104TH CONGRESS
2d Session

HOUSE OF REPRESENTATIVES

REPT. 104–193
Part 2

FINANCIAL INSTITUTIONS REGULATORY RELIEF ACT OF 1995

JUNE 18, 1996.—Ordered to be printed

Mr. LEACH, from the Committee on Banking and Financial Services, submitted the following

SUPPLEMENTAL REPORT

[To accompany H.R. 1858]

[Including cost estimate of the Congressional Budget Office]

ERRATA

On page 92, move Mr. Fox's roll call vote from the "NAYS" column to the "YEAS" column.

On page 95, in the Section-By-Section Analysis of Section 105(c), strike the words "voluntary insurance" and insert in lieu thereof the words "voluntary noninsurance".

On page 115, add the following sentences to the Section-By-Section Analysis of Section 229:

> As part of the agencies' paperwork reduction review, the Committee directs the agencies to include the regulations and guidelines implemented under sections 39 of the FDICIA. In reviewing these regulations and guidelines, the agencies should consider whether the regulations and guidelines are duplicative of other existing policies or regulations and whether it may be appropriate to modify the regulations and guidelines adopted under section 39 or to recommend that such section be repealed by the Congress.

Under the Committee Consideration and Votes add the following votes:

An amendment offered by Mr. Vento which strikes section 234 of the legislation modifying the culpability standards for outside director was defeated 17–24.

25–289

YEAS	NAYS
Mr. Leach	Mr. McCollum
Mrs. Roukema	Mr. Bereuter
Mr. Gonzalez	Mr. Roth
Mr. LaFalce	Mr. Baker, (LA)
Mr. Vento	Mr. Lazio
Mr. Frank	Mr. Bachus
Mr. Kanjorski	Mr. Castle
Mr. Kennedy	Mr. King
Mr. Flake	Mr. Royce
Mr. Orton	Mr. Lucas
Mrs. Maloney	Mr. Weller
Ms. Roybal-Allard	Mr. Hayworth
Mr. Barrett, (WI)	Mr. Bono
Ms. Velazquez	Mr. Ney
Mr. Watt	Mr. Ehrlich
Mr. Hinchey	Mr. Barr
Mr. Bentsen	Mr. Chrysler
	Mr. Cremeans
	Mr. Fox
	Mr. Heineman
	Mr. Stockman
	Mr. LoBiondo
	Mr. Watts
	Mrs. Kelly

A motion offered by Mr. Orton to reconsider the Kennedy Amendment which strikes section 238 concerning second mortgages was defeated 24–24.

YEAS	NAYS
Mr. Leach	Mr. McCollum
Mr. Metcalf	Mrs. Roukema
Mr. Gonzalez	Mr. Bereuter
Mr. LaFalce	Mr. Roth
Mr. Vento	Mr. Baker, (LA)
Mr. Schumer	Mr. Lazio
Mr. Frank	Mr. Bachus
Mr. Kanjorski	Mr. Castle
Mr. Kennedy	Mr. King
Mr. Flake	Mr. Royce
Mr. Mfume	Mr. Lucas
Ms. Waters	Mr. Weller
Mr. Orton	Mr. Hayworth
Mr. Sanders	Mr. Bono
Mrs. Maloney	Mr. Ney
Mr. Gutierrez	Mr. Ehrlich
Ms. Roybal-Allard	Mr. Barr
Mr. Barrett, (WI)	Mr. Chrysler
Ms. Velazquez	Mr. Cremeans
Mr. Wynn	Mr. Fox
Mr. Watt	Mr. Stockman
Mr. Hinchey	Mr. LoBiondo
Mr. Ackerman	Mr. Watts
Mr. Bentsen	Mrs. Kelly

CBO COST ESTIMATE

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 29, 1995.

Hon. JAMES A. LEACH,
Chairman, Committee on Banking and Financial Services, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1858, the Financial Institutions Regulatory Relief Act of 1995.

Enacting H.R. 1858 would affect both direct spending and receipts. Therefore, pay-as-you-go procedures would apply to the bill.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

JAMES L. BLUM
(For June E. O'Neill, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 1858.
2. Bill title: The Financial Institutions Regulatory Relief Act of 1995.
3. Bill status: As reported by the House Committee on Banking and Financial Services on July 18, 1995.
4. Bill purpose: H.R. 1858 would amend several banking statutes, including the Community Reinvestment Act (CRA), the Truth in Lending Act (TILA), the Real Estate Settlement Procedures Act (RESPA), the Truth in Savings Act (TISA), the Equal Opportunity Act, and the Home Mortgage Disclosure Act. It also would make a number of other changes affecting banks, savings and loans, consumers, and federal agencies, primarily those responsible for regulating financial institutions. Major provisions are discussed below.

