



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 29, 2008

H.R. 6308 **Municipal Bond Fairness Act**

*As ordered reported by the House Committee on Financial Services
on July 30, 2008*

H.R. 6308 would amend the Securities Exchange Act of 1934 to direct the Securities and Exchange Commission (SEC) to require bond rating agencies to rate municipal bonds using the same rating scale as corporate bonds. The legislation also would authorize the Department of the Treasury to collect and analyze information on municipal bond insurers. In addition, the legislation would require a study by the Government Accountability Office (GAO) regarding the rating of municipal and corporate bonds.

CBO estimates that implementing H.R. 6308 would cost about \$1 million in 2009 and less than \$1 million annually in subsequent years, assuming the availability of appropriated funds. Enacting the legislation would not affect direct spending or revenues.

Bond rating agencies have maintained different rating systems for municipal and corporate bonds. Under those rating scales, many of the characteristics of municipal bonds and corporate bonds with the same ratings are not comparable. (Some rating agencies are moving to using the same rating systems for both types of securities, and other agencies are expected to follow.)

The legislation also would authorize the Treasury to collect data on municipal bond insurers from insurance firms, the National Association of Insurance Commissioners (NAIC), and state insurance regulators. According to the Association of Financial Guaranty Insurers, there are about 12 firms that offer such insurance. The Treasury would analyze the data on the insurers and report annually on the financial state of that industry.

CBO expects that implementing H.R. 6308 would increase the administrative costs of the SEC and the Treasury. Based on information provided by the Treasury and the SEC about the costs of similar programs and reports, we estimate that implementing those provisions would cost less than \$1 million annually, assuming appropriation of the necessary amounts.

The legislation also would require GAO to prepare a study within six months of its enactment explaining how the bond rating agencies rate municipal and corporate bonds. Based on the costs of similar reports, CBO estimates that preparing the report would cost less than \$500,000 in fiscal year 2009, assuming the availability of appropriated funds.

H.R. 6308 would impose a private-sector mandate, as defined in the Unfunded Mandates Reform Act (UMRA), by requiring bond rating agencies to establish and maintain a standardized rating scale. According to industry experts, the costs of complying would likely be small because those agencies already have the ability to rate all securities by the same scale and some are already moving in this direction. Therefore, CBO estimates that the cost for the mandate would fall below the annual threshold established in UMRA for private-sector mandates (\$136 million in 2008, adjusted annually for inflation). H.R. 6308 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

The CBO staff contacts for this estimate are Matthew Pickford (for federal costs) and Jacob Kuipers (for the private-sector impact). The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.