CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 12, 2014

H.R. 4042
Community Bank Mortgage Servicing Asset Capital Requirements Study Act of 2014

As ordered reported by the House Committee on Financial Services on July 30, 2014

H.R. 4042 would direct the three federal banking agencies—the Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation—to study the capital requirements for mortgage servicing assets (MSAs). Recent changes to those requirements, which took effect in 2014, also would be suspended for up to nine months after enactment.

Pay-as-you-go procedures apply because enacting H.R. 4042 could affect direct spending and revenues; however, CBO estimates that enacting the legislation would have no significant net effect on the federal budget over the next 10 years.

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. 4042 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. They would have to 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. 4042 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 Nate Frentz. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.