Examinations.—H.R. 1858 would permit the financial regulatory agencies—the Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve—to extend from one year to 18 months the time between examinations for safety and soundness for healthy institutions with assets between $175 million and $250 million.

The bill also would modify the requirements for examining institutions for compliance with CRA. Under current law, CRA requires institutions to be evaluated on their success in meeting the credit needs of the community. The bill would adopt a multi-tiered approach toward examining institutions for compliance with CRA, exempting some small banks and savings and loans with assets of less than $100 million from the act's requirements, and allowing institutions with assets of less than $250 million to certify their own compliance with the act. These levels would be adjusted annually for inflation, as measured by the Consumer Price Index. Institutions receiving a satisfactory or better rating would be protected against challenges to regulatory approvals of branching or certain other applications, as is the case under current law.

Foreign bank fees.—the bill would require the Federal Reserve to collect examination fees from U.S. offices of foreign banks only to the extent that it collects such fees from the state-chartered member banks that it also examines. Under current law, U.S. offices of foreign banks must pay such fees beginning in July 1997. Because the Federal Reserve does not exercise its existing authority to charge state-chartered member banks, the bill would effectively preclude the payment of these fees by the U.S. offices of foreign banks.

Consumer banking provisions.—Current law requires banks and other lenders to provide information about loans in a simply and accurate way so as to allow borrowers to compare features more easily. H.R. 1858 would allow a greater degree of tolerance for inaccurate disclosures of loan finance charges, thereby limiting a borrower's right to cancel loan agreements. It also would make recovering damages in certain events more difficult. The bill would modify major portions of TISA, which require uniform disclosures of the terms and conditions of consumers' savings accounts, replacing them with a ban on misleading or inaccurate advertisements.

Lender liability.—The bill would limit the environmental liability of private lending institutions, federal banking and lending agencies, and those who acquire property from them by exempting them from strict liability for the release of hazardous substances on properties that were acquired as a result of: receivership, conservatorship, or liquidation authority; loans, discounts, advances, or other financial assistance; and civil or criminal proceedings or administrative enforcement actions.

This relief would not apply if the lending institution or agency directly caused or materially contributed to the release of a hazardous substance. In that case, it would remain liable for any remedial measures necessary to repair the damages. Finally, government agencies and subsequent purchasers would not be subject to any environmental lien provisions at the time of transfer of the property. In addition to the financial regulatory agencies, other agencies specifically affected by this provision include the Department of Housing and Urban Development, the Farm Credit Administration, the Farm Credit System Assistance Board, the Farmers Home Administration, the Rural Utilities Service (formerly the Rural Electrification Administration), and the Small Business Administration.

Qualified thrift lenders.—The bill would allow savings institutions to qualify as thrift lenders by satisfying either the statutory test for qualified thrift lenders of the Internal Revenue Service test on asset composition. Currently, thrifts have to pass both tests.

Appraisal Subcommittee of the Financial Institutions Examination Council.—Section 224 would require that the subcommittee repay by 1998 a $5 million loan from the Treasury.

Reimbursement to financial institutions for information requests.—For certain investigatory purposes, the federal government now generally reimburses financial institutions for providing requested records related to individuals and small partnerships. The bill would expand this provision to require the Department of Justice (DOJ) and certain other federal investigatory agencies to reimburse financial institutions for the cost of providing information about corporations and other entities.

Other provisions.—The bill also would: exempt well-capitalized and well-managed financial institutions from independent audits to verify compliance with safety and soundness regulations and internal controls; place a permanent moratorium on the authority of the OCC to expand the insurance powers of banks; allow an institution more flexibility in choosing membership in a particular district bank of the Federal Home Loan Bank System; require an annual study on the effect of the act on lending to small businesses; and encourage the banking regulatory agencies to appoint an examiner-in-charge to coordinate examinations conducted by the various agencies.

