



Testimony

**Statement of
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Director**

Review of CBO's Cost Estimate for the Dodd-Frank Wall Street Reform and Consumer Protection Act

**before the
Subcommittee on Oversight and Investigations
Committee on Financial Services
U.S. House of Representatives**

March 30, 2011

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Notes

Unless otherwise noted, all years referred to in this testimony are federal fiscal years, which run from October 1 to September 30.

The numbers in the text, table, and figure may not add up to totals because of rounding.

Chairman Neugebauer, Congressman Capuano, and Members of the Committee, thank you for inviting me to review the Congressional Budget Office's (CBO's) cost estimate for the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203). My statement summarizes CBO's cost estimate for the legislation as enacted on July 21, 2010.

As you know, one of CBO's primary responsibilities is to provide the Congress with the information and estimates required as it considers legislative proposals during the Congressional budget process. To that end, CBO prepared cost estimates for several versions of the Dodd-Frank Act. The most descriptive cost estimate, released on June 9, 2010, was for H.R. 4173, the Restoring American Financial Stability Act, as passed by the Senate. Later, CBO prepared a shorter, updated cost estimate for the conference agreement on H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act; that estimate was released on June 28, 2010. Finally, before the House passed H.R. 4173, CBO prepared a cost estimate for the conference agreement after an additional amendment was adopted by the conferees; that estimate was released on June 29, 2010. All of those cost estimates are available on CBO's Web site.¹

The Dodd-Frank Act made significant changes to the regulatory environment for banking and thrift institutions as well as for financial markets and their participants. The act expanded existing regulatory powers, granted new regulatory powers, and reallocated regulatory authority among several federal agencies—with the aim of reducing the likelihood and severity of future financial crises. The act also established new agencies and programs and provided grants to help communities address high foreclosure rates and subsidies to assist homeowners facing foreclosure.

CBO estimated that, over the 2010–2020 period, the Dodd-Frank Act would increase both revenues and direct (or mandatory) spending—by \$13.4 billion and \$10.2 billion, respectively. On net, those effects were projected to reduce deficits by \$3.2 billion (see Table 1). The revenues would stem primarily from fees assessed on various financial institutions and market participants. Certain provisions of the act were estimated to increase direct spending by \$37.8 billion over the 10-year period; most of those costs, \$26.3 billion, would result from a new program created to resolve insolvent or soon-to-be insolvent financial entities, which would be financed through an Orderly Liquidation Fund (OLF). CBO also estimated that other provisions of the act would reduce direct spending by \$27.6 billion over that period by decreasing authority for the Troubled Asset Relief Program (TARP) and making changes to federal deposit insurance programs (see Figure 1 on page 4).

1. See Congressional Budget Office, “CBO Estimate of the Net Deficit Effects of H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act” (June 29, 2010); cost estimate for H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act (June 28, 2010); and cost estimate for H.R. 4173, the Restoring American Financial Stability Act of 2010 (June 9, 2010).

Table 1.

CBO's Estimate of the Impact on Budget Deficits Over the 2010–2020 Period From Enacting the Dodd-Frank Wall Street Reform and Consumer Protection Act

(Billions of dollars)

	Direct (2010–2020)	Discretionary (2010–2015)
Cost of New Federal Organizations (CFPB, FSOC, OFR, ONI)		
Estimated outlays	6.8	*
Estimated revenues	0.5	
Net Change in Deficits	6.3	
Changes to the Existing Regulatory Structure (CFTC, FDIC, Federal Reserve, OCC, PCAOB, SEC, SIPC)		
Estimated outlays	2.7	0.3
Estimated revenues	2.6	
Net Change in Deficits	0.1	
Additional Funding for Existing Programs ^a		
Estimated outlays	1.5	0.2
Estimated revenues	0	
Net Change in Deficits	1.5	
Changes to Federal Deposit Insurance		
Estimated outlays	0	0
Estimated offsets to outlays	-16.6	
Estimated revenues	0	
Net Change in Deficits	-16.6	
Orderly Liquidation Fund		
Estimated outlays	26.3	0
Estimated revenues	6.0	
Net Change in Deficits	20.3	
Troubled Asset Relief Program		
Estimated offsets to outlays	-11.0	0
Net Change in Deficits	-11.0	
Other Budgetary Effects ^b		
Estimated outlays	0.5	2.1
Estimated revenues	4.3	
Net Change in Deficits	-3.8	

Continued

Table 1.**Continued**

CBO's Estimate of the Impact on Budget Deficits Over the 2010–2020 Period From Enacting the Dodd-Frank Wall Street Reform and Consumer Protection Act

(Billions of dollars)

	Direct (2010–2020)	Discretionary (2010–2015)
Total Effect on Deficits		
Estimated outlays	37.8	2.6
Estimated offsets to outlays	-27.6	
Estimated revenues	13.4	
Net Change in Deficits	-3.2	

Source: Congressional Budget Office.

Notes: Components may not sum to totals because of rounding.

For the changes in deficits, positive numbers represent an increase in deficits and negative numbers represent a decrease in deficits.

CFPB = Consumer Financial Protection Bureau; FSOC = Financial Stability Oversight Council; OFR = Office of Financial Research; ONI = Office of National Insurance; CFTC = Commodity Futures Trading Commission; FDIC = Federal Deposit Insurance Corporation; OCC = Office of the Comptroller of the Currency; PCAOB = Public Company Accounting Oversight Board; SEC = Securities and Exchange Commission; SIPC = Securities Investor Protection Corporation.

* = less than \$50 million.

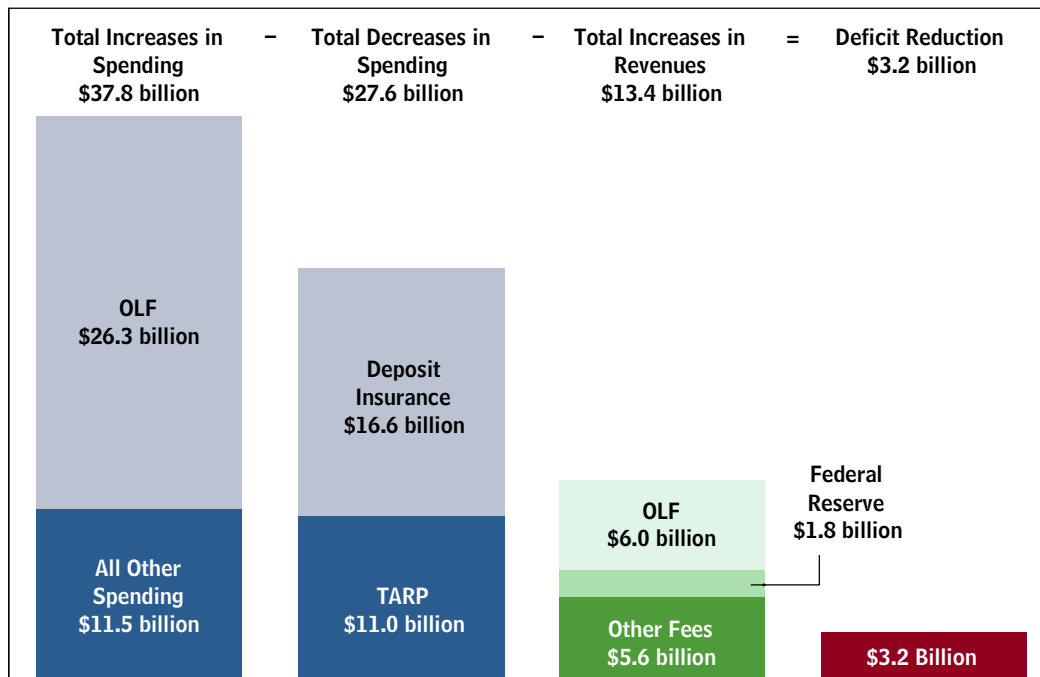
- a. The Dodd-Frank Act provided funding for subsidies to help homeowners in foreclosure and for grants to stabilize communities with many foreclosed properties.
- b. The Dodd-Frank Act provided the Securities and Exchange Commission with permanent authority to collect certain fees and to spend a limited amount of those collections; adjusted the regulation of fixed income annuities; exempted swaps and other derivatives from certain provisions of the Internal Revenue Code; and authorized funding for counseling and legal assistance programs for certain homeowners and tenants.

In addition to those changes in direct spending and revenues, CBO estimates that the Dodd-Frank Act will lead to an increase of \$2.6 billion in discretionary spending over the five-year period ending in fiscal year 2015, assuming that the Congress provides the necessary appropriations in the future.² In CBO's cost estimates, the effects of legislation on discretionary spending are shown separately from the effects on direct spending and revenues because the former occur only if funding is provided in future appropriation acts.

