CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 18, 2018

H.R. 4302
Congressional Accountability for Emergency Lending Programs Act of 2017

As ordered reported by the House Financial Services Committee on November 14, 2017

H.R. 4302 would amend the Federal Reserve's authority under section 13(3) of the Federal Reserve Act to create and use certain lending facilities.

Under current law, the Federal Reserve has broad discretion to make loans to banks and nonbanks under unusual and exigent circumstances. Such lending requires the approval of the Secretary of the Treasury and at least five members of the Board of Governors of the Federal Reserve, must have broad-based participant eligibility, and cannot be made to insolvent firms.

In 2008, the Federal Reserve exercised its section 13(3) authority to create new lending facilities to provide liquidity in the context of the financial crisis. That lending resulted in interest earnings for the Federal Reserve that increased its remittances to the Treasury, which are recorded in the budget as revenues.

H.R. 4302 would make a number of changes to the Federal Reserve's Section 13(3) lending authority:

- Limit eligibility to firms predominantly engaged in financial activities,
- Require that emergency lending be used only for circumstances that pose a threat to the financial stability of the United States,
- Require approval of the Secretary of the Treasury and two-thirds of the members of the Federal Open Market Committee for emergency lending,
- Prohibit the Federal Reserve from accepting equity capital as collateral for emergency lending and require the Federal Reserve to issue a rule with standards for collateral taken against emergency lending,
- Add, as a condition of emergency lending, that all federal banking regulators with jurisdiction over a borrower to certify that the borrower is not insolvent.

- Require a joint resolution of Congress approving an emergency facility or else it is terminated within 30 days of receiving a report notifying Congress of recent lending activity, and provide for a fast-track procedure for such a joint resolution, and,

- Require that a minimum interest rate be charged on emergency lending.

Because enacting H.R. 4302 could affect revenues, pay-as-you-go procedures apply. However, CBO has no basis for estimating the magnitude or direction of the effects on revenues. Based on its own analysis of historical lending and information provided by the Federal Reserve, CBO estimates that the amount of any emergency lending that would occur in the future would likely be reduced by the bill, in part from the new restrictions on eligible firms but primarily from the new required minimum interest rate. That lower amount of lending, at a higher interest rate, could either increase or decrease the Federal Reserve's earnings and thereby its remittances. Any such effects would be significantly discounted given the low probability of any emergency lending occurring over the next 10 years.

To the extent that such lending has effects on the broader economy, a reduction in the amount or types of lending could have budgetary effects that are much larger than any effect on Federal Reserve remittances.

CBO has no basis for estimating whether enacting H.R. 4302 would significantly increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

H.R. 4302 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contact for this estimate is Nathaniel Frentz. The estimate was reviewed by John McClelland, Assistant Director, Tax Analysis Division.