



CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 2, 2014

H.R. 4167
Restoring Proven Financing for American Employers Act

As ordered reported by the House Committee on Financial Services on March 14, 2014

H.R. 4167 would allow financial institutions to invest in debt securities known as collateralized loan obligations (CLOs) that include the ability to participate in the removal or replacement of an investment manager or advisor. Institutions also could hold any CLO issued in January 2014 for an additional two years.

Enacting H.R. 4167 would affect direct spending and revenues; therefore, pay-as-you-go procedures apply. However, CBO estimates that those effects would not be significant over the next 10 years. Implementing this legislation would not affect discretionary spending.

A CLO pools together business loans and passes the cash flows through to different classes of investors. Under current law, bank holding companies and insured depository institutions (hereafter referred to as “banking entities”) may not invest in CLOs issued or overseen by hedge funds or private equity firms if the investor has an ownership interest, including the ability to select or control managers. Federal rules exempt CLOs backed solely by loans from this restriction; however, if such CLOs contain bonds, equity interests, or other assets they would be disqualified from that exemption.

Under current law, banking entities must divest impermissible CLOs by July 21, 2015. On April 7, 2014, the Federal Reserve announced that it would extend the compliance deadline by two years (to July 21, 2017) for CLOs issued before the end of calendar year 2013.

H.R. 4167 would allow banking entities to hold CLOs in which investors can participate in the removal for cause and the selection for replacement of a manager or advisor. The legislation also would codify the Federal Reserve’s plans to extend the compliance deadline for certain CLOs by two years and would expand the pool of eligible securities to include CLOs issued in January 2014.

CBO estimates that under H.R. 4167 banking entities would hold a higher volume of CLOs than they would otherwise under current law. If this causes a change in the future risk and earnings of an institution, the probability of utilizing the discount window of the Federal Reserve or being placed into the receivership of the Federal Deposit Insurance Corporation (FDIC) might also be affected. Either scenario could potentially increase or decrease the federal deficit through net outlays of the FDIC or revenues from remittances of the Federal Reserve.

Based on available CLO data, CBO does not anticipate a significant change in the overall portfolio risk or earnings of banking entities under this bill. The volume of CLOs issued during January 2014 (\$2.6 billion) was small relative to the global market (about \$430 billion outstanding at the end of March 2014) and the U.S. banking sector. Furthermore, we expect that, under current law, either the ownership rights of some CLOs would be modified or that banking entities would substitute their CLO holdings for investments of similar risk and return. As such, we estimate that under H.R. 4167 the probability of bank failure or usage of Federal Reserve assistance would largely remain unchanged over the next 10 years, resulting in no significant effect on the federal budget.

H.R. 4167 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The CBO staff contacts for this estimate are Daniel Hoople and Barbara Edwards. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.