2. CBO did not include an estimate of the effect on discretionary spending in the cost estimates released on June 28, 2010, and June 29, 2010, because the agency was unable to complete such an estimate before the legislation was scheduled to be considered in the House of Representatives. On the basis of analyses prepared for a previous version of the act, S. 3217, the Restoring American Financial Stability Act of 2010, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs, and for H.R. 1728, the Mortgage Reform and Anti-Predatory Lending Act, as ordered reported by the House Committee on Financial Services, CBO estimates that the discretionary provisions of H.R. 4173 as enacted will cost \$2.6 billion over the 2011–2015 period, if the necessary funds are provided in appropriation acts.

Figure 1.

CBO's Estimate of the Effects on Direct Spending and Revenues of the Dodd-Frank Wall Street Reform and Consumer Protection Act Over the 2010–2020 Period



Source: Congressional Budget Office.

Note: OLF = Orderly Liquidation Fund; TARP = Troubled Asset Relief Program.

CBO's Role in the Legislative Process

Before providing you with details on CBO's cost estimate, I would like to give a brief overview of the agency's role in the legislative process.

One of the agency's chief responsibilities is to provide information that helps the Budget Committees enforce the budgetary rules established by law or adopted by each House. CBO nearly always provides formal estimates for bills that are reported out of committee, but it also often provides the Congress with estimates of the cost of bills at other stages as they proceed from consideration by the relevant committees through passage. (The estimated impact of most legislation on revenues is determined by the staff of the Joint Committee on Taxation [JCT]. CBO uses estimates provided by JCT in its cost estimates.) During the 111th Congress, CBO prepared 1,137 formal estimates, primarily for legislation reported by authorizing committees.

A CBO cost estimate typically includes information about the budgetary effects of a bill in two broad categories: budget items that are subject to the pay-as-you-go rules

(that is, direct spending and revenues), which are shown for the current year and the following 10 years; and separately, discretionary spending, which is subject to future action in appropriation bills and is usually shown for the current year and the following five years. In addition, a CBO estimate typically includes a statement about the bill's effect on state, local, and tribal governments and on the private sector. For the Dodd-Frank Act, CBO and JCT completed seven formal cost estimates for different versions of the consolidated bill and nine cost estimates for other bills that included specific provisions of the consolidated bill and that were marked up separately by the Committee on Financial Services and other committees (see the Appendix). Prior to and during deliberations on the bill, CBO provided many informal estimates as the authors were drafting various provisions of the legislation—a long-standing practice of the agency to assist committees and sponsors as they develop legislative language.

Once proposed legislation is enacted, however, the agency's involvement is quite limited. New statutes join with the whole body of existing law to form the basis for CBO's baseline projections. Those projections are generally prepared for programs as a whole; therefore, the effects of individual statutes cannot ordinarily be separately identified. The agency generally revisits a specific law again only if the Congress considers new legislation to amend it.

Major Provisions of the Dodd-Frank Act and Their Budgetary Effects

The Dodd-Frank Act significantly changed the way the federal government regulates entities and transactions associated with the financial markets. Specifically, the act did the following (with the resulting net additions to or reductions in federal deficits from changes in direct spending and revenues over the 2010–2020 period shown in parentheses):

- *Created several new federal organizations to regulate financial matters:* the Consumer Financial Protection Bureau (CFPB), the Financial Stability Oversight Council (FSOC), the Office of Financial Research (OFR), and the Office of National Insurance (\$6.3 billion);
- *Restructured the authority of existing financial regulators,* including the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission (SEC), and the Commodity Futures Trading Commission (CFTC) (\$0.1 billion);
- *Provided additional funding for existing programs* that provide mortgage relief, neighborhood revitalization, and grants to encourage individuals to move from nonbank financial services to traditional banks (\$1.5 billion);

- *Modified federal deposit insurance programs*, including increasing the maximum amount of deposits in an individual account that can be insured and directing the FDIC to increase the size of its insurance fund by 2020 (-\$16.6 billion);
- *Created the Orderly Liquidation Fund and authorized the FDIC to resolve systemically important financial firms under certain conditions* (\$20.3 billion);
- *Reduced the spending authority of the TARP* (-\$11.0 billion); and
- *Made a number of other changes to current law*, including reclassifying the budgetary treatment of certain fees collected by the SEC, modifying the regulation of certain types of tax-deferred annuities, and authorizing grants to provide counseling and legal assistance to homeowners facing foreclosure (-\$3.8 billion).

