CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 12, 2018

H.R. 4545
Financial Institutions Examination Fairness and Reform Act

As ordered reported by the House Committee on Financial Services on December 13, 2017

SUMMARY

H.R. 4545 would establish the Office of Independent Examination Review within the Federal Financial Institutions Examination Council (FFIEC). The new office would investigate complaints from financial institutions about examinations, regularly review the quality of examinations, and adjudicate appeals of determinations made within examinations.

CBO estimates that enacting H.R. 4545 would increase net direct spending by $82 million and reduce revenues by $41 million over the 2018-2027 period. In total, CBO estimates, enacting H.R. 4545 would increase budget deficits by $123 million over the 2018-2027 period. Implementing H.R. 4545 would not affect spending subject to appropriation.

Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO estimates that enacting H.R. 4545 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. 4545 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). If financial regulators increase fees to offset some of the costs of implementing the bill, H.R. 4545 would increase the cost of an existing mandate on private entities required to pay those fees. Using information from the affected agencies, CBO estimates that the incremental cost of the mandate would fall well below the annual threshold for private-sector mandates established in UMRA ($156 million in 2017, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 4545 is shown in the following table. The costs of the legislation fall within budget function 370 (commerce and housing credit).

	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												
Office of Independent Examination Review												
Estimated Budget Authority	0	6	9	9	9	9	9	9	9	10	34	79
Estimated Outlays	0	5	8	9	9	9	9	9	9	10	33	78
Other Administrative Costs												
Estimated Budget Authority	0	*	*	*	1	1	1	1	1	1	2	5
Estimated Outlays	0	*	*	*	1	1	1	1	1	1	2	4
Total												
Estimated Budget Authority	0	7	9	9	9	9	10	10	10	10	36	84
Estimated Outlays	0	6	9	9	9	9	10	10	10	10	35	82
DECREASES IN REVENUES												
Federal Reserve	0	-3	-4	-4	-5	-5	-5	-5	-5	-5	-17	-41
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Effect on the Deficit	0	9	13	14	14	14	14	15	15	15	50	123

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

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 4545 will be enacted near the end of fiscal year 2018. Estimated spending is based on historical patterns for similar regulatory activities.

Background

The FFIEC was established to promote uniformity in supervision of financial institutions. Generally, the majority of its operating costs are borne by four financial regulatory agencies: the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Federal Reserve System. Some costs currently are covered by the Consumer Financial

Protection Bureau (CFPB) and the Department of Housing and Urban Development. Of the regulators, the OCC, the FDIC, and the NCUA collect fees to offset operating costs. Because of lags between the time costs are incurred by some of the financial regulators and when additional fees would be imposed, not all additional costs resulting from the bill would be recovered within the next 10 years. Costs borne by the CFPB are recorded in the budget as direct spending because the agency has permanent authority to spend amounts transferred from the Federal Reserve. Finally, costs incurred by the Federal Reserve would reduce remittances to the Treasury (which are recorded as revenues).

Currently, the FFIEC is supported by 16 people who are employed by the regulatory agencies but assigned to the council.

Office of Independent Examination Review

CBO expects that establishing the new office would require a significant increase in the council's staff. Using information from the FFIEC, CBO estimates that an additional 60 staff positions would be needed to meet the bill's requirements to investigate and resolve appeals and to review examination procedures. Under H.R. 4545, the costs of the office would be covered by the OCC, the NCUA, the FDIC, the CFPB, and the Federal Reserve. CBO expects that it would take several years to reach the new staffing level and that the costs would be spread evenly among the five regulatory agencies.

Based on the average cost for each employee of $225,000, CBO estimates that establishing the office would cost $192 million over the 2018-2027 period to supply the FFIEC with additional people and to cover other operating expenses. That amount reflects some savings to the regulators because a portion of the complaints they receive under current law would instead be handled by FFIEC. CBO estimates that 80 percent of the net cost, or $154 million, would be spread equally among the FDIC, the OCC, the NCUA and the CFPB—increasing gross direct spending by that amount.

Three of those regulators collect fees to offset operating costs. CBO estimates that over the 10-year period, additional fees collected from financial institutions would total about $76 million. On net, CBO estimates, enacting H.R. 4545 would increase direct spending by $78 million over the 2018-2027 period.

The remaining 20 percent of the costs would be charged to the Federal Reserve (see "The Federal Reserve" below).

Other Administrative Costs

H.R. 4545 also would establish deadlines for the federal banking regulators to complete examination reports. Using information from those agencies, CBO estimates that they would need to hire additional staff to meet the deadlines established in the bill, at an estimated net cost of about $4 million over the 2018-2027 period. That cost accounts for anticipated increases in fee collections during the period.

The Federal Reserve

Because the Federal Reserve remits its profits to the Treasury, increasing the costs of operating the Federal Reserve reduces federal revenues. CBO estimates that the portion of the costs to establish the Office of Independent Examination Review that would be allocated to the Federal Reserve, combined with additional administrative costs to meet deadlines established under the bill, would average about $4 million per year over the 2018-2027 period. CBO estimates that revenues would decline by $42 million over the next 10 years under H.R. 4545.

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. 4545, as ordered reported by the House Committee on Financial Services on December 13, 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	0	9	13	14	14	14	14	15	15	15	50	123
Memorandum:												
Changes in Outlays	0	6	9	9	9	9	10	10	10	10	33	82
Changes in Revenues	0	-3	-4	-4	-5	-5	-5	-5	-5	-5	-17	-41

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 4545 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. 4545 contains no intergovernmental mandates as defined in UMRA.

If financial regulators increased fees to offset some of the costs of implementing the new activities of the FFIEC, the bill would increase the cost of an existing mandate on private entities required to pay those fees. Using information from the affected agencies, CBO estimates that the incremental cost of the mandate would amount to no more than $25 million over the 2018-2022 period and would fall well below the annual threshold for private-sector mandates established in UMRA ($156 million in 2017, adjusted annually for inflation).

ESTIMATE PREPARED BY

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