5. Estimated cost to the Federal Government: H.R. 1858 would increase spending subject to appropriations by requiring federal agencies to reimburse financial institutions for providing certain types of records to federal investigatory agencies. Over the 1996–2000 period, CBO estimates that spending for this purpose would total $170 million, assuming appropriations of the necessary amounts. In addition, the bill would make a number of changes that would result in a net decrease in the payment the Federal Reserve remits to the Treasury, thereby decreasing revenues by an estimated $21 million over the 1996–2000 period. The following table displays the estimated budgetary impact of the bill.

[By fiscal year, in millions of dollars]

	1996	1997	1998	999	2000
Spending subject to appropriations action:					
Estimated authorization level	18	36	37	39	40
Estimated outlays	18	26	37	39	40
Revenues:					
Estimated revenues [1]	3	4	−9	−9	−10

[1] Includes changes in the Federal Reserve surplus, net of income tax effects. A negative sign indicates a decrease in revenues.

In addition, various provisions of H.R. 1858 would result in savings to the federal banking regulatory agencies, not including the Federal Reserve, of an estimated $95 million over the 1996–2000 period. These savings would be offset by a reduction in fees charged to banks and thrifts, resulting in no net budgetary impact.

While the bill also could affect spending for deposit insurance, CBO has no clear basis for predicting the net change in such spending, and hence the above table does not include any estimated impact on the deposit insurance funds. A number of other provisions in the bill could have budgetary implications, but they are not expected to be significant.

Spending resulting from this bill would fall primarily in budget functions 370 and 750.

6. Basis of estimate: *Fees for corporations.*—Section 227 would amend the Financial Privacy Act of 1978 to allow financial institutions to request reimbursement from federal agencies for the costs of providing requested records on corporations and other entities. The act now allows such reimbursement only for records related to individuals and other small partnerships. Typically prosecutors from the Department of Justice request corporate records when conducting criminal and civil investigations, particularly in the

areas of money laundering and illegal drug activity. The offices of Inspectors General, the Treasury Department, the Securities and Exchange Commission, and many other agencies also request such information and would be affected by the provision.

Based on information from DOJ and data from a survey conducted by the banking industry in 1992, CBO estimates that the federal agencies would spend approximately $35 million annually to reimburse qualified financial institutions for providing records to investigators and prosecutors, totaling $170 million over the 1996–2000 period. Such spending would be subject to appropriation action. The 1996 estimate is lower than amounts estimated for future years to allow for phasing in the expanded program; estimated costs in fiscal year 1997 and beyond have been adjusted for projected cost increases. The financial regulatory agencies expect that they too would have to pay reimbursements under section 227. Most such costs, which constitute mandatory spending, would be offset by charging higher fees to the institutions that they supervise.

Federal Reserve.—Three changes to current law in H.R. 1858 would affect the net income of the Federal Reserve in its role as bank examiner and regulator. One change, effectively precluding payments by offices of foreign banks for the costs of examinations, would reduce the income of the Federal Reserve System and thereby reduce governmental receipts by an estimated $44 million over the period from 1996 to 2000. A second change, exempting certain banks from some of the requirements of CRA, would reduce costs of the Federal Reserve System by an estimated $15 million over that same period. A third change, streamlining the process by which certain bank holding companies broaden their activities, would reduce the Federal Reserve's costs of processing applications by an estimated $8 million from 1996 to 2000. Because the Federal Reserve System remits its surplus to the Treasury, those changes in its operating costs and income would affect governmental receipts. The net effect of those three changes would be to reduce governmental receipts by $21 million over the five-year period.

First, H.R. 1858 would reduce operating income of the Federal Reserve System by effectively precluding payment by U.S. offices of foreign banks for the costs of examinations. Under current law, U.S. offices of foreign banks must pay for the costs of examinations begun after July 25, 1997. The bill would instead require the Federal Reserve to collect those examination fees only to the same extent that it collects such fees from the state-chartered member banks that it examines. The Federal Reserve has the authority to collect examination fees from those member banks, but it has never chosen to exercise that authority. As a result, we expect that this provision would forestall payments by U.S. offices of foreign banks for examinations. If the bill were enacted, we estimate that Federal Reserve income would decrease by $59 million from 1997 to 2000. This loss to the Treasury would be partially offset by increased corporate income tax receipts of $15 million from the reduction in tax-deductible fees paid by those banks. The net effect would be to reduce receipts by $44 million over the 1997–2000 period.

