 1257, the Selected Reserve Home Loan Equity Act.

On March 13, 2003, Honorable Lane Evans, Ranking Member of the Committee, introduced H.R. 1257, along with Honorable Michael H. Michaud, Ranking Member of the Subcommittee on Benefits, Honorable Bob Filner, Honorable Luis V. Gutierrez, Honorable Corrine Brown, Honorable Ciro D. Rodriguez, Honorable Silvestre Reyes, Honorable Ted Strickland, Honorable Tom Udall, Honorable Timothy J. Ryan, Honorable Bernard Sanders, Honorable Tim Holden, Honorable Susan A. Davis, and Honorable Maxine Waters.

On May 7, 2003, the Subcommittee on Benefits met and unanimously ordered H.R. 1257 reported favorably to the full Committee.

On May 15, 2003, the full Committee met and ordered H.R. 1257 reported favorably to the House by unanimous voice vote.

## SUMMARY OF THE REPORTED BILL

H.R. 1257 would:

1. Make the VA home loan program for members of the Selected Reserve permanent, and reduce the funding fee charged to Selected Reserve home loan applicants to the same amount as the amount paid by active duty servicemembers.
2. Increase the amount of fees paid by a veteran who is purchasing a home with no down payment for a second or subsequent time.

## BACKGROUND AND DISCUSSION

On April 11, 2002 (107th Congress), the Subcommittee on Benefits held a hearing on a number of bills, among them H.R. 2095, introduced by Ranking Member Evans. This bill proposed to equalize fees between members of the Selected Reserve and other veterans. Veterans service organizations and the Department of Veterans Affairs testified in support of the bill. Although legislation passed the House of Representatives in 2002 to equalize fees on a temporary basis, the provision was not included in the final legislation approved in conference. H.R. 1257 is similar to H.R. 2095, but makes the home loan program for members of the Selected Reserve permanent, and provides for equalization of funding fees.

*Permanent authority for housing loans for members of the Selected Reserve.*—Section 2 of the bill would make the home loan program for members of the Selected Reserve permanent. In 1992, Congress granted eligibility for VA home loans to persons who served in the Selected Reserve (which includes the National Guard). This benefit is a useful recruiting and retention tool for members of the Selected Reserve. Under current law, the program is scheduled to expire on September 30, 2009.

In order to qualify for this benefit, a member of the Selected Reserve must have honorably served for at least six years and meet other requirements. In recent years, reservists have been increasingly called upon to participate on active duty for extended periods to support the national defense. As the recent actions in Afghanistan and Iraq clearly demonstrate, reservists are an integral part of America's "total force." They have earned the right to participate in VA's home loan program on a permanent and equal basis.

*Uniform home loan guaranty fees for qualifying members of the Selected Reserve and active duty veterans.*—Section 3 of the bill would amend the Loan Fee Table to provide uniformity in the funding fees charged to members of the Selected Reserve and active duty veterans for VA home loans. Under current law, in most cases a reservist pays a funding fee that is 0.75 percent higher than the fee charged to veterans who have served on active duty. For example, the current fee for a veteran to obtain an initial VA home loan with no down payment is 2 percent; a reservist is charged a fee of 2.75 percent for the same loan. Reservists who have a service-connected disability are exempt from the fee.

According to VA, members of the Selected Reserve have a lower foreclosure rate than other loan guaranty beneficiaries. Since its inception, the foreclosure rates for members of the Selected Reserve have been almost one-third lower than that of other veterans;

therefore, a higher rate is not justified on the basis of foreclosure risk. Reservists have earned equality in fees with other veterans.

In order to pay the cost of equalizing benefits between reservists and other veterans, section 3 of the bill would also increase the home loan guaranty fees for veterans qualifying for a second or subsequent home loan with no down payment. The bill would amend the Loan Fee Table to increase the fees for veterans who obtain a subsequent VA home loan from 3 percent to 3.3 percent for loans closed before October 1, 2011. This fee would be reduced to 2.15 percent for loans closed between October 1, 2011 and September 30, 2013.

#### SECTION-BY-SECTION ANALYSIS

Section 1 would provide that this Act may be cited as the “Selected Reserve Home Loan Equity Act”.

Section 2 would amend section 3702(a)(2)(E) of title 38, United States Code, to provide permanent authority for housing loans for members of the Selected Reserve.

Section 3 would amend paragraph (2) of section 3729(b) of title 38, United States Code, to provide uniform home loans fees for qualifying members of the Selected Reserve and active duty veterans and would increase the fee for second or subsequent use of the VA home loan program with no down payment.

#### PERFORMANCE GOALS AND OBJECTIVES

The reported bill would authorize veterans benefits enhancements and program improvements under laws administered by the Secretary of Veterans Affairs. The veterans programs and activities affected by the reported bill are currently authorized. Their performance goals and objectives are established in annual performance plans and are subject to the Committee’s regular oversight.

#### CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, April 4, 2003*

Hon. LANE EVANS  
*Ranking Democratic Member, Committee on Veterans’ Affairs,  
House of Representatives, Washington, DC*

DEAR CONGRESSMAN: As you requested, the Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1257, the Selected Reserve Home Loan Equity Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Sunita D’Monte, who can be reached at 226–2840.

Sincerely,

DOUGLAS HOLTZ-EAKIN,  
*Director*

Enclosure.

## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

*H.R. 1257, Selected Reserve Home Loan Equity Act**As introduced on March 13, 2003*

H.R. 1257 would permanently extend the home loan benefits guaranteed by the Department of Veterans Affairs (VA) to members of the selected reserve and amend certain fees charged for the program. CBO estimates that enacting the bill would reduce direct spending by \$51 million over the 2004–2013 period, but would not affect administrative expenses for the program, which are provided for in annual appropriations acts. The changes in direct spending are shown in the following table. The budgetary impact of this bill falls within budget function 700 (veterans benefits and services).

	By Fiscal Year, Outlays in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CHANGES IN DIRECT SPENDING</b>										
Estimated Budget Authority ....	-4	*	*	*	*	*	-2	-2	-21	-21
Estimated Outlays .....	-4	*	*	*	*	*	-2	-2	-21	-21

\* = Between -\$500,000 and zero.

Under current law, reservists are eligible for home loans guaranteed by VA through 2009. CBO estimates that under the bill, VA would guarantee 9,000 additional loans a year over the 2010–2013 period, with an average loan amount of \$153,000. The bill also would alter the fee structure for the VA home loan program in two ways. First, it would require VA to charge the same fees for active-duty veterans and reservists by reducing the fees paid by reservists by 75 basis points. And second, it would increase the fee charged for repeated use (when a veteran uses the benefit more than once) of the home loan benefit by 30 basis points over the 2004–2011 period and by 90 basis points in 2012 and 2013.

CBO estimates that revising fees in the manner specified above would reduce direct spending by \$4 million in 2004, but have no significant effect on direct spending over the 2005–2009 period as the fee changes would approximately offset each other over that period. Savings in 2004 result from lower interest rate assumptions for that year compared to those projected for the 2005–2009 period.

Starting in 2010, when VA would guarantee additional loans for reservists under the bill, CBO estimates direct spending would fall by \$2 million a year in 2010 and 2011, and by \$21 million a year in 2012 and 2013. Savings result because reservists have fewer home loan defaults than do other veterans, according to VA, and this lower default rate would reduce the subsidy rate for the program as a whole over the 2010–2013 period. Annual savings would increase significantly from 2011 to 2012 because the fees would rise substantially in 2012 under the bill.

H.R. 1257 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, and tribal governments.

The CBO staff contact is Sunita D'Monte, who can be reached at 226–2840. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

## STATEMENT OF FEDERAL MANDATES

The preceding Congressional Budget Office cost estimate states that the bill contains no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act.

## STATEMENT OF CONSTITUTIONAL AUTHORITY

Pursuant to Article I, section 8 of the United States Constitution, the reported bill is authorized by Congress' power to "provide for the common Defense and general Welfare of the United States."

## CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

**CHAPTER 37 OF TITLE 38, UNITED STATES CODE****CHAPTER 37—HOUSING AND SMALL BUSINESS LOANS**

\* \* \* \* \*

## SUBCHAPTER I—GENERAL

\* \* \* \* \*

**§ 3702. Basic entitlement**

(a)(1) \* \* \*

(2) The veterans referred to in the first sentence of paragraph (1) of this subsection are the following:

(A) \* \* \*

\* \* \* \* \*

(E) For the period beginning on October 28, 1992, [and ending on September 30, 2009,] each veteran described in section 3701(b)(5) of this title.

\* \* \* \* \*

## SUBCHAPTER III—ADMINISTRATIVE PROVISIONS

\* \* \* \* \*

**§ 3729. Loan fee**

(a) \* \* \*

(b) DETERMINATION OF FEE.—(1) \* \* \*

[(2) The loan fee table referred to in paragraph (1) is as follows:

