CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 9, 2007

H.R. 3915
Mortgage Reform and Anti-Predatory Lending Act of 2007

As ordered reported by the House Committee on Financial Services
on November 6, 2007

SUMMARY

H.R. 3915 would make numerous changes to federal laws that regulate mortgage practices with the aim of combating predatory lending practices and providing certain protections to borrowers and investors. Those changes include subjecting all mortgage originators to licensing and registration requirements, establishing minimum standards for creditors, and establishing various consumer protections, such as prohibiting excessive fees for certain types of mortgages.

This legislation also would authorize the appropriation of $221 million over the 2008-2012 period for the Department of Housing and Urban Development (HUD) to support efforts to promote homeownership counseling and for the Department of Justice (DOJ) to support efforts to combat mortgage fraud. Furthermore, CBO estimates that $115 million would be required over the 2008-2012 period for HUD to establish an Office of Housing Counseling and support the development of regulations and provide monitoring and oversight of the Nationwide Mortgage Licensing System and Registry (NMLSR). CBO estimates that implementing H.R. 3915 would cost $316 million over the 2008-2012 period, subject to the appropriation of the necessary amounts.

H.R. 3915 would require loan originators to participate in a Nationwide Mortgage Licensing System and Registry that would be administered by nonfederal entities or HUD in coordination with the federal banking regulatory agencies. H.R. 3915 would set the standards for this system, require HUD to determine if state licensing procedures have met such standards, and authorize the registry administrators to assess fees (revenues) to cover the costs of maintaining and providing access to information from the NMLSR. In CBO's view, the cash flows of the NMLSR related to its regulatory and assessment authorities should appear in the federal budget because they would stem from an exercise of the sovereign power of the federal government. We expect that it would take about three months for those cash flows to begin. Under this legislation, CBO estimates that over the 2008-2012

period, direct spending would total $65 million and revenues would total $72 million. Over the 2008-2017 period, we estimate that direct spending would total $120 million and revenue collections would total $137 million. Any costs incurred by federal banking regulators to issue regulations and coordinate with the NMLSR would affect net direct spending and revenues, but CBO estimates that the net impacts would be insignificant.

H.R. 3915 contains several intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that the costs to state, local, and tribal governments of complying with the mandates would not exceed the annual threshold for intergovernmental mandates established in UMRA ($66 million in 2007, adjusted annually for inflation).

H.R. 3915 would impose several private-sector mandates as defined in UMRA on the mortgage finance industry, by creating a licensing and registration system for mortgage loan originators, setting new mortgage origination standards, and establishing requirements for high-cost mortgages. The incremental costs to comply with those mandates are uncertain, and CBO cannot determine whether the aggregate direct cost of those mandates would exceed the annual threshold established in UMRA ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3915 is shown in the following table. The costs of this legislation fall within budget functions 370 (commerce and housing credit) and 750 (administration of justice).

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by the end of calendar year 2007. We also assume that the cash flows of the NMLSR would appear on the federal budget because of the governmental nature of its activities and the degree of governmental control over the registry system.

TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 3915

	By Fiscal Year, in Millions of Dollars						
	2008	2009	2010	2011	2012	2008-2012	2008-2017
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	74	76	75	75	30	330	n.a.
Estimated Outlays	25	70	76	75	70	316	n.a.
CHANGES IN REVENUES							
Estimated Revenues	15	15	14	14	14	72	137
CHANGES IN DIRECT SPENDING							
Estimated Budget Authority	15	15	12	12	11	65	120
Estimated Outlays	15	15	12	12	11	65	120

Note: n.a. = not applicable.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 3915 would cost $316 million over the 2008-2012 period, subject to appropriation of the necessary amounts. Table 2 details the components of this estimated discretionary spending.

Funding for the Department of Justice. Section 211 would authorize the appropriation of $32 million over the 2008-2012 period for DOJ to support efforts to combat mortgage fraud. Most of this funding would be used to hire additional agents of the Federal Bureau of Investigation (FBI) and additional prosecutors with the offices of the United States Attorneys. Assuming that appropriations would be spread evenly over fiscal years 2008 through 2012, CBO estimates that enacting those provisions would cost $30 million over that period.

Public Service Campaign, Grants for Housing Counseling, and Administrative Support for the Office of Counseling. This legislation would establish the Office of Housing Counseling within HUD to support various activities relating to homeownership and rental housing counseling. Section 403 would authorize the appropriation of $3 million over the 2008-2010 period to support a national campaign to publicize the existence of counseling services for home buyers, homeowners, and renters. In addition, section 404 would authorize the appropriation of $45 million annually over the 2008-2011 period to provide grants to states, local governments, and nonprofit organizations to support counseling services. In total, CBO estimates that implementing those provisions would cost $176 million over the 2008-2012 period.

Furthermore, based on information from HUD, funds for additional personnel, contractors, and information technology would be required to run the Office of Housing Counseling. CBO estimates that support would cost $73 million over the 2008-2012 period.

Other Administrative Support. Based on information from HUD, CBO estimates that it would cost $37 million over the 2008-2012 period to support the development of various regulations, mostly related to mortgage standards required under this legislation and the oversight and monitoring of the NMLSR.

Nationwide Registry for Licensing

Background. Since 2004, the Conference of State Bank Supervisors (CSBS) and the American Association of Residential Mortgage Regulators (AARMR) have been developing a nationwide licensing system for the residential mortgage industry. The system, which is set to begin operations on January 2, 2008, will increase and centralize information about loan originators and will be available to the public. As of October 2008, agencies in 37 states have signed statements of intent to participate in the nationwide system. Both the CSBS and AARMR anticipate that the remaining 13 states and the District of Columbia and Puerto Rico will eventually commit to participating in the system.