The remainder of this testimony discusses CBO's cost estimate in more detail.

Cost of New Federal Organizations

The Dodd-Frank Act established several new regulatory entities, including the Consumer Financial Protection Bureau, the Financial Stability Oversight Council, the Office of Financial Research, and the Office of National Insurance.

The CFPB is an autonomous agency funded by transfers from the Federal Reserve, which is a self-financing governmental entity. CBO estimated that the cost for the CFPB over the 10-year period would be \$5.9 billion. Of that amount, about \$1.2 billion represents costs for activities previously performed by the Federal Reserve that are being transferred to the CFPB under the act.

How will those costs appear in the budget? Each year, the Federal Reserve determines the amount of its income that exceeds its operating costs and transfers most of that amount to the Treasury. Those Treasury receipts are recorded in the budget as revenues. If the Federal Reserve's costs increase and its income is unchanged, it transfers less to the Treasury, decreasing the amount of revenues recorded in the federal budget.

One option for presenting the budgetary effects of this action is to record the funds provided by the Federal Reserve to the CFPB as reductions in revenues because they will reduce the Federal Reserve's transfers to the Treasury. In CBO's estimate, however, the costs of the CFPB were classified as additional direct spending, from the standpoint that such information would more accurately reflect the true nature of the transactions. (The Office of Management and Budget reached the same conclusion: The President's budget for fiscal year 2012 presents the costs of the CFPB as spending in a new budget account.) Either approach, however, arrives at the same end: Spending by the CFPB represents an increase in budget deficits.

The FSOC and the OFR also will be funded by transfers from the Federal Reserve, but only for the first two years after enactment; after that, they will be supported by fees assessed on certain financial companies. As was the case with the CFPB, CBO categorized the costs for those new entities as additional direct spending and

estimated that those costs would total \$900 million over the 2011–2020 period. That amount includes the general operating costs of the two new entities and the cost of a provision allowing the OFR to enter into certain lease agreements. CBO estimated that fee collections to offset the costs of the FSOC and the OFR would total about \$500 million over the same period, assuming that fees would not be assessed to cover the OFR’s leasing and construction costs. Those collections would be counted as revenues.

Finally, the act established the Office of National Insurance at the Department of the Treasury. CBO estimates that this new office will cost less than \$20 million over the 2011–2020 period, assuming appropriation of the necessary funds.

All told, CBO estimated, establishing the CFPB, FSOC, and OFR would, on net, increase budget deficits by \$6.3 billion over the 10-year period. That amount does not reflect savings for the Federal Reserve, which I will discuss later.

Changes to the Existing Regulatory Structure

The act changed the regulatory regime for financial activities by rearranging the responsibilities of federal banking regulators and by broadening the authority of the agencies that oversee financial markets. CBO estimated that—through their effects on direct spending and revenues—provisions making changes to existing regulatory agencies would increase deficits by \$0.1 billion, on net, over the 2011–2020 period. Those changes were expected to add about \$2.7 billion in spending, most of which would be offset by additional revenues totaling \$2.6 billion. The spending would consist of additional outlays for the SEC, the CFTC, bank regulators, the Public Company Accounting Oversight Board (PCAOB), and the Securities Investor Protection Corporation (SIPC). Of the total revenue amount, about \$0.8 billion would result from fees collected by the PCAOB and the SIPC; the balance, about \$1.8 billion, represents additional revenues generated by the Federal Reserve from new fees required by the act (\$0.6 billion) and from the increase in its net income that would result from the transfer of personnel to the CFPB (\$1.2 billion). In addition, CBO estimates that the SEC and CFTC will incur additional net discretionary costs of \$0.3 million over the 2011–2015 period, assuming future appropriation of those funds.

Financial Market Regulators. The act established programs at the SEC and CFTC to reimburse individuals who provide information that leads to successful prosecution of violations of securities and derivatives regulations. CBO estimated that the whistleblower provisions would add \$1.1 billion to direct spending over the 2011–2020 period.