Second, H.R. 1858 would exempt certain financial institutions from the examination requirements of CRA. That act encourages banks and thrifts to lend in the communities in which their deposits originate and requires that all of them be examined for compliance. If H.R. 1848 were enacted, most institutions with assets of up to $100 million (indexed for inflation) would be exempt from CRA and therefore would not be examined. Financial institutions with assets over $100 million but not more than $250 million (also indexed) would be able to certify their own compliance and would be subject to less frequent and simpler examinations. Over 80 percent of the nearly 1,000 banks that the Federal Reserve examines have assets of $250 million or less, although these banks account for less than 10 percent of the total assets of the banks it examines. Based on information provided by staff members of the Board of Governors of the Federal Reserve System, we estimate that the Federal Reserve System would save $15 million over the period from 1996 through 2000 because of changes made by the bill with regard to CRA.

Third, the bill would streamline the process by which certain bank holding companies engage in nonbanking activities (section 201), acquire banks (section 202), and merge existing subsidiaries (section 203). That streamlining would reduce the Federal Reserve's costs of processing applications by an estimated $8 million from 1996 to 2000.

H.R. 1858 also would affect the Federal Reserve's operations in numerous other ways that are not expected to cause significant budgetary effects. The bill would require the Federal Reserve to issue several regulations, including ones to implement the bill's repeal of some of the disclosure requirements for bank accounts mandated by TISA. In addition, the bill would affect the number of applications the Federal Reserve would process—for example, by allowing some financial institutions to undertake certain activities without prior approval. Based on information provided by Federal Reserve staff we estimate that the budgetary effects of these and various other provisions affecting the Federal Reserve would be insignificant.

Regulatory savings.—H.R. 1858 would make a number of changes that would change banking laws, for the most part relaxing or eliminating many regulations affecting the banks and savings and loans. Federal banking agencies now spend about $1.4 billion per year on their regulatory activities. CBO estimates that the provisions of this bill would reduce administrative costs by about $120 million over the 1996–2000 period. The expenses of the FDIC are paid for by bank premiums; the OTS and the OCC charge fees to recover their costs. We expect those three agencies to reduce their premiums and fees to reflect savings totaling about $95 million, resulting in no net budgetary impact. About $61 million of these savings would result from changes related to examinations for safety and soundness, and $34 million would stem from changes related to CRA compliance. The remaining savings would be realized by the Federal Reserve, and were discussed above.

Deposit insurance funds.—Enacting H.R. 1858 could affect the federal budget by causing changes in the government's spending for deposit insurance, but there is no clear basis for predicting the amount of such changes. The bill would relax current policies governing practices for ensuring the safety and soundness of insured depository institutions, including examination cycles, outside directors and accountants, and audit committees, and would extend the examination period from a 12-month to an 18-month cycle for certain institutions.

In the 1980s, the examination cycles were lengthened for smaller institutions on the theory that they did not pose a systemic risk. In many cases, however, problems went undetected for significant periods of time, causing higher resolution costs when the institutions ultimately failed. While the banking sector is now relatively stable, depository institutions can deteriorate quickly, especially in periods of rapid flux and competition. Thus, lengthening the examination cycles poses at least a small risk of increased examination cycles to the maximum extent currently permissible under law. Assuming that the FDIC would continue this policy of balancing the goals of maintaining safety and soundness while minimizing the regulatory burden, CBO would not expect the FDIC to incur significant additional insurance losses as a result of this provision.

In addition, the bill would repeal a requirement that independent public accountants confirm management's claims as to the effectiveness of an insured depository institution's internal financial controls and certain safety and soundness rules. It would also exempt all well-capitalized and well-managed banks and thrifts with assets over $500 million from the rule requiring that audit committees be composed entirely of outside directors. While we cannot estimate the budgetary effect resulting from enactment of these provisions, such changes could result in less effective oversight of an institution and to reduced effectiveness of the audit process, thereby contributing to losses in the insurance funds.

If losses to the deposit insurance funds were to increase as a result of enactment of this measure, the FDIC would have to increase premiums that banks pay for deposit insurance. Thus, the net effect on the budget is not likely to be significant.

