

**Supporting Statement for the Domestic Finance Company Report of
Consolidated Assets and Liabilities
(FR 2248; OMB No. 7100-0005)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005). The FR 2248 is a voluntary report, collected monthly as of the last business day of the month from a stratified sample of finance companies. Each monthly report collects balance sheet data on major categories of consumer and business credit receivables and on major short-term liabilities. For quarter-end months (March, June, September, and December), additional asset and liability items are collected to provide a full balance sheet. A supplemental section collects data on securitized assets. The Federal Reserve may ask questions through the use of a special addendum section no more than twice per year.

The data are used to construct universe estimates of finance company holdings, which are published in the monthly statistical releases Finance Companies (G.20) and Consumer Credit (G.19), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55).

The Federal Reserve proposes to split current data item 6, All other assets and accounts and notes receivable, into three separate data items: Cash and cash equivalents (proposed data item 6.A), Securities held (proposed data item 6.B), and All other assets (proposed data item 6.C). These three new data items would result in improved cash and cash equivalents data for the Flow of Funds accounts. Currently, these data are estimated for the Flow of Funds publication. In addition, the Federal Reserve proposes to reduce the current authorized panel size from 80 finance companies to 70. Based on data from the 2005 Quinquennial Finance Company Questionnaire and Survey (OMB No. 7100-0277; FR 3033p/s) the Federal Reserve believes that 23 companies that responded to the most recent FR 3033 questionnaire may also be willing to submit data for the FR 2248. These changes would be effective October 31, 2008. A copy of the FR 2248 reporting form and instructions, marked to show the revisions are provided in Attachment 1.

The current annual burden for the FR 2248 is estimated to be 352 hours. Based on the proposed revisions to the reporting form and the lowering of the authorized panel size, there would be a net decrease of 35 hours, to 317 hours.

Background

Since the mid 1940s, the Federal Reserve has collected consumer credit data from finance companies on a regular basis. In 1955, the Federal Reserve conducted its first universe survey of finance companies, including business finance companies. In that survey, information was collected on major assets and liabilities, with an emphasis on receivables. Using data from that first universe survey, the Federal Reserve developed a monthly sample survey. Two sample

panels were drawn from companies reporting in that universe survey, one representing consumer finance companies (which mainly provided small cash loans to individuals) and the other representing sales finance companies (which mainly purchased credit contracts generated in the sale of durable consumer goods). Companies in each sample panel were asked to supply the Federal Reserve with monthly data on their major consumer credit receivables.

To benchmark the monthly sample series, the Federal Reserve continued to conduct the universe finance company survey at five-year intervals. In 1980, this benchmark survey was changed from a universe to a sample survey.

In 1970, the Federal Reserve abandoned the distinction between consumer and sales finance companies, owing to widespread diversification within the finance company industry. At that time, a single new reporting form was introduced to cover all major types of lending (consumer, sales, and business financing). Since 1970, numerous other changes have been made to the reporting form in order to capture information on new types of activities in which finance companies were engaging as well as to eliminate data items no longer needed by the Federal Reserve. Major changes made in 1987 include the elimination of extensions data and the addition of the supplement on securitized assets.

In 2002, the survey was modified in three ways. First, the authorized panel size was reduced to 80 finance companies because the number of finance companies responding to the survey had declined, owing to industry consolidation and attrition. Second, four questions on the breakdown of real estate loans for one-to-four-family structures were added in order to improve flow of funds estimates of such loans. Third, a special addendum section was added which may be used if the need arises for timely information on questions of immediate concern to the Federal Reserve. In 2005, the definition of a finance company reporting panel was expanded to include mortgage companies, which are nondepository institutions that specialize in first liens on real estate.

Justification

At the end of 2007, finance companies represented the second largest provider of consumer credit, owning 23 percent of all consumer credit and managing an additional 12 percent of consumer credit in the form of securitized pools. A large portion of personal consumption expenditures on durable goods is accrued with the use of credit, as are increasing portions of nondurable consumption goods and consumption services. Because personal consumption expenditures contribute importantly to the level of U.S. gross domestic product (GDP) and to quarter-to-quarter fluctuations in the growth rate of GDP, the Federal Reserve has a need to monitor consumer credit as it makes decisions about monetary policy.

Finance companies also provide a significant share of short- and medium-term credit to businesses. Business investment, both for fixed capital and inventory, is one of the more cyclically sensitive components of GDP. Because of the significant effect monetary policy can have on business investment, in part via the availability of credit, monitoring the sources of funding to businesses is important for the implementation of monetary policy. The Federal Reserve has no other information collection that supplies the data obtained on the FR 2248.

Description of Information Collection

The FR 2248 collects information on amounts outstanding in major categories of consumer and business credit held by finance companies and on major short-term liabilities of the finance companies. For quarter-end months (March, June, September, and December) the report also collects information on other assets and liabilities outstanding as well as information on capital accounts in order to provide a full balance sheet. In addition, a supplemental section collects data about assets that have been pooled by finance companies and sold to third parties that issue securities based on those assets. The supplemental section is organized in the same four categories of credit (consumer, real estate, business, and lease-related). The special addendum section may be used if the need arises for timely information on questions of immediate concern to the Federal Reserve. Since its addition in 2002, the Federal Reserve has not had the need to use the special addendum section.

Proposed Revisions to the FR 2248

The current FR 2248 survey collects detailed data on finance company receivables, but consolidates all other assets into one data item. Data item 6, All other assets and accounts and notes receivable, currently accounts for nearly one-quarter of all finance company assets, suggesting that the current survey lacks detail on a large portion of finance company activity. The Federal Reserve therefore proposes splitting data item 6 into three separate data items: Cash and cash equivalents (proposed data item 6.A), Securities held (proposed data item 6.B) and All other assets (proposed data item 6.C).¹ Data item 6 would be re-titled to “Other assets and accounts and notes receivable” to reflect the proposed revisions. These proposed data items would be collected quarterly and would enhance the Federal Reserve’s estimate of the finance company balance sheet currently published in the Federal Reserve System’s Flow of Funds accounts.

Because cash and cash equivalents data are not currently collected separately on the finance company survey, these data are estimated for the Flow of Funds accounts publication. According to the March 2008 Flow of Funds publication,² cash and cash equivalents held by finance companies make up approximately 2 percent of the finance company sector’s total assets. However, judging from the 2007 annual reports of several large finance companies, the actual figure may be closer to 3½ percent of total assets. Because many respondents already report similar information on their Securities and Exchange Commission (SEC) filings,³ the Federal Reserve believes that providing this additional information would not significantly increase the respondent burden.

¹ The definitions for these proposed data items are consistent with Financial Accounting Standards 95 (FAS 95): Statement of Cash Flows and FAS 115: Accounting for Certain Investments in Debt and Equity Securities.

² Federal Reserve Statistical Release Z.1 (March 6, 2008) *Flow of Funds Accounts of the United States*. Retrieved May 6, 2008, from <http://www.federalