CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 12, 2017

H.R. 1116
TAILOR Act of 2017

As ordered reported by the House Committee on Financial Services on October 12, 2017

SUMMARY

H.R. 1116 would require the federal banking regulators—the Federal Deposit Insurance Commission (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), the Consumer Financial Protection Bureau (CFPB), and the Federal Reserve—to adapt their regulatory actions to the specific risk profiles and business models of financial institutions that are subject to regulation. That requirement would apply to any new regulatory action. The bill also would require the federal banking regulators to review and revise regulatory actions from the past seven years, including those written under the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

CBO estimates that enacting the legislation would increase the deficit by $80 million over the 2018-2027 period. That amount comprises an increase in direct spending of $56 million and a reduction in revenues of $24 million. Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply. CBO also estimates that reviewing rules issued by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC) would cost $3 million over the 2018-2022 period; such spending would be subject to the availability of appropriated funds.

CBO estimates that enacting H.R. 1116 would not increase net direct spending or on-budget deficits by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1116 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). Additional fees imposed by the OCC, the NCUA, and the SEC increase the cost of the existing mandate on private entities that are required to pay those assessments. However, CBO estimates that the incremental cost of the mandate would fall well below the annual threshold established in UMRA for private-sector mandates ($156 million in 2017, adjusted for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 1116 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce).

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	5	10	10	8	3	4	4	4	4	4	36	56
Estimated Outlays	5	10	10	8	3	4	4	4	4	4	36	56
DECREASES IN REVENUES												
Estimated Revenues	-2	-3	-4	-3	-2	-2	-2	-2	-2	-2	-13	-24
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Effect on the Deficit	7	13	14	11	5	6	6	6	6	6	49	80
INCREASES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	1	1	1	0	0	0	0	0	0	0	3	3
Estimated Outlays	1	1	1	*	0	0	0	0	0	0	3	3

Components may not sum to totals because of rounding; * = between zero and $500,000.

BASIS OF ESTIMATE

H.R. 1116 would require the federal banking regulators to consider the risk profiles and business models of financial institutions when determining which institutions are subject to regulatory action and to adapt regulations to the characteristics of individual financial institutions. The agencies would be required to review and analyze all regulations adopted during the prior seven years, in accordance with the requirements in H.R. 1116, and to revise those regulations, if necessary, to comply with the bill.

Costs incurred by the FDIC, the NCUA, and the OCC are recorded in the budget as increases in direct spending. Those agencies are authorized to collect premiums and fees from insured depository institutions to fully cover such administrative expenses, although CBO expects that only a portion of the costs incurred by the FDIC would be recouped by 2027.

The CFPB is permanently authorized to spend amounts transferred from the Federal Reserve. Because that activity is not subject to appropriation, the CFPB's expenditures are recorded in the budget as direct spending. Costs to the Federal Reserve System reduce remittances to the Treasury; they are recorded in the budget as revenues.

To develop this estimate, CBO consulted with the federal financial regulators about the number of people needed to review and revise regulations and about the regulations adopted over the past seven years.

Direct Spending and Revenues

The financial regulators have completed more than 200 rules over the past seven years, many of them associated with the Dodd-Frank Act.[1] The bill would require the financial regulators to review and possibly revise those rulemakings. In addition, CBO expects that H.R. 1116 could increase the amount of litigation that those regulators are subject to under the Administrative Procedures Act because regulated institutions would have additional grounds to challenge the application of financial regulations.

The cost to implement the bill has two components. First, CBO expects that the financial regulators would have to hire additional staff over the 2018-2021 period to complete the required review and revision of previous rulemakings. Subsequently, the regulators would require additional staff to support new rulemaking and to defend agency actions from additional litigation.

CBO expects that over the 2018-2021 period each of the financial regulators would need to increase its legal staff by 5 percent to 10 percent and certain other staff by less than 1 percent to complete the analysis of the regulations promulgated over the past seven years. Currently, the agencies have a total of about 6,000 employees, including 600 attorneys, on staff in their Washington, D.C., offices. CBO expects that overall staffing would increase by 60 employees over the 2018-2021 period.

After 2020, CBO expects that the regulators would no longer need all of the additional staff that they needed to complete the review of existing regulations, however, spending by the financial regulators to carry out new rulemakings and to defend agency actions from new litigation would increase. Over the 2020-2027 period CBO expects that implementing the bill would require roughly 25 additional employees across the federal financial regulators. The OCC and the NCUA likely would recover any implementation costs over the next ten years by increasing assessments on the institutions they regulate, and the FDIC would recover most of its costs after 2027.

1. See DavisPolk, *Dodd-Frank Progress Report: Six-Year Anniversary Report* (July 2016), http://tinyurl.com/ycovbwpx (PDF, 1.2 MB).

In total, CBO estimates that enacting the bill would increase deficits by $80 million over the 2018-2027 period. That amount includes an increase in net direct spending of $56 million and a decrease in revenues of $24 million because the Federal Reserve would reduce its remittances to the Treasury.

Spending Subject to Appropriation

Implementing H.R. 1116 would probably require the CFTC and the SEC to review regulations adopted under the Dodd-Frank Act. Using information from the affected agencies, CBO estimates that they would require four additional employees over the 2018-2021 period. Because the SEC is authorized under current law to collect fees sufficient to offset its annual appropriation, we estimate that the net costs to the SEC would be negligible, assuming appropriation actions consistent with that authority. CBO expects that costs to the CFTC would total $3 million over the 2018-2022 period; such spending would be subject to the availability of appropriated funds.

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 and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1116, as ordered reported by the House Committee on Financial Services on October 12, 2017

	By Fiscal Year, in Millions of Dollars											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
NET INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	7	13	14	11	5	6	6	6	6	6	49	80
Memorandum:												
Changes in Outlays	5	10	10	8	3	4	4	4	4	4	36	56
Changes in Revenues	-2	-3	-4	-3	-2	-2	-2	-2	-2	-2	-13	-24

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits by more than $2.5 billion in any of the four consecutive 10-year periods beginning in 2028.

MANDATES

H.R. 1116 contains no intergovernmental mandates as defined in UMRA.

CBO expects that the financial regulators would increase premiums or fees to offset the costs of implementing the additional regulatory activities required by the bill. Any increase in premiums or fees would increase the cost of the existing mandate on entities required to pay those assessments. Using information from the federal banking regulators and the SEC, CBO estimates that the incremental cost to comply with the mandate would fall well below the annual threshold established in UMRA for private-sector mandates ($156 million in 2017, adjusted for inflation).

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