Further, the act expanded the authority of the SEC and CFTC to regulate entities and transactions associated with registered financial markets. Both agencies receive funding annually through the appropriation process. CBO estimates that changes to the regulatory authority of those agencies (not including the authority to compensate whistleblowers) will increase discretionary spending by \$1.3 billion, under an assumption that the added spending authority will be provided in appropriation acts. That

amount will be partly offset by discretionary fees totaling about \$1.0 billion to be collected by the SEC if the authority to collect those fees is provided in appropriation acts. Therefore, CBO estimates that the net discretionary cost of those provisions will total about \$300 million over the five-year period ending in 2015.

Federal Bank and Thrift Regulators. The act abolished the Office of Thrift Supervision (OTS), transferring its functions to other regulators, including the Office of the Comptroller of the Currency, the FDIC, and the Federal Reserve. CBO estimated that, excluding the effects on the Federal Reserve, those provisions would increase budget deficits by \$0.3 billion over the 2011–2020 period because of provisions that allow the OTS to spend unobligated balances for the transition and that authorize the OCC to enter into agreements without regard to existing laws governing the disposition of real or personal property.

The Federal Reserve. The act also broadened the authority of the Federal Reserve to include the supervision and examination of thrift holding companies—activities previously overseen by the OTS. The act requires the Federal Reserve to charge fees for the examination of large thrift and bank holding companies but not for the examination of smaller thrift holding companies. CBO estimated that the net effect of those changes to the Federal Reserve’s regulatory structure would be an increase in revenues of about \$580 million over the 10-year period. The fees that large bank holding companies will pay account for most of the projected revenue increase, because the Federal Reserve did not previously charge fees for its examinations of bank holding companies and the new fees will represent reimbursements for costs the Federal Reserve would have incurred under prior law. The fees that large thrift holding companies will pay will compensate the Federal Reserve for the additional costs of their supervision and examination, resulting in no net impact on revenues. The examination and supervision of smaller thrift holding companies represent additional costs to the Federal Reserve, which will partially offset the income from the fees paid by large bank holding companies.

Additionally, the Federal Reserve will transfer personnel and consumer-protection functions to the Consumer Financial Protection Bureau. CBO estimated that more than 500 positions would be transferred to the CFPB, raising revenues by about \$1.2 billion over the 2011–2020 period by reducing costs to the Federal Reserve by the same amount.

The Federal Reserve also will incur additional costs, which CBO estimated would total \$50 million over the 10-year period, for the following additional duties required by the act:

- Supervision of certain securities holding companies;
- Additional joint rulemaking responsibilities; and
- Supervision of financial market utilities.³

3. A financial market utility is an organization that transfers, clears, or settles payments, securities, or other financial transactions among financial institutions.

Other Financial Regulators. The act also expanded the oversight authority of the PCAOB and increased the amounts the SIPC can borrow from the Treasury. Both agencies charge fees to offset operating costs. CBO estimated that these provisions would increase direct spending by \$1.3 billion and revenues from additional fees by \$0.8 billion over the 2011–2020 period.

Additional Funding for Existing Programs

The Dodd-Frank Act appropriated funds for grants to state and local governments to purchase and redevelop abandoned properties and for subsidies to provide mortgage relief to certain homeowners. CBO estimated that these provisions would increase direct spending by \$1.5 billion over the 2011–2020 period.

The act also authorized funding that will be subject to future appropriation action for a program to encourage consumers to use traditional banking services rather than alternative financial services, such as nonbank check cashing and payday lending. CBO estimates that the added discretionary spending will amount to about \$200 million over the five-year period ending in 2015, assuming appropriation of the necessary funds.

Changes to Federal Deposit Insurance

The Dodd-Frank Act made several changes to federal deposit insurance programs. CBO estimated that those provisions would reduce net outlays by \$16.6 billion over the 2011–2020 period.

Over half of the estimated savings—about \$9 billion—will result from provisions that permanently increased the maximum amount of insured deposits for individual accounts (from \$100,000 to \$250,000). Raising the level of deposit insurance coverage will reduce federal outlays because of the way those programs are funded. By law, the FDIC and the National Credit Union Administration (NCUA) are required to maintain balances in their insurance funds equivalent to a specified percentage of insured deposits. Thus, increasing the volume of insured deposits will require a corresponding increase in the size of the insurance funds, which will require an increase in premiums paid by depository institutions. Those premiums are recorded as collections to the FDIC's Deposit Insurance Fund (DIF) and the NCUA's Share Insurance Fund and offset direct spending.