Assuming participation by all the states and that the states meet the minimum standards established under H.R. 3915, CBO does not expect HUD to develop separate systems, though HUD would conduct some monitoring and oversight of the system.

Enacting this legislation would impose a new requirement on loan originators to register with a nationwide registry and would authorize the assessment of fees for the cost of that registration. Although private entities are currently developing and maintaining a registry, participation in that system is voluntary. Under H.R. 3915, participation by loan originators is mandatory (i.e., a loan originator must register to be state-licensed), and HUD would have the authority to enforce that requirement. Thus, CBO expects that the NMLSR would be acting as an agent of the federal government; consequently, the cash flows associated with the NMLSR's regulatory and assessment authorities should be recorded in the federal budget.

TABLE 2. ESTIMATED EFFECTS OF H.R. 3915 ON SPENDING SUBJECT TO APPROPRIATION

	By Fiscal Year, in Millions of Dollars				
	2008	2009	2010	2011	2012
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Funding for the Department of Justice					
Authorization Level	7	7	6	6	6
Estimated Outlays	4	7	7	6	6
Public Service Campaign					
Authorization Level	3	0	0	0	0
Estimated Outlays	1	2	0	0	0
Housing Counseling Grants					
Authorization Level	45	45	45	45	0
Estimated Outlays	5	38	45	45	40
Administrative Support for the Office of Counseling					
Estimated Authorization Level	13	16	16	16	16
Estimated Outlays	10	15	16	16	16
Other Administrative Support					
Estimated Authorization Level	6	8	8	8	8
Estimated Outlays	5	8	8	8	8
Total Changes					
Estimated Authorization Level	74	76	75	75	30
Estimated Outlays	25	70	76	75	70

a. H.R. 3915 also would require HUD to appoint an advisory committee to support the mission of the Office of Counseling. Members of the committee would not be paid, but would be reimbursed for any travel expenses. CBO estimates that such travel expenses would cost less than $500,000 annually.

NMLSR Assessments. The bill would increase federal revenues by authorizing the NMLSR to collect assessments from loan originators (i.e., individual loan officers, branches of lending institutions, and lending companies). Based on information from the CSBS, CBO estimates that those individuals and entities would likely be charged an initial fee and an annual fee. Moreover, fees could be reduced over time as expenses decrease and more loan originators register with the system.

Based on fee schedules for similar activities and assuming that more than 300,000 entities and individuals would register with the NMLSR over the next five years, CBO estimates that about $72 million in fees would be collected by the NMLSR over the 2008-2012 period. Over the 2008-2017 period, we estimate that about $137 million in fees would be collected.

Funds collected through such assessments would be spent without further appropriation, and thus, the expenditures would be classified as direct spending. CBO estimates that the NMLSR would spend about $65 million over the 2008-2012 period and $120 million over the 2008-2017 period to develop and maintain the registry system. While CBO estimates a lag between the recording of federal revenues and spending, we estimate that over the long run, the net cash flows associated with the NMLSR would be insignificant.

Penalties. Under this legislation, certain civil penalties (which are recorded as revenues) currently applicable under the Truth in Lending Act would be increased and new civil penalties would be created for violations under this bill. CBO estimates that any increase in revenues resulting from those civil penalties would not be significant.

Spending by Federal Bank Regulators. H.R. 3915 also would direct federal bank regulators to issue new regulations and to work jointly with the NMLSR to register individuals associated with depository institutions who originate loans. According to agency officials, implementing this bill would have no significant effect on their workload or budgets. In addition, any additional direct spending by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration would be offset by income from annual fees covering their administrative expenses. Similarly, the FDIC would recover any added costs when it adjusts the insurance premiums paid by insured depository institutions. Budgetary effects of spending by the Federal Reserve are recorded as changes in revenues, but current law requires the Federal Reserve to recover direct and indirect costs incurred in providing such services. Thus, CBO estimates that the activities of the agencies that regulate banks would have no significant net effect on direct spending or revenues. Budgetary effects on the Federal Reserve are recorded as changes in revenues.

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3915 contains intergovernmental mandates as defined in UMRA because it would impose new requirements on state regulators and would preempt state laws. Specifically, the bill would require states to ensure that mortgage originators who apply for state licenses or renewals meet minimum standards. According to industry sources and state banking and real estate agencies, in order to comply with those requirements, states would need to license employees of some financial institutions that are not currently required to be licensed under state law, perform ongoing administrative tasks related to the new mortgage licensing system, and train employees in federal mortgage law and the licensing system. The bill also would preempt state laws that allow individuals to seek compensation from entities that issue certain securities. CBO estimates that the cost to state and local governments of that preemption and the new requirements would average less than $500,000 annually per state; therefore, the total costs would not exceed the threshold established in UMRA ($66 million in 2007, adjusted annually for inflation). The bill would benefit state and local governments by authorizing grants to provide homeownership and rental counseling.

IMPACT ON THE PRIVATE SECTOR

H.R. 3915 would impose several private-sector mandates as defined in UMRA on the mortgage finance industry, by creating a licensing and registration system for mortgage loan originators, setting new mortgage origination standards, and establishing requirements for high-cost mortgages. The incremental costs to comply those mandates are uncertain for several reasons. Many industry participants already comply with some of the bill's requirements. In addition, the cost of some of the requirements would depend on federal regulations to be issued under the bill. CBO does not have sufficient information about current business practices or how the standards in the bill would affect industry income. Consequently, CBO cannot determine whether the aggregate direct cost of those mandates would exceed the annual threshold established in UMRA ($131 million in 2007, adjusted annually for inflation).

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