CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 20, 2018

H.R. 6158
Brokered Deposit Affiliate-Subsidiary Modernization Act of 2018

As ordered reported by the House Committee on Financial Services on September 13, 2018

SUMMARY

H.R. 6158 would amend the definition of brokered deposits, which banks typically receive from financial brokers or other banks rather than directly from customers. Those deposits are used by the Federal Deposit Insurance Corporation (FDIC) to calculate its assessments of deposit insurance for banks with assets over $10 billion. CBO estimates that enacting the bill would reduce the collection of those assessments, which are classified as offsetting receipts. A reduction in offsetting receipts has the effect of increasing direct spending; CBO estimates those increases in direct spending would total $1.5 billion over the 2019-2028 period.

Because enacting the bill would affect direct spending, pay-as-you-go procedures apply. The bill would not affect revenues.

CBO estimates that enacting H.R. 6158 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

H.R. 6158 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6158 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											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	0	100	125	150	175	175	175	200	200	200	550	1,500
Estimated Outlays	0	100	125	150	175	175	175	200	200	200	550	1,500

BASIS OF ESTIMATE

H.R. 6158 would change the amount of receipts collected by the FDIC for deposit insurance by expanding the definition of who is exempt from treatment as a deposit broker and who is considered an employee of a bank under the law. For deposits at institutions with assets over $10 billion the FDIC currently charges an assessment of between zero and 10 basis points for brokered deposits that exceed 10 percent of domestic deposits; those charges are on top of the base assessment rate of 3 to 30 basis points. Thus, the bill would affect how much banks with assets of over $10 billion pay to the FDIC for deposit insurance.

Under current law, only people who are directly employed by an insured depository institution and are paid a salary by the institution are exempt from being considered deposit brokers. (Deposit brokers are people who place brokered deposits at banks.) Under H.R. 6158, the definition of an employee would expand to include any person who receives compensation in any form from the insured depository institution or its affiliates—usually a brokerage house connected under a corporate umbrella. Under that definition people who are not directly employed by either banks or their affiliates also could be considered employees, and thus would be exempt from treatment as a deposit broker.

The magnitude of budgetary effects would depend on how financial institutions react to the new definition of an employee. CBO expects that the broader definition in the bill would reduce assessments paid by banks to the extent that they change their organization or compensation to take advantage of the new definition. Some banks may choose not to change their corporate structure or employee compensation methods because they may prefer their current organization and methods or because deposit insurance assessments represent a small part of their annual costs. Other banks have expressed a desire to have more deposits from people who are currently considered deposit brokers but who would be exempt from the definition under the bill. H.R. 6158 would provide a financial incentive for banks to change how brokered deposits are handled, but CBO expects that the probability that banks with brokered deposits would adjust their business models to reduce the FDIC assessments would equal 50 percent.

Using information from the FDIC, CBO estimates that in 2018 banks paid about $250 million in assessments based on their level of brokered deposits. Using the growth rate for assessments incorporated in CBO's April 2018 baseline estimates for the FDIC, CBO expects that those assessments will grow to about $400 million per year by 2028 and would total about $3 billion over the 2020-2028 period. (CBO expects any changes would affect receipts beginning in 2020.) As a result, CBO estimates that assessments would decrease by an average of $150 million per year over the 2019-2028 period and that implementing the bill would increase direct spending by $1.5 billion over that period.

UNCERTAINTY

CBO aims to produce cost estimates that generally reflect the middle of the range of the most likely budgetary outcomes that would result if the legislation was enacted. For this estimate, spending could be higher or lower because:

- Banks could choose to change their employment or compensation arrangements for brokered deposits for reasons that are unrelated to deposit insurance assessments and those changes would affect the amount of assessments they pay.

- The FDIC also could interpret the legislative language more broadly or more narrowly than CBO did, which would change the level of brokered deposits affected by the legislation, the types of compensation and employment relationships that are exempt from the brokered deposits definition, and thus the amount of assessments paid under the bill.

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 the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 6158, the Brokered Deposit Affiliate-Subsidiary Modernization Act of 2018, as Ordered Reported by the House Committee on Financial Services on September 13, 2018

	By Fiscal Year, in Millions of Dollars											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
NET INCREASE IN THE DEFICIT												
Statutory Pay-As-You-Go Effect	0	100	125	150	175	175	175	200	200	200	550	1,500

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting H.R. 6158 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

H.R. 6158 contains no intergovernmental or private-sector mandates as defined in UMRA.

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