CBO's cost estimate also included savings of nearly \$6 billion resulting from provisions that directed the FDIC to increase the size of the Deposit Insurance Fund by 2020. Before the enactment of the Dodd-Frank Act, the FDIC was charging premiums at rates necessary to have DIF balances equivalent to about 1.25 percent of insured deposits by the end of the decade. The act established a higher target for 2020, requiring DIF balances equivalent to 1.35 percent of insured deposits. Increasing the size of the DIF by 2020 will reduce the FDIC's net outlays as depository institutions pay higher premiums to increase the capitalization of the fund.

Finally, the act repealed the FDIC's authority to guarantee certain types of debt unless specifically authorized by future legislation. In 2008, the FDIC established a temporary program to guarantee certain obligations of insured depository institutions,

holding companies that include insured depository institutions, and some affiliates of those firms. The Dodd-Frank Act repealed the FDIC's prior authority for such assistance and provided a new framework for similar, but potentially much broader, assistance. Use of those new authorities, however, would be contingent on the enactment of subsequent legislation. As a result, the estimated budgetary impact of enacting those provisions reflects the effects of eliminating the FDIC's prior authority but does not include the estimated cost of the new program. CBO estimated that this change would reduce net direct spending by the FDIC by about \$2 billion over the 2011–2020 period.

Orderly Liquidation Fund

The Dodd-Frank Act provided new authority for the federal government to liquidate large, systemically important firms that become insolvent or are in danger of becoming insolvent. Firms will be considered systemically important if their failure is determined to threaten the stability of the nation's financial system. Under the act, the FDIC is authorized to borrow funds from the Treasury to liquidate such firms and to levy fees on large bank holding companies and other financial firms to cover any losses; those transactions would occur through the Orderly Liquidation Fund.

If those authorities were invoked, the transactions would be recorded in the budget on a cash basis. Spending for resolution activities would increase outlays in the initial years of a liquidation, but that spending would be offset in subsequent years by income received from selling the assets of the failed firm and collecting fees to cover any losses. As a result, a snapshot of cash flows in any given 10-year budget window is unlikely to net to zero because the spending to liquidate a firm would occur before the income was received to cover those costs.

CBO's estimate of the cost of the resolution authorities provided by the act represents the difference between the expected values of the net costs to the OLF to resolve insolvent firms and the additional assessments collected by the OLF. Those expected values represent weighted averages of the outcomes of various scenarios regarding the frequency and magnitude of systemic financial problems, taking into account an estimated probability of each scenario. Although the estimate reflects CBO's best judgment on the basis of historical experience, the cost of the program will depend on future economic and financial events that are inherently unpredictable. Moreover, the timing of the cash flows associated with resolving insolvent firms is also difficult to predict. It might take several years, for example, to recoup the funds spent to liquidate a complex financial institution. As a result, for a liquidation occurring in the 2011–2020 period, some of the proceeds from selling assets acquired in the liquidation process or from cost-recovery fees might be collected beyond that period.

Although the probability that the federal government would have to liquidate a financial institution in any year is small, the potential costs of liquidating a systemically important firm could be large. On an expected-value basis, CBO estimated that net direct spending for potential liquidation activities, which includes recoveries from the sale of assets acquired from liquidated institutions but excludes revenues from assessments, would be \$26.3 billion through 2020. CBO estimated that the expected value of revenues from assessments paid to cover any losses would total

about \$6.0 billion through 2020, net of effects on payroll and income taxes. Because liquidation activities are so unpredictable, actual spending and assessments in each year would probably vary significantly from the estimated amounts—either higher or lower than the estimate provided.

Troubled Asset Relief Program

The Dodd-Frank Act also prohibited the Treasury from incurring new obligations under the Troubled Asset Relief Program after June 25, 2010. On the basis of several factors—the acceleration of the expiration date for the program, the amount of money that CBO had previously projected would be used for new purposes, and the subsidy costs for other initiatives under the TARP—CBO estimated savings of \$11.0 billion in 2010 from the legislation.⁴

Other Budgetary Effects

Several other provisions of the Dodd-Frank Act will also have significant budgetary effects in CBO's estimation:

- The act provided the SEC permanent authority, starting in 2012, to collect certain fees and spend a small portion of the receipts, thus changing the budgetary classification of those fees. (They currently make up a portion of the fees collected by the SEC under authority provided annually in an appropriation act. Prior to enactment of the Dodd-Frank Act, all fees collected by the SEC were authorized annually in an appropriation act and were netted against discretionary spending.) The act also lowered the amount of those fees that the SEC would be required to collect each year. With the SEC's new authority, the affected fees will be recorded as revenues rather than as offsets to discretionary spending; nonetheless, over two-thirds of the fees collected by the SEC will remain discretionary. CBO estimates that this provision will increase revenues by \$5.2 billion and increase direct spending by \$0.5 billion over the 2011–2020 period. CBO estimates that, if the necessary funding is provided in future appropriation acts, this provision will increase discretionary spending by \$5.6 billion over the 10-year period (including \$1.9 billion over the first five years) because fewer collections will be available to offset discretionary appropriations.
- Several other provisions will also affect revenues. Specifically, one provision exempts certain derivative contracts from the effects of certain provisions of the Internal Revenue Code; JCT estimated that this provision would increase revenues by \$0.1 billion over the 10-year period. Another provision exempts certain annuities from regulation by the SEC, leaving regulation of those investment vehicles to the states. CBO estimated that that provision would reduce revenues by about \$1.0 billion over the 10-year period because more income would be earned from tax-deferred annuities rather than from taxable instruments. CBO and JCT estimated that, taken together, these provisions would increase budget deficits by \$0.9 billion over the 2011–2020 period.

4. CBO values the TARP's asset purchases and guarantees using procedures similar to those specified in the Federal Credit Reform Act of 1990, but with an adjustment for market risk as directed by section 123 of the Emergency Economic Stabilization Act of 2008.

- Other provisions of the act established programs to support efforts to provide homeownership counseling and legal assistance to certain homeowners and tenants. Assuming appropriation of the necessary amounts, CBO estimates that those programs will increase discretionary spending by \$200 million over the 2011–2015 period.

Uncertainty in CBO's Estimates

CBO's estimates of the costs of different provisions of the Dodd-Frank Act involve different degrees of uncertainty. For example, estimates of the costs of provisions that specify amounts of spending or that direct agencies to do more of an activity already being performed under current law tend to have relatively low degrees of uncertainty. In contrast, estimates of the costs of provisions that require federal agencies to carry out activities with a broad range of possible outcomes, such as the provision requiring the creation of the OLF, are highly uncertain.

Under the legislation, as under prior law, there is some probability that, at some point in the future, large financial firms will become insolvent and a liquidity crisis will arise, and that those financial problems will present significant risks to the nation's broader economy. The cost of addressing those problems under prior law is unknown and would have depended on how the Administration and the Congress chose to proceed when faced with the prospect of a financial crisis; they could, for example, have changed laws, created new programs, appropriated additional funds, and assessed new fees. Depending on the effectiveness of the new regulatory initiatives and new authorities to resolve and support a broad variety of financial institutions, implementing the Dodd-Frank Act could change the timing, severity, and federal cost of averting and resolving future financial crises. However, CBO did not attempt to determine whether the estimated costs under the act would be smaller or larger than the costs of alternative approaches to addressing future financial crises and the risks such crises pose to the economy as a whole.

The Administration's Implementation of the Dodd-Frank Act

CBO has just issued its *Preliminary Analysis of the President's Budget for 2012*. In preparing its analysis of the budget, the agency gleaned no information that would cause it to significantly change the cost estimate that it provided prior to the enactment of the Dodd-Frank Act. From the budget justifications for the SEC and the CFTC, CBO learned that those agencies are deeply involved in implementing the numerous rules that are required under the legislation. The President's budget also provided information regarding expected staffing levels for the Consumer Financial Protection Bureau and the financial regulatory agencies.

In cost estimates for earlier versions of the act, CBO discussed expected staffing levels and overhead costs. Those estimates were based on information from the affected

agencies as well as from a review of historical spending patterns for similar, though unrelated, activities. It is not possible to assess the accuracy of CBO's overall estimate of the effects of the Dodd-Frank Act on spending and revenues by evaluating the various agencies' 2012 budget requests and plans because the full costs of implementation will not be realized for several more years. CBO can, however, provide a few snapshots of what it has learned so far:

- CBO estimated outlays of \$167 million in 2012 for the Consumer Financial Protection Bureau; the President's plan calls for spending \$267 million that year.
- CBO estimated that about 500 people would transfer from the Federal Reserve to the Consumer Financial Protection Bureau; it now appears that the number of individuals who will transfer might be significantly smaller.
- CBO estimated that the FDIC would spend an additional \$40 million in 2011 to implement the act, net of transfers from the OTS; actual spending this year appears to be in that vicinity. In addition, CBO estimated that the FDIC would collect \$140 million in additional assessments in 2012 as a result of the act; however, the agency does not anticipate increasing assessments until later in the 10-year period.
- CBO estimated that the SEC would fill an additional 800 staff positions over several years if the necessary amounts were appropriated; the agency requested an additional 352 positions in 2012 to start implementing the act.
- CBO estimated that the CFTC would ultimately fill an additional 235 full-time staff positions if the necessary amounts were appropriated; the agency requested an additional 238 positions in 2012 to begin implementation of the act.

Appendix:

List of Estimates Completed for Provisions Incorporated in the Dodd-Frank Act

1. H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act
Estimate prepared: June 29, 2010
www.cbo.gov/ftpdocs/116xx/doc11601/hr4173amendment.pdf
2. H.R. 4173, the Dodd-Frank Wall Street Reform and Consumer Protection Act
Estimate prepared: June 28, 2010
www.cbo.gov/ftpdocs/115xx/doc11596/hr4173.pdf
3. H.R. 4173, the Restoring American Financial Stability Act of 2010
Estimate prepared: June 9, 2010
www.cbo.gov/ftpdocs/115xx/doc11560/hr4173senatepassed.pdf
4. H.R. 3817, the Investor Protection Act of 2010
Estimate prepared: June 8, 2010
www.cbo.gov/ftpdocs/115xx/doc11558/hr3817.pdf
5. S. 3217, the Restoring American Financial Stability Act of 2010
Estimate prepared: May 3, 2010
www.cbo.gov/search/ce_sitesearch.cfm?criteria=&filt_congress=111&bill=s3217&filt_func=any&filt_committee=any&filt_paygo=0&filt_intergov=0&filt_doctype=any
6. S. 3217, the Restoring American Financial Stability Act of 2010
Estimate prepared: April 21, 2010
www.cbo.gov/ftpdocs/114xx/doc11454/s3217.pdf
7. H.R. 2609, the Federal Insurance Office Act of 2009
Estimate prepared: March 11, 2010
www.cbo.gov/ftpdocs/113xx/doc11339/hr2609.pdf
8. H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009
Estimate prepared: December 9, 2009
www.cbo.gov/ftpdocs/109xx/doc10996/hr4173rules.pdf
9. H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009
Estimate prepared: December 4, 2009
www.cbo.gov/ftpdocs/108xx/doc10826/hr4173.pdf

10. H.R. 3890, the Accountability and Transparency in Rating Agencies Act
Estimate prepared: December 3, 2009
www.cbo.gov/ftpdocs/108xx/doc10833/hr3890.pdf
11. H.R. 3818, the Private Fund Investment Advisers Registration Act of 2009
Estimate prepared: November 13, 2009
www.cbo.gov/ftpdocs/107xx/doc10727/hr3818.pdf
12. H.R. 3795, the Derivatives Markets Transparency and Accountability Act of 2009
Estimate prepared: November 6, 2009
www.cbo.gov/ftpdocs/107xx/doc10717/hr3795ag.pdf
13. H.R. 3126, the Consumer Financial Protection Agency Act of 2009
Estimate prepared: November 3, 2009
www.cbo.gov/ftpdocs/108xx/doc10830/hr3126.pdf
14. H.R. 3795, the Over-the-Counter Derivatives Markets Act of 2009
Estimate prepared: November 3, 2009
www.cbo.gov/ftpdocs/107xx/doc10703/hr3795hfs.pdf
15. H.R. 3269, the Corporate and Financial Institution Compensation Fairness Act of 2009
Estimate prepared: July 30, 2009
www.cbo.gov/ftpdocs/104xx/doc10490/hr3269.pdf
16. H.R. 977, the Derivatives Markets Transparency and Accountability Act of 2009
Estimate prepared: February 23, 2009
www.cbo.gov/ftpdocs/100xx/doc10006/hr977.pdf