## 【LOAN FEE TABLE

Type of loan	Active duty veteran	Reservist	Other obligor
(A)(i) Initial loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other initial loan described in section 3710(a) other than with 5-down or 10-down (closed before October 1, 2011) .....	2.00	2.75	NA
(A)(ii) Initial loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other initial loan described in section 3710(a) other than with 5-down or 10-down (closed on or after October 1, 2011) .....	1.25	2.00	NA
(B)(i) Subsequent loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other subsequent loan described in section 3710(a) (closed before October 1, 2011) .....	3.00	3.00	NA
(B)(ii) Subsequent loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other subsequent loan described in section 3710(a) (closed on or after October 1, 2011) .....	1.25	2.00	NA
(C)(i) Loan described in section 3710(a) to purchase or construct a dwelling with 5-down (closed before October 1, 2011) .....	1.50	2.25	NA
(C)(ii) Loan described in section 3710(a) to purchase or construct a dwelling with 5-down (closed on or after October 1, 2011) .....	0.75	1.50	NA
(D)(i) Initial loan described in section 3710(a) to purchase or construct a dwelling with 10-down (closed before October 1, 2011) .....	1.25	2.00	NA
(D)(ii) Initial loan described in section 3710(a) to purchase or construct a dwelling with 10-down (closed on or after October 1, 2011) .....	0.50	1.25	NA
(E) Interest rate reduction refinancing loan .....	0.50	0.50	NA
(F) Direct loan under section 3711 .....	1.00	1.00	NA
(G) Manufactured home loan under section 3712 (other than an interest rate reduction refinancing loan) .....	1.00	1.00	NA
(H) Loan to Native American veteran under section 3762 (other than an interest rate reduction refinancing loan) .....	1.25	1.25	NA
(I) Loan assumption under section 3714 .....	0.50	0.50	0.50
(J) Loan under section 3733(a) .....	2.25	2.25	2.25】

(2) The loan fee table referred to in paragraph (1) is as follows:

## LOAN FEE TABLE

<i>Type of loan</i>	<i>Veteran</i>	<i>Other obligor</i>
(A)(i) Initial loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other initial loan described in section 3710(a) other than with 5-down or 10-down (closed before October 1, 2011) .....	2.00	NA
(A)(ii) Initial loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other initial loan described in section 3710(a) other than with 5-down or 10-down (closed on or after October 1, 2011) .....	1.25	NA
(B)(i) Subsequent loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other subsequent loan described in section 3710(a) (closed before October 1, 2011) .....	3.30	NA
(B)(ii) Subsequent loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other subsequent loan described in section 3710(a) (closed on or after October 1, 2011 and before October 1, 2013) .....	2.15	NA
(B)(iii) Subsequent loan described in section 3710(a) to purchase or construct a dwelling with 0-down, or any other subsequent loan described in section 3710(a) (closed on or after October 1, 2013) .....	1.25	NA
(C)(i) Loan described in section 3710(a) to purchase or construct a dwelling with 5-down (closed before October 1, 2011) .....	1.50	NA
(C)(ii) Loan described in section 3710(a) to purchase or construct a dwelling with 5-down (closed on or after October 1, 2011) .....	0.75	NA
(D)(i) Initial loan described in section 3710(a) to purchase or construct a dwelling with 10-down (closed before October 1, 2011) .....	1.25	NA
(D)(ii) Initial loan described in section 3710(a) to purchase or construct a dwelling with 10-down (closed on or after October 1, 2011) .....	0.50	NA
(E) Interest rate reduction refinancing loan .....	0.50	NA
(F) Direct loan under section 3711 .....	1.00	NA
(G) Manufactured home loan under section 3712 (other than an interest rate reduction refinancing loan) .....	1.00	NA
(H) Loan to Native American veteran under section 3762 (other than an interest rate reduction refinancing loan) .....	1.25	NA
(I) Loan assumption under section 3714 .....	0.50	0.50
(J) Loan under section 3733(a) .....	2.25	2.25

\* \* \* \* \*

(4) For the purposes of paragraph (2):

[(A) The term “active duty veteran” means any veteran eligible for the benefits of this chapter other than a Reservist.

**[(B)]** The term “Reservist” means a veteran described in section 3701(b)(5)(A) of this title who is eligible under section 3702(a)(2)(E) of this title.】

*(A) The term “veteran” means any veteran eligible for the benefits of this chapter.*

**[(C)]** *(B)* The term “other obligor” means a person who is not a veteran, as defined in section 101 of this title or other provision of this chapter.

**[(D)]** *(C)* The term “initial loan” means a loan to a veteran guaranteed under section 3710 or made under section 3711 of this title if the veteran has never obtained a loan guaranteed under section 3710 or made under section 3711 of this title.

**[(E)]** *(D)* The term “subsequent loan” means a loan to a veteran, other than an interest rate reduction refinancing loan, guaranteed under section 3710 or made under section 3711 of this title if the veteran has previously obtained a loan guaranteed under section 3710 or made under section 3711 of this title.

**[(F)]** *(E)* The term “interest rate reduction refinancing loan” means a loan described in section 3710(a)(8), 3710(a)(9)(B)(i), 3710(a)(11), 3712(a)(1)(F), or 3762(h) of this title.

**[(G)]** *(F)* The term “0-down” means a downpayment, if any, of less than 5 percent of the total purchase price or construction cost of the dwelling.

**[(H)]** *(G)* The term “5-down” means a downpayment of at least 5 percent or more, but less than 10 percent, of the total purchase price or construction cost of the dwelling.

**[(I)]** *(H)* The term “10-down” means a downpayment of 10 percent or more of the total purchase price or construction cost of the dwelling.

\* \* \* \* \*