Lender liability.—Under existing law, a federal department or agency that acquires title or control of a facility through means such as bankruptcy, foreclosure, tax delinquency, abandonment, or similar means is considered the owner or operator of that property and is generally liable for the costs incurred by the federal or state governments to clean up hazardous substances at that facility. H.R. 1858 would shift the liability for those clean-up costs from the department or agency to the person who owned, operated, or controlled activities at the facility prior to its acquisition by a federal entity. Such protections also would apply to the purchaser of the property. In the event that the federal agency directly caused or materially contributed to the release of a hazardous substance, that entity would be held liable for any remedial measures needed to cure the damages. In such cases, the bill would limit the liability of the agency under state law to the value of the agency's interest in the property. The bill would apply to any claims that have not reached final adjudication or settlement prior to enactment.

The net budgetary impact of the lender liability provisions is not clear and cannot be estimated with any precision at this time because: (1) existing law continues to be modified through regulations and court decisions, thereby raising uncertainty about the extent of the federal entities' responsibility, and (2) federal departments and agencies lack adequate data about the number and value of properties that might be affected by the bill. Although the bill could result in potential savings to the individual agencies (including the FDIC) that acquire property or facilities through these involuntary means, the net impact on total federal spending is less clear. The net impact would depend on the interpretation of various legal issues and on whether the federal government ultimately would pay for hazardous waste clean-up at affected sites through the Hazardous Waste Superfund Trust Fund administered by the Environmental Protection Agency. Based on limited information from the agencies affected by the provision, CBO does not expect that any significant savings would result from enactment of this provision.

Appraisal Subcommittee.—The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (Public Law 101–73) established the Appraisal Subcommittee of the Federal Financial Institutions Examination Council. The subcommittee received a one-time appropriation of $5 million, which H.R. 1858 would require be repaid by 1998. The subcommittee already plans to repay the loan by that date, so this provision would have no budgetary impact relative to current law.

7. Pay-as-you-go considerations: Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1998. CBO estimates that enacting H.R. 1858 would affect both direct spending and receipts; therefore, pay-as-you-go procedures would apply to the bill. We estimate that direct spending changes would be offsetting and no net change in spending would result.

As a result of reductions in administrative costs of the Federal Reserve to implement CRA activities and to process certain applications, CBO estimates that governmental receipts would increase by $3 million in 1996 and by $5 million in 1997 and in 1998. These savings would by offset by reduced examination fees paid to the Federal Reserve by foreign banks of $1 million in 1997 and $14 million in 1998. The net reduction in governmental receipts through 1998 would total $2 million, as shown in the following table.

[By fiscal year, in millions of dollars]

	1996	1997	1998
Change in outlays	0	0	0
Change in receipts	3	4	−9

8. Estimated cost to State and local governments: CBO estimates that the provisions of H.R. 1858 would have two direct impacts on state governments. First, it would increase the costs of administering state insurance laws in states that currently allow banks to sell insurance. These costs would likely be offset by increased receipts from examination and licensing fees. Second, it would reduce the cost of administering state banking laws. These savings would be partially offset by a reduction in bank examination fees.

In total, CBO estimates that the net budgetary impact of H.R. 1858 on states would be negligible. Local government budgets would not directly be affected by H.R. 1858.

Bank holding company sales of insurance.—Section 211 of the bill would allow bank holding companies to sell insurance in states that currently allow banks to sell insurance. As of May 1995, the Conference of State Banking Supervisors noted that there were 34 states that allowed banks to sell insurance in some form.

This provision, which would take effect in April 1997, means that bank holding companies would be able to buy or establish their own insurance affiliates or form alliances with insurance companies to sell insurance in their banks in these 34 states. This would result in additional work for state insurance regulators who would be required to perform more examinations of insurance companies or affiliates and license more agents.

The number of bank holding companies that would take advantage of this provision is unknown at this time but would vary from state to state based on existing state laws. In some states there would be no increase in workload because state laws are the same as the existing federal law (bank holding companies may only sell insurance in towns with a population less than 5,000). In other states, workload increases would vary based on the state's insurance climate and laws regulating insurance sales by banks.

Some states would be able to reduce their costs by undertaking examinations of insurance companies in conjunction with other states. Also some states do not separately examine all companies. For example, if a company is domiciled in another state, and has received a superior rating, some states do not undertake a separate examination. Other times there may be no cost increase because a bank holding company has bought an existing insurance company within the state. Finally, additional costs incurred by states would likely be offset by recoveries from examination and licensing fees.

