CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 4, 2009

H.R. 1728
Mortgage Reform and Anti-Predatory Lending Act

As ordered reported by the House Committee on Financial Services
on April 29, 2009

SUMMARY

H.R. 1728 would amend the Truth in Lending Act to reform consumer mortgage practices, establish minimum standards for consumer mortgage loans, and provide other protections to borrowers and investors. The bill also would broaden the oversight of professional appraisers and require the Government Accountability Office to conduct a study on the effects of H.R. 1728 on the availability of credit for homebuyers. The bill would require the Board of Governors of the Federal Reserve (Federal Reserve), in consultation with other agencies that regulate the financial industry, to prescribe regulations and forms to implement the new requirements.

H.R. 1728 would authorize the appropriation of $323 million over the 2009-2014 period for the Department of Housing and Urban Development (HUD) to support efforts to provide homeownership counseling and legal assistance to certain homeowners and tenants. In addition, CBO estimates that $80 million would be required over the 2009-2014 period for HUD to establish an Office of Housing Counseling. In total, CBO estimates that implementing H.R. 1728 would cost $403 million over the 2009-2014 period, subject to appropriation of the necessary amounts.

CBO estimates that enacting H.R. 1728 would increase revenues by $13 million over the 2009-2014 period and by $28 million over the 2009-2019 period. We estimate that direct spending would increase by corresponding amounts over the same time periods.

H.R. 1728 would impose intergovernmental and private-sector mandates, as defined in the Unfunded Mandates Reform Act (UMRA), on participants in the mortgage industry. While the costs of some of the mandates are likely to be small, the costs to comply with other mandates are uncertain. Consequently, CBO cannot determine whether the

aggregate costs to comply with the mandates in the bill would exceed the annual thresholds established in UMRA for intergovernmental or private-sector mandates ($69 million and $139 million in 2009, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1728 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars						
	2009	2010	2011	2012	2013	2014	2009-2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION							
Public Service Campaign							
Authorization Level	3	0	0	0	0	0	3
Estimated Outlays	*	2	1	0	0	0	3
Housing Counseling Grants							
Authorization Level	45	45	45	45	0	0	180
Estimated Outlays	1	38	49	45	40	7	180
Administrative Support for Office of Counseling							
Estimated Authorization Level	16	16	16	16	16	16	96
Estimated Outlays	*	16	16	16	16	16	80
Legal Assistance							
Authorization Level	35	35	35	35	0	0	140
Estimated Outlays	1	30	38	35	31	5	140
Total Changes							
Estimated Authorization Level	99	96	96	96	16	16	419
Estimated Outlays	2	86	104	96	87	28	403
CHANGES IN REVENUES							
Estimated Revenues	*	2	2	3	3	3	13
CHANGES IN DIRECT SPENDING							
Estimated Budget Authority	*	2	2	3	3	3	13
Estimated Outlays	*	2	2	3	3	3	13

Note: * = less than $500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1728 will be enacted around July 2009 and that the necessary amounts will be appropriated for each year.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1728 would cost $403 million over the 2009-2014 period, subject to appropriation of the necessary amounts.

Public Service Campaign, Grants for Housing Counseling, and Administrative Support for the Office of Counseling. Title IV would establish the Office of Housing Counseling within HUD to support various activities related to providing counseling on homeownership and renting. Section 403 would authorize the appropriation of $3 million over the 2009-2011 period to support a national campaign to publicize the existence of counseling for home buyers, homeowners, and renters. In addition, section 404 would authorize the appropriation of $45 million annually over the 2009-2012 period to provide grants to states, local governments, and nonprofit organizations to support counseling services. In total, CBO estimates that implementing those provisions would cost $183 million over the 2009-2014 period.

In addition, based on information from HUD, CBO expects that funds for additional personnel, contractors, and information technology would be necessary to run the Office of Housing Counseling. We estimate that support would cost $80 million over the 2009-2014 period.

Legal Assistance for Foreclosure-Related Issues. Section 216 would authorize the appropriation of $35 million annually for fiscal years 2009 through 2012 for grants to provide legal assistance to low-and moderate-income homeowners and tenants related to home foreclosure prevention. Assuming appropriation of the authorize amounts, CBO estimates that implementing this section would cost $140 million over the 2009-2014 period.

Revenues and Direct Spending

CBO estimates that enacting H.R. 1728 would increase both revenues and direct spending by $28 million over the 2009-2019 period, as shown in the following table.

