December 10, 2012

CBO Estimate of the Pay-As-You-Go Effects for S. 3637, a bill to temporarily extend the transaction account guarantee program, and for other purposes, as introduced on November 26, 2012

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013 - 2017	2013 - 2022
	NET INCREASE IN THE DEFICIT											
Statutory Pay-As-You-Go Impact	20	24	22	10	10	10	9	4	1	0	86	110

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

S. 3637 would provide unlimited coverage of noninterest-bearing transaction accounts by the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA) through the end of calendar year 2014. Under current law, such coverage is available through December 31, 2012, after which only amounts up to $250,000 would be insured. The bill would direct the FDIC and NCUA to collect separate fees from insured depository institutions equal to the estimated cost of the additional coverage provided by the legislation.

CBO estimates that fees collected by the FDIC and NCUA would not offset the full risk of the additional insurance coverage. Based on information from the FDIC, CBO expects that the agencies would estimate losses (and thus fees) based on recent failures of depository institutions. The average size of a failed institution over the last few years was higher than the historical average; however, the government did not incur losses from a very large institution during this time. Because the largest instituions house the majority of deposits in noninterest-bearing transaction accounts (at of the end of fiscal year 2012, over 80 percent were held in institutions with $50 billion or more in assets), CBO expects that, using recent history, the FDIC and NCUA would underestimate probable losses when setting fees to charge for this additional coverage. Because the fees charged for the additional insurance would be insufficient, in CBO's estimate, to offset the expected value of the cost, enacting S. 3637 would have a net cost to the FDIC and NCUA over the next 10 years. Under the legislation, costs would occur beyond 2015 because some failures may be resolved through a loss share agreement, where the FDIC sells a failed bank to a healthy insitution and agrees to reimburse that institution for losses on a defined set of assets over several years.