CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 11, 2017

# H.R. 1624
## Municipal Finance Support Act of 2017

*As ordered reported by the House Committee on Financial Services on July 25, 2017*

H.R. 1624 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 the portfolios of large banks.

Specifically, H.R. 1624 would require the FDIC, the OCC, and the Federal Reserve to allow banks with assets totaling more than $250 billion to treat certain municipal bonds as highly liquid assets for regulatory purposes. Liquid assets are part of the calculation that regulators use to determine the liquidity coverage ratio—the level of liquid reserves an institution must have to cover the cost of its operating cash flows for 30 days.

Information on bank assets indicates that less than a dozen banks would qualify for the proposed regulatory treatment of municipal bonds under the bill. Based on information from the regulatory agencies, CBO estimates that less than 5 percent of the value of municipal bonds is held by banks subject to the liquidity coverage ratio, and those municipal bonds currently make up less than 2 percent of the assets at the affected banks.

In CBO's judgment because they compose such a small fraction of the assets of large banks, it is very unlikely that the proposed change in the regulatory treatment of the municipal bond assets would increase the probability of a bank failure, which would result in a cost to the Deposit Insurance Fund. Therefore, CBO estimates that enacting this provision would have no significant cost to the federal government.

H.R. 1624 would require the FDIC, the OCC, and the Federal Reserve to amend current regulations. Administrative costs incurred by the FDIC and the OCC to write such regulations 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 the costs to amend the regulations would be small and would not have a significant net effect on the federal budget. Administrative costs to the Federal Reserve Systems 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 also would be insignificant.

Because enacting H.R. 1624 would affect direct spending and revenues; pay-as-you-go procedures apply. CBO estimates that enacting H.R. 1624 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1624 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 increases fees or premiums to offset the costs associated with implementing the bill, H.R. 1624 would increase the cost of an existing mandate on private entities required to pay those assessments. CBO estimates 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 ($156 million in 2017, adjusted annually for inflation).

The CBO staff contacts for this estimate are Sarah Puro (for federal costs) and Logan Smith (for the private-sector mandate). The estimate was approved by Theresa Gullo, Assistant Director for Budget Analysis.