CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

January 15, 2016

H.R. 2209

A bill to require the appropriate federal banking agencies to treat certain municipal obligations as level 2A liquid assets, and for other purposes

As ordered reported by the House Committee on Financial Services on November 4, 2015

H.R. 2209 would require the federal banking regulators—the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and the Federal Reserve—to revise regulations concerning the treatment of municipal bonds in bank portfolios.

Specifically, H.R. 2209 would require the FDIC, the OCC, and the Federal Reserve to allow large banks with more than $250 billion in consolidated assets or $10 billion in foreign assets and any subsidiaries of those institutions with assets of at least $10 billion to treat highly rated municipal bonds as liquid assets. Liquid assets are used to calculate the amount of liquid reserves an institution must have to cover the cost of its operating cash flows for 30 days (this requirement is known as the liquidity coverage ratio). Based on information from the OCC, CBO estimates that less than 5 percent of the value of municipal bonds is held by banks subject to such regulations and it is very unlikely that small changes in the liquidity of assets held by certain large banks would lead to a bank failure resulting in costs to the Deposit Insurance Fund. As a result, CBO estimates that enacting this provision would have no significant cost.

H.R. 2209 would require the FDIC, the OCC, and the Federal Reserve to amend current regulations. Costs incurred by the FDIC and the OCC are recorded in the budget as an increase in direct spending. Those two agencies are authorized to collect premiums and fees from insured depository institutions to cover administrative expenses. CBO expects that they would do so to recover any costs associated with amending current regulations under the bill. Costs to the Federal Reserve System are reflected on the federal budget as a reduction in remittances to the Treasury (which are recorded in the budget as revenues). CBO expects that any additional administrative costs to the Federal Reserve under the bill would be insignificant.

Because enacting H.R. 2209 could affect direct spending and revenues, pay-as-you-go procedures apply. However, CBO estimates that the net effects would be negligible for each year. CBO estimates that enacting H.R. 2209 would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2026.

H.R. 2209 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

If the OCC or the FDIC increase fees or premiums to offset the costs associated with implementing the bill, H.R. 2209 would increase the cost of an existing mandate on private entities required to pay those assessments. CBO expects that the incremental cost of the mandate would be small and would fall well below the annual threshold for private-sector mandates established in UMRA ($154 million in 2016, adjusted annually for inflation).

The CBO staff contacts for this estimate are Sarah Puro (for the FDIC and the OCC), Nathaniel Frentz (for the Federal Reserve), and Logan Smith (for private-sector mandates). The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.