CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 6, 2016

H.R. 2896
TAILOR Act

As ordered reported by the House Committee on Financial Services on March 2, 2016

SUMMARY

H.R. 2896 would require the federal banking regulators—the Federal Deposit Insurance Commission (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA) and the Federal Reserve Bank—to tailor their regulatory actions to the specific risk profile and business model of financial institutions subject to regulation. That requirement would apply to any new regulatory action and also would require the federal banking regulators to review and revise regulatory actions from the last five years, including those written pursuant to the Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The provision requiring review of previously adopted regulations would probably require additional work by the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

CBO estimates that enacting the legislation would increase direct spending by $20 million in 2017, although spending over the 2017-2026 period would be insignificant. CBO also estimates that enacting H.R. 2896 would reduce revenues by $24 million over the 2017-2026 period. Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply. Finally, CBO estimates that reviewing rules issued by the SEC and the CFTC would cost $10 million over the 2017-2021 period; such spending would be subject to the availability of appropriated funds.

CBO estimates that enacting the legislation 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 2027.

H.R. 2896 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.

CBO expects that the financial regulators (FDIC, OCC, NCUA, and SEC) would increase premiums or fees to offset the costs of implementing the additional regulatory activities required by the bill. Doing so would increase the cost of the existing mandate on entities required to pay those assessments. Based on information from the federal banking regulators and the SEC, CBO estimates that the incremental cost of the mandate would fall well below the annual threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 2896 is shown in the following table. The spending effects of this legislation fall within budget function 370 (advancement of commerce).

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES OR DECREASES (-) IN DIRECT SPENDING[a]												
Estimated Budget Authority	20	10	-10	-10	-5	-3	-2	*	*	*	5	*
Estimated Outlays	20	10	-10	-10	-5	-3	-2	*	*	*	5	*
DECREASES IN REVENUES												
Estimated Revenues	-2	-3	-3	-3	-2	-2	-2	-2	-2	-2	-12	-24
NET INCREASE OR DECREASE (-) IN DEFICITS FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	22	13	-7	-7	-3	-1	*	2	2	2	17	24

Notes: * = between zero and $500,000; components may not sum to totals because of rounding.

a. In addition, CBO estimates that implementing H.R. 2896 would have a net discretionary cost of $10 million over the 2017-2021 period.

BASIS OF ESTIMATE

H.R. 2896 would require the federal banking regulators to consider the risk profile and business model of financial institutions when deciding which institutions are subject to regulatory action and to tailor regulations to the characteristics of individual financial institutions. The agencies would be required to review all regulations adopted during the last five years, apply the requirements in H.R. 2896, and revise those regulations if necessary.

Costs incurred by the FDIC, the NCUA and the OCC are recorded in the budget as increases in direct spending. Those agencies are authorized to collect premiums and fees from insured depository institutions to cover administrative expenses. CBO expects that, over time, they would do so to recover any costs associated with the administrative costs of enacting the bill. Costs to the Federal Reserve System reduce remittances to the Treasury (which are recorded in the budget as revenues). To develop this estimate, CBO consulted with the federal financial regulators about the number of people needed to review and revise regulations and the number of regulations adopted over the past five years.

Direct Spending and Revenues

The financial regulators have completed more than 50 rules over the past five years, many of which are associated with the Dodd-Frank Act. The bill would require the financial regulators to review and possibly revise those rulemakings. In addition, CBO expects that H.R. 2896 could increase the amount of litigation that those regulators are subject to under the Administrative Procedures Act because regulated institutions would have additional grounds to challenge the application of financial regulations.

CBO estimates that each of the financial regulators would need to increase its legal staff by 5 percent to 10 percent and other staff by 1 percent to 2 percent over the next few years to complete the additional rulemakings required by the bill. In total, the financial regulators have about 6,000 full-time equivalent employees in Washington D.C. CBO expects that staffing would increase by 100 to 200 employees over the 2017-2020 period to review past actions.

After 2020, CBO expects that spending by the financial regulators for rulemaking and litigation activities would be higher than we would expect under current law. Across the agencies, CBO expects that total staffing would increase by 25 to 50 employees per year. However, CBO expects that the FDIC, the OCC, and the NCUA would eventually recover any costs associated with the bill's enactment by increasing assessments on the institutions they regulate. CBO estimates those assessments would total about $150 million over the 2018-2026 period. Because those fees would be based on spending in the prior year, CBO estimates that enacting the legislation would increase net direct spending by $20 million in 2017 and by an insignificant amount over the 2017-2026 period.

In addition, CBO estimates that H.R. 2896 would reduce the Federal Reserve's remittances to the Treasury, and therefore revenues, by $24 million over the 2017-2026 period.

Spending Subject to Appropriation

Implementing H.R. 2896 would probably require the CFTC and the SEC to review regulations adopted under the Dodd-Frank Act. CBO estimates that each agency would need around a dozen additional employees over the 2017-2020 period. Under current law, the SEC is authorized to collect fees sufficient to offset its annual appropriation; therefore, we estimate that the net costs to the SEC would be negligible. CBO expects that costs to the CFTC would total $10 million over the 2017-2021 period; such spending would be subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2896, as ordered reported by the House Committee on Financial Services on March 9, 2016

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	22	13	-7	-7	-3	-1	0	2	2	2	17	24
Memorandum:													
Changes in Outlays	0	20	10	-10	-10	-5	-3	-2	0	0	0	5	0
Changes in Revenues	0	-2	-3	-3	-3	-2	-2	-2	-2	-2	-2	-12	-24

Note: Components may not sum to totals because of rounding.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation 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 2027.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 2896 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO expects that the financial regulators would increase premiums or fees to offset the costs of implementing the additional regulatory activities required by the bill. Any increase in premiums or fees would increase the cost of the existing mandate on entities required to pay those assessments. Based on information from the federal banking regulators and the SEC, CBO estimates that the incremental cost to comply the mandate would amount to about $25 million in 2017 and fall in subsequent years. Those annual costs would fall well below the threshold established in UMRA for private-sector mandates ($154 million in 2016, adjusted for inflation).

ESTIMATE PREPARED BY:

Federal Costs: Sarah Puro
Revenues: Nathaniel Frentz
Impact on State, Local, and Tribal Governments: Rachel Austin
Impact on the Private Sector: Logan Smith

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis