



MEMORANDUM

To: Reporters and Editors
Re: CBO analysis of President's proposed fee on financial institutions
Da: Thursday, March 4, 2010

Sen. Chuck Grassley today received an analysis he requested from the non-partisan Congressional Budget Office of President Obama's proposed fee on financial institutions. CBO said, "The cost of the proposed fee would ultimately be borne to varying degrees by an institution's customers, employees, and investors, but the precise incidence among those groups is uncertain. Customers would probably absorb some of the cost in the form of higher borrowing rates and other charges, although competition from financial institutions not subject to the fee would limit the extent to which the cost could be passed through to borrowers. Employees might bear some of the cost by accepting some reduction in their compensation, including income from bonuses, if they did not have better employment opportunities available to them. Investors could bear some of the cost in the form of lower prices of their stock if the fee reduced the institution's future profits."

Grassley made the following comment on the CBO analysis.

"A lot of analysts have said banks would pass the fees onto their customers. The CBO analysis confirms this and adds a lot of points for consideration from a very credible source. Before this proposal moves forward, Congress needs to understand the consequences, good or bad."

The CBO analysis is posted with this document at finance.senate.gov. Grassley's original inquiry to CBO follows here.

For Immediate Release
Friday, Jan. 15, 2010

Grassley Seeks CBO, JCT Analysis of President's Proposed Bank Fee

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today continued his effort to ensure transparency and oversight of the financial bailout, asking the non-partisan Congressional Budget Office and Joint Committee on Taxation for an analysis of President Obama’s proposed fee on financial institutions.

“We need to make sure small businesses and John Q. Public don’t get another raw deal,” Grassley said.

Grassley wrote in his request letter, “I agree with the goals the President articulated. We in Congress have a responsibility to ensure the legislative product carries out the goals the President set. Before Congress is asked to vote on legislation imposing such a fee, it will be important to understand the potential impact on consumers, the criteria for applying the fee to some entities and not others, and the implications for the security and stability of these institutions.”

Grassley was an advocate for creating a special inspector general for the Troubled Assets Relief Program (TARP) to try to hold the program accountable and co-sponsored legislation to strengthen the ability of the special IG to conduct oversight after the TARP program changed its original mission. Grassley also battled the White House after it tried to subject requests of the special IG to the red tape of the Paperwork Reduction Act.

The text of Grassley’s letter today follows.

January 15, 2010

Douglas W. Elmendorf
Director
Congressional Budget Office
Ford House Office Building, Fourth Floor
Washington, DC 20515

Thomas A. Barthold
Chief of Staff
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, DC 20515

Dear Dr. Elmendorf and Dr. Barthold:

There is widespread agreement with the President among taxpayers and members of Congress that financial institutions should repay every dime of government money they have received for financial stability. Yesterday, the President proposed a “Financial Crisis Responsibility Fee” to help facilitate that repayment. I agree with the goals the President articulated. We in Congress have a responsibility to ensure the legislative product carries out the goals the President set. Before Congress is asked to vote on legislation imposing such a fee, it will be important to understand the potential impact on

consumers, the criteria for applying the fee to some entities and not others, and the implications for the security and stability of these institutions. I am writing to request that the Congressional Budget Office and the Joint Committee on Taxation provide an analysis addressing the following questions about the Obama Administration's proposed "Financial Crisis Responsibility Fee":

1. Will the fee get passed on to consumers in any manner? If so, how will it get passed on to consumers?
2. Will the fee reduce the amount of bonuses paid by the financial institutions that are subject to the fee?
3. What impact will the fee have on the availability of credit generally?
4. What impact will the fee have on the availability of credit for small businesses?
5. Are the financial institutions that the fee is imposed upon the same ones that caused the estimated losses under TARP?
6. Are there entities that caused the estimated losses under TARP that are not subject to the fee? If so, which entities are they and what amount of the estimated TARP losses did each entity cause?
7. Are there entities that will be subject to the fee that did not cause the estimated losses under TARP? If so, which types of entities are these?
8. Does the fee account for any additional losses from TARP that the Administration may generate as a result of future disbursement of TARP funds?
9. The Administration has estimated that unrecouped losses from TARP could be, absent the proposed Financial Crisis Responsibility Fee, \$117 billion. a) Does this amount include the cost of IRS Notices that alleviate the tax burden on TARP recipients that otherwise would have been imposed by Internal Revenue Code section 382 (i.e., Notices 2008-100, 2009-14, 2009-38, and 2010-2)? b) Should an accounting of TARP costs include the costs of these IRS Notices? c) What is the cost of these IRS Notices?
10. What impact will this fee have on the United States' Gross Domestic Product?
11. Will the fee increase the security of the affected financial institutions, thus diminishing the need for any future bailouts?
12. Are there currently any federal or state taxes based on asset value?
13. Does the Administration's cost estimate include the cost of administration?
14. What is your estimate of the cost of the TARP program to date, including the cost of administration?
15. Do you estimate that all TARP losses will be repaid by 2013?
16. What effect will this fee have on the administerability and complexity of the tax system?
17. What is your estimate of the value of the financial assistance provided by the Federal Reserve since the enactment of TARP and what is the potential amount of losses associated with this assistance?
18. Does the fee recoup any potential losses as a result of the Federal Reserve's assistance to various financial institutions?

Thank you in advance for your assistance. Please do not hesitate to contact Jim Lyons at (202) 224-4515 with any questions.

Sincerely,

Charles E. Grassley
Ranking Member
Senate Finance Committee