CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 9, 2015

H.R. 1408
Mortgage Servicing Asset Capital Requirements Act of 2015

As ordered reported by the House Committee on Financial Services on March, 26, 2015

H.R. 1408 would direct four federal banking agencies—the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation and the National Credit Union Administration (NCUA)—to study the capital requirements for mortgage servicing assets (MSAs). Changes to those requirements, which took effect in 2014 for three of the four agencies, also would be suspended for up to nine months after enactment. (Financial institutions regulated by the NCUA would be subject to similar rules beginning in 2019).

Enacting H.R. 1408 would affect direct spending and revenues; therefore, pay-as-you-go procedures apply. However, CBO estimates that the net effect on the federal budget over the next 10 years would not be significant.

Banks often sell mortgages in the secondary market while retaining the right to service the loans. Depending on the estimated market value of the servicing contract, a bank may record an asset on its balance sheet. MSAs are treated differently from other assets when calculating regulatory capital (that is, the amount used to determine whether a bank is meeting its capital requirements.) H.R. 1408 would direct the federal banking agencies to jointly study MSAs, including their risk to insured depository institutions, their history, their valuation, and the potential effect of capital requirements on the mortgage servicing business. The agencies would report to the Congress on their findings within six months of enactment. The legislation also would suspend recent changes to the capital requirements related to MSAs until three months after the report is issued. That delay would apply to all banks that are not "global systemically important banks" as identified by the Financial Stability Oversight Council.

The legislation would temporarily increase the regulatory capital of some banks by including additional MSAs as capital. That increase could delay the corrective action or closure of a bank, potentially increasing the cost of resolution if it was to ultimately fail. However, for a number of reasons—the brief duration of the delay, the low ratio of MSAs to total assets, the relatively low number of projected bank failures over the next year, and the phase-in of the current rules—CBO expects that the probability and cost of future bank failures would not increase significantly under the bill. CBO also estimates that the costs for the federal banking agencies to conduct the study proposed by the bill would not be significant.

H.R. 1408 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contacts for this estimate are Sarah Puro (for FDIC), Martin von Gnechten (for NCUA), and Nate Frentz (for the Federal Reserve). The estimate was approved by Theresa Gullo, Assistant Director for Budget Analysis.