Appraisal Monitoring. Section 603 would expand the monitoring and oversight responsibilities of the Appraisal Subcommittee (ASC) of the Federal Financial Institutions Examination Council. The ASC is responsible for ensuring that real estate appraisals used in certain transactions are performed according to uniform standards by appraisers that are certified and licensed by states. To do this, the ASC monitors the activities of the state agencies that are responsible for licensing real estate appraisers. The ASC is authorized to collect fees from licensed and certified appraisers to offset the costs of its operations.

	By Fiscal Year, in Millions of Dollars												
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2009-2014	2009-2019
CHANGES IN REVENUES													
Net Revenues	*	2	2	3	3	3	3	3	3	3	3	13	28
CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	*	2	2	3	3	3	3	3	3	3	3	13	28
Estimated Outlays	*	2	2	3	3	3	3	3	3	3	3	13	28

Note: * = less than $500,000.

H.R. 1728 would authorize the ASC to monitor companies that retain or contract with appraisers and manage the process of having an appraisal performed (appraisal management companies). The bill would require those companies to be registered with a state (or be subject to oversight by a financial regulatory agency) in order to provide appraisal services on transactions undertaken through federally regulated financial institutions. As a result, the ASC would be required to develop regulations that states must follow in licensing appraisal management companies. Further, the ASC would be required to maintain a registry of appraisal management companies that are registered with a state licensing agency. The bill would authorize the ASC to collect fees from this new group of licensed entities.

Other provisions of the bill would authorize the ASC to make grants to states to improve their compliance with ASC regulations and would require the ASC to establish a complaint hotline.

Licensed and certified appraisers pay a fee, capped at $25 annually, to the ASC to support its operations. H.R. 1728 would raise the upper limit for the fee to $40, and would authorize the ASC to charge fees to appraisal management companies that are registered with a state licensing agency. Based on information from the ASC, CBO estimates that enacting the new fees would increase federal revenues by $13 million over the 2009-2014 period, and by $28 million over the 2009-2019 period, net of income and payroll tax effects.

Based on information from the ASC, CBO estimates that enacting H.R. 1728 would increase direct spending by $13 million over the 2009-2014 period and by $28 million over the 2009-2019 period to provide grants to states to improve their ability to comply with the requirements of the bill.

Spending by Federal Bank Regulators. According to Federal Reserve and other federal financial regulatory agencies, implementing H.R. 1728 would not have a significant effect on their workload or budgets. Any additional direct spending by the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration would be offset by income from annual fees covering their administrative expenses. Similarly, the Federal Deposit Insurance Corporation would recover any added costs when it adjusts the premiums paid by insured depository institutions. Budgetary effects of spending by the Federal Reserve are recorded as changes in revenues, but current law requires the Federal Reserve to recover direct and indirect costs incurred in providing such services. Thus, CBO estimates that the additional activities of the agencies that regulate banks would have no significant net effect on direct spending or revenues.

Penalties. Under this legislation, certain civil penalties (which are recorded as revenues) currently applicable under the Truth in Lending Act would be increased and new civil penalties would be created for violations under this bill. CBO estimates that any increase in revenues resulting from those civil penalties would not be significant.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1728 contains several intergovernmental and private-sector mandates, as defined in UMRA, by placing new restrictions on entities that securitize mortgages, and on entities that purchase foreclosed properties. The bill also would impose intergovernmental mandates by preempting certain state property and securities laws. In addition, the bill would impose private-sector mandates by establishing new requirements for creditors, loan originators, mortgage servicers, real estate appraisers, and other entities that participate in the mortgage industry.

While the costs of some of the mandates are likely to be small (for example, the preemptions of state law), the costs to comply with other mandates are uncertain for several reasons. Many industry participants, including public entities, already comply with some of the bill's requirements. In addition, the cost of some of the requirements would depend on federal regulations to be issued under the bill, and the scope of those regulations is uncertain. Lastly, CBO does not have sufficient information about current business practices or how the requirements in the bill would affect industry income. Consequently, CBO cannot determine whether the aggregate costs to comply with the mandates in the bill would exceed the annual thresholds established in UMRA for intergovernmental or private-sector mandates ($69 million and $139 million in 2009, respectively, adjusted annually for inflation).

The bill also would authorize grants to support state agencies that license and certify appraisers, which would benefit state, local, and tribal governments.

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