According to the National Association of Insurance Commissioners (NAIC), there were more than 8,200 domestic insurers (of all types) and 1.59 million insurance producers in 1993. State insurance regulators conducted in excess of 4,200 financial and market conduct exams during that year. NAIC reports that state insurance departments will spend close to $650 million on their regulatory activities in 1995. The provisions of section 211 would increase costs by at most a small percentage of this amount.

Expanded regulatory discretion for small bank examinations.—Section 226 of the bill would allow federal regulators to examine banks that meet certain asset and rating requirements every eighteen months. Under current law, these banks must be examined every twelve months. The provisions of this section would take effect in September 1996 if federal regulators choose to implement them.

These changes should reduce state bank examination costs because most states coordinate their bank examinations with the federal government. It is likely that many states would follow the federal government's lead in relaxing examination schedules for small banks. Section 226 would encourage coordinated examinations by requiring the FDIC to submit semiannual reports to Congress on progress being made to achieve this goal.

The savings to states from this measure are difficult to predict, although CBO would expect them to be less than the savings achieved by the FDIC. Some states already allow for longer examination cycles than provided in this bill, while other states might not want to coordinate examinations with the federal government. Thus, it is likely that the savings from this provision would only represent a small percentage of the $300 million states spend annually regulating banks. Finally, savings by states would be partially offset by a reduction in receipts from bank examination fees.

Sales of insurance by national banks.—Section 240 and 241 of the bill combined to allow national banks to sell insurance in empowerment zones. For purposes of this bill, empowerment zones include enterprise communities and Indian reservations. There are currently nine empowerment zones and 95 enterprise communities. To sell insurance in these areas, however, a national bank must provide sufficient evidence that competitively priced insurance products are not adequately available.

Enactment of these provisions would result in additional work for state insurance regulators who would be required to license more agents and review the new relationships between national banks and insurance companies. The number of national banks that would take advantage of this new authority and the cost of regulating them is difficult to predict. They would vary from state to state based on existing state laws, the state's insurance climate, and the willingness of the OCC to override state laws. It is likely that the cost increases from these provisions would be quite small, and that they would be offset by recoveries from examination and licensing fees.

9. Estimate comparison: None.

10. Previous CBO estimate: None.

11. Estimate prepared by: Federal Costs: Mary Maginniss and Mark Booth. State and Local Costs: Marc Nicole.

12. Estimate approved by: Robert R. Sunshine for Paul N. Van de Water, Assistant Director for Budget Analysis.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, February 8, 1996.

Hon. JAMES A. LEACH,
Chairman, Committee on Banking and Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Unfunded Mandates Reform Act of 1995 (Public Law 104–4) took effect on January 1, 1996. The new law requires the Congressional Budget Office (CBO) and Congressional committees to carry out a number of new activities. I am writing to you today to let you know how CBO plans to fulfill its responsibilities under the new law and to provide you with mandate cost statements for those bills under your jurisdiction that were on the House calendar as of January 23, 1996.

New responsibilities under the act.—The new law requires CBO to provide a statement to authorizing committees as to whether reported bills contain federal mandates. For legislation that contains identifiable federal mandates, CBO is required to estimate their aggregate direct costs. If those costs are above a specified threshold in the fiscal year that the mandate is first effective or in any of the four following years, CBO must provide an estimate of the costs, if feasible, and the basis of the estimate. The threshold is $50 million for intergovernmental mandates and $100 million for private-sector mandates.

Any member may raise a point of order against any reported bill unless the committee has published a CBO statement about mandates costs. A member may also raise a point of order against any bill, amendment, motion, or conference report that would increase the direct costs of federal intergovernmental mandates by more than $50 million unless the bill provides for funding (either by creating direct spending authority or by authorizing future appropriations) and provides a mechanism for terminating or scaling back mandates if agencies determine that there are not sufficient funds to cover those costs. We have enclosed with this letter a more detailed description of the new law and a brief summary of the new responsibilities assigned to CBO and Congressional committees.

Whenever possible in future cost estimates, CBO will be explicit about whether a bill contains mandates. If we are uncertain, we will say so in the mandate statement and provide as much detail as possible so that the Congress can decide whether points of order apply to the bill.

In order to have sufficient time to prepare mandate cost statements, we will need to know about potential legislation as early as possible, particularly those bills that might contain mandates. Because it takes time to prepare mandate analyses, we would greatly appreciate receiving early notification about your legislative agenda for the year. It might also be helpful—for both your committee and ourselves—if your staff would contact us early in the process of dealing with legislation that might contain mandates. The CBO staff contacts for your committee are: for intergovernmental mandates: Theresa Gullo; for private sector mandates: Elliot Schwartz.

