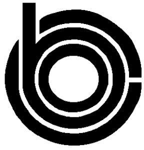

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 23, 2009

H.R. 786
A bill to make permanent the temporary increase in deposit insurance coverage, and for other purposes

As ordered reported by the House Committee on Financial Services February 4, 2009

SUMMARY

H.R. 786 would permanently increase the amount of deposits insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) from $100,000 to $250,000 and modify other terms of both deposit insurance programs. It would allow those agencies to replenish the insurance funds over a longer period of time and increase the amounts each agency can borrow from the Department of the Treasury.

The legislation's affect on direct spending and revenues over the 2009-2013 and 2009-2018 periods are relevant for enforcing pay-as-you-go rules under the current budget resolution. CBO estimates that enacting this legislation would increase deficits by $14.0 billion over the five-year period from 2009 through 2013, but would reduce deficits by $14.3 billion over the 2009-2018 period. (In total, CBO estimates that the legislation would reduce deficits by $14.9 billion through 2019.) Implementing H.R. 786 would not affect revenues or spending subject to appropriation.

H.R. 786 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. 786 contains private-sector mandates, as defined in UMRA, on depository institutions and certain bank holding companies. The bill would impose a mandate by requiring certain depository institutions to pay higher insurance premiums as a result of the permanent increase in deposit insurance coverage. In addition, the bill would authorize the FDIC to make assessments on holding companies for depository institutions when necessary to replenish the insurance fund. CBO expects that the direct cost of the

mandates would well exceed the annual threshold established in UMRA for private-sector mandates ($139 million in 2009, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of enacting H.R. 786 is shown in the following table. The budgetary effects of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Billions of Dollars												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2014	2009-2019
CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	2.3	5.2	4.5	2.0	-6.4	-9.0	-6.8	-6.1	*	-0.6	7.6	-14.9

Note: * = between -$50 million and zero.

BASIS OF ESTIMATE

H.R. 786 would increase the amount of federal deposit insurance coverage and make other changes to the FDIC's and NCUA's programs. Assuming enactment by the end of fiscal year 2009, CBO estimates that enacting this bill would increase direct spending by $7.6 billion over the 2009-2014 period but reduce net direct spending by $14.9 billion over the 2009-2019 period. Specifically, the bill would:

- Permanently increase the amount of deposits insured by the FDIC and NCUA from $100,000 to $250,000 (the Emergency Economic Stabilization Act of 2008 raised the limit to $250,000 through December 31, 2009);

- Adjust the limit on insured deposits for inflation beginning in 2015 instead of 2010;

- Allow both agencies to replenish the insurance funds over longer periods of time, extending the restoration period for the FDIC's Deposit Insurance Fund (DIF) from five years to eight years and for NCUA's Share Insurance Fund (SIF) from one year to five years;

- Modify how the FDIC recovers costs resulting from actions taken to reduce systemic risks; and

- Increase the amounts the agencies can borrow from the Treasury, raising the FDIC's limit from $30 billion to $100 billion and the NCUA's limit from $100 million to $6 billion.

Raising the limit on insured deposits would increase the FDIC's and NCUA's liabilities for failed institutions, but the cost of any additional losses would be offset over time by higher insurance premiums. In addition, depository institutions would pay higher premiums to cover the newly insured deposits. CBO expects that this change, coupled with provisions giving the agencies more time to restore depleted fund balances, would increase their net outlays over the 2009-2013 period because of higher losses and lower collections but would significantly reduce outlays by the end of the 2009-2019 period because of the additional premiums paid to offset losses and to cover new deposits.

CBO estimates that raising the coverage limit would increase outlays for failed institutions by an estimated $5.7 billion over the next five years, and extending the recovery period for the DIF and SIF would lower net premiums by about $1.9 billion. Those costs would be offset in subsequent years, however, assuming the agencies would charge premiums sufficient to restore the DIF and the SIF to the levels currently specified in agency regulations (1.25 percent and 1.2 percent, respectively) within the respective restoration periods specified in the bill. Based on information from the FDIC and NCUA, CBO estimates that raising deposit insurance coverage from $100,000 to $250,000 would increase insured deposits by 15 percent and 10 percent, respectively. Applying those increases to CBO's January baseline projections for deposit growth, we estimate that enacting this legislation would increase deposits insured by the FDIC by about $1.1 trillion by 2019 and by the NCUA by almost $100 billion. Thus, CBO estimates that enacting this bill would reduce net outlays by about $14.9 billion over the 2009-2019 period.

Finally, increasing the agencies' borrowing limits should result no net cost to the government over time but could affect their annual cash flows. For example, raising the borrowing limit could increase the likelihood of agency actions aimed at easing the financial pressures facing insured institutions, such as maintaining the balances in the DIF and SIF at the lower end of the allowable ranges or providing different forms of systemic assistance to financial institutions. The net budgetary impact of increasing borrowing limits over the next 10 years would largely depend on whether the FDIC and NCUA would recoup any borrowing-related expenses by 2019. Assuming the agencies restore the insurance funds to the levels designated in their current regulations by 2019,

CBO estimates that providing the additional borrowing authority would have no significant net effect on direct spending in 2009 or in aggregate over the next 10 years.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 786 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

H.R. 786 contains private-sector mandates, as defined in UMRA, on depository institutions and certain bank holding companies. By making permanent the increase in deposit insurance coverage, the bill would cause depository institutions to pay higher premiums. Most depository institutions (commercial banks, savings associations, and most credit unions) are required by law to have federal deposit insurance. CBO, therefore, considers changes in the federal deposit insurance system that increase requirements imposed on those institutions to be private-sector mandates. In addition, the bill would expand the requirement for depository institutions to pay special assessments to include bank holding companies.

The cost of the mandates would be the net increase in premiums. CBO estimates that the net increase in premiums for depository institutions would amount to more than $6 billion in 2014 and thus would well exceed the annual threshold established in UMRA for private-sector mandates ($139 million in 2009, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On January 13, 2009, CBO transmitted a cost estimate for H.R. 384, the TARP Reform and Accountability Act, as introduced on January 9, 2009, which included provisions similar to those in H.R. 786. Differences between this estimate and the estimate for title VII of H.R. 384 reflect changes in the financial condition of the NCUA's Share Insurance Fund since January and the effect of provisions in H.R. 786 extending the time period for restoring the NCUA's fund to statutorily designated levels.

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