Congressional Budget Office
Cost Estimate

March 6, 2023

S. 185, Native American Direct Loan Improvement Act of 2023

As ordered reported by the Senate Committee on Veterans' Affairs on February 16, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	16	38
Revenues	0	0	0
Increase or Decrease (-) in the Deficit	0	16	38
Spending Subject to Appropriation (Outlays)	0	0	0

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	< $2.5 billion	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 2034?	< $5 billion	Contains private-sector mandate?	No

The Department of Veterans Affairs (VA) makes loans directly to Native American veterans to purchase, construct, improve, or refinance their homes located on land held in trust for Native Americans and under the jurisdiction of tribal organizations that have formal agreements with VA concerning such loans. Service members and veterans meeting length-of-service requirements who satisfy credit and income standards may obtain loans with no down payment and at lower interest rates. Unless they are exempted by law, borrowers pay VA a onetime fee equivalent to 1.25 percent of the loan amount.

S. 185 would make several changes to that loan program. The bill would authorize VA to lend money at an interest rate of 1 percent to approved community development financial institutions (CDFIs) controlled by and serving Native Americans.[1] Under VA's oversight, those CDFIs would then relend that money to eligible Native American veterans. The bill also would allow those veterans to refinance qualified non-VA loans into VA loans; currently, only VA loans can be refinanced under the program.

The subsidy costs of VA direct loans are paid from mandatory appropriations; thus, any changes to those costs affect direct spending. Those costs are expressed as a subsidy rate and

1. Community development financial institutions are financing entities certified by the Department of the Treasury as providing access to affordable financial products and services primarily in underserved or economically distressed communities to which they are accountable.

stated as a percentage of the loan amount. [2] In total, CBO estimates, the changes to the loan program under S. 185 would increase direct spending by $38 million over the 2023-2033 period.

Using information from VA, CBO anticipates that under the relending authority, the department would make direct loans to CDFIs in an amount sufficient for 50 loans annually, at an average of about $270,000 per loan. CBO expects that the federal government's financing cost will exceed the 1 percent interest rate on loans to CDFIs. Additionally, VA would not collect fees from the CDFIs. Consequently, CBO estimates that the subsidy rate on loans to the CDFIs would average 32 percent, thus increasing direct spending by $41 million over the 2023-2033 period.

CBO also expects that the department would refinance about 25 new loans annually for Native American veterans, averaging roughly $80,000 per loan, at a subsidy rate of -15 percent, which is consistent with the rate on direct loans made under current law to Native American veterans. Those refinanced loans would decrease direct spending by $3 million over the 2023-2033 period, CBO estimates.

The costs of the legislation, detailed in Table 1, fall within budget function 700 (veterans benefits and services).

Table 1.
Estimated Budgetary Effects of S. 185

	By Fiscal Year, Millions of Dollars												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2028	2023-2033
	Increases in Direct Spending												
Estimated Budget Authority	0	1	3	4	4	4	4	4	4	5	5	16	38
Estimated Outlays	0	1	3	4	4	4	4	4	4	5	5	16	38

2. Under the Federal Credit Reform Act of 1990, the subsidy cost of a direct loan is the net of the amount of the loan made by the government, offset by the present value of payments to the government, including principal and interest, loan fees, and recoveries on defaults. 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. A positive subsidy rate indicates that the loan results in net outlays from the Treasury; a negative subsidy rate indicates that the loan results in net receipts to the Treasury.

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