Bills on the House Calendar.—Enclosed with this letter are two lists of the legislation on the calendar as of January 23, 1996, that is under your committee's jurisdiction: one for intergovernmental mandates and one for private-sector mandates. The list group the legislation into three categories: those that do not contain mandates as defined in Public Law 104–4; those that contain mandates but the direct costs are below the relevant thresholds; and legislation that we need to review further.

We look forward to working with your committee in these new endeavors. Your assistance will be extremely important to us as we strive to provide high quality and timely statements of mandates costs to the Congress. If you have any questions about CBO's new activities or about the enclosed lists, please feel free to contact me or the staff contacts listed above.

Sincerely,

JUNE E. O'NEILL, *Director.*

Enclosures.

INTERGOVERNMENTAL MANDATE STATEMENT FOR BILLS ON THE HOUSE CALENDAR (AS OF JANUARY 23, 1996)

Committee: Banking and Financial Services.

Bills that do not contain mandates: H.R. 1062, Financial Services Competitiveness Act of 1995; H.R. 1858, Financial Institutions Regulatory Relief Act of 1995.

Bills that contain mandates, but aggregate net costs are below $50 million: None.

Bills that require further review: None.

PRIVATE SECTOR MANDATE STATEMENT FOR BILLS ON THE HOUSE CALENDAR (AS OF JANUARY 23, 1996)

Committee: Banking and Financial Services.

Bills that do not contain mandates: None.

Bills that require further review: H.R. 1062, Financial Services Competitiveness Act of 1995; H.R. 1858, Financial Institutions Regulatory Relief Act of 1995.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 30, 1996.

Hon. JIM LEACH,
Chairman, Committee on Banking and Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: In previous correspondence dated February 8, 1996, regarding The Unfunded Mandates Reform Act of 1995 (Public Law 104–4), the Financial Institutions Regulatory Relief Act of 1995 (H.R. 1858) was listed as requiring further review for private-sector mandates. The Congressional Budget Office (CBO) has now completed its review of this bill.

CBO finds that H.R. 1858 would impose several new mandates on the private sector. The direct costs of the private-sector mandates identified in this bill, however, would not likely exceed the $100 million threshold established in Public Law 104–4.

Provisions in Section 105—Ensuring Honoring of Lock-in Promises under Disclosures for Adjustable Rate Mortgages in the Truth in Lending Act—and Section 153—Notice of Adverse Action under the Equal Credit Opportunity Act Amendments—contain mandates that would impose new disclosure or reporting requirements on financial institutions. In order to comply with the new requirements in Section 105, financial institutions anticipate that they would need to design new forms, train loan officers, and change operation manuals. Industry representatives were unable to provide the precise data necessary to estimate the direct costs of these new requirements, but it appears that the net costs would not exceed the threshold level identified in Public Law 104–4. The new requirements under Section 153, would not involve major changes or costs for industry compliance.

Section 114 revises the Truth in Lending Act in a way that makes consumers who exercise their right to rescission in loan transactions responsible for paying any charges for an appraisal report or credit report. Under current law, consumers who rescind loan transactions receive a full refund of the costs they incurred during the loan process. According to industry experts and consumer groups, consumers rarely use the right to rescind, therefore making the incremental costs to consumers as a whole small. This provision could, however, change the potential costs of procuring a loan in such a way as to preclude rescission as a cost-effective option for some consumers.

A provision in Section 125—Special Purpose Financial Institutions—requires new standards under which special purpose institutions (as defined in the bill to mean a financial institution that does not accept deposits from the public of less than $100,000) may be deemed to comply with Community Reinvestment Act (CRA) requirements. It is unclear whether these new standards would have any effect on an institution's cost of compliance under CRA. There may also be new standards imposed by Section 163, which requires written regulations or staff commentary to update and clarify requirements for lease disclosures, contracts, and other issues related to consumer leasing under the Consumer Credit Protection Act. Most industry sources expect that the new standards would be less costly than existing rules.

If you wish further details on this analysis, we will be pleased to provide them. The CBO contact is Patrice Gordon.

Sincerely,

JUNE E. O'NEILL, *Director.*

○