CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 29, 2015

H.R. 1210
Portfolio Lending and Mortgage Access Act

As ordered reported by the House Committee on Financial Services on July 29, 2015

H.R. 1210 would provide additional legal protections to creditors that hold mortgages that do not meet the characteristics of qualified mortgages, such as:

- Debt to income ratios of the borrower that exceed 43 percent,
- Provisions that allow the total principal to grow each year, known as negative amortization,
- Features that allow the borrower to pay only the interest on a mortgage, and
- Limited documentation from the borrower.

Enacting H.R. 1210 could affect direct spending; therefore, pay-as-you-go procedures apply. However, CBO estimates that the net effects on direct spending each year would be insignificant. Enacting H.R. 1210 would not affect revenues.

Qualified mortgages are slightly less likely to default than mortgages without such characteristics. Providing protection for non-qualified mortgages would expose financial institutions that offer those mortgages to the risk of additional losses. Such losses to financial institutions, however, do not necessarily result in additional bank failures and related costs to the Deposit Insurance Fund. Mortgages offered legal protections under the bill would likely default at a rate of about 2 percent more than the qualified mortgages with current legal protection, CBO estimates. As a result, under the bill the increased probability of mortgage losses as a percent of total bank portfolios would be small, less than one-tenth of one percent and the probability of a default stemming from the mortgage portfolio of a bank would increase by less than one-half of one percent. Those small potential losses multiplied by the expected cost of bank failures projected in CBO's baseline estimates would result in additional costs to the federal government of less than $500,000 over the 2016-2025 period.

In addition, the Consumer Financial Protection Board (CFPB) would have to complete a rulemaking process to implement H.R. 1210. Costs incurred by the CFPB are direct spending; however, CBO estimates that the annual costs to the CFPB would be insignificant.

H.R. 1210 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

H.R. 1210 would impose a private-sector mandate by eliminating an existing right of action against lenders that hold mortgages on their balance sheets and mortgage originators who direct consumers to such loans. Under current law, lenders of mortgages that meet the standards for qualified mortgages are granted legal protection from civil actions based on a claim that the lender failed to comply with ability-to-repay requirements. Mortgage originators who direct consumers to qualified mortgages are also granted such legal protections. By broadening the definition of qualified mortgages to include mortgages held on a lender's balance sheet, the bill would limit the right of borrowers to file claims against holders of such loans and against mortgage originators who directed them to the loans, as long as the originator provided certain disclosures. The cost of the mandate would be the forgone value of the awards and settlements in such claims. Based on information from the CFPB, CBO expects that the number of such claims and the awards in such cases would be small. Therefore, CBO estimates that the cost of the mandate would probably fall below the annual threshold established in UMRA for private-sector mandates ($154 million in 2015, adjusted annually for inflation).

The CBO staff contacts for this estimate are Sarah Puro (for deposit insurance losses), Susan Willie (for CFPB), and Logan Smith (for private-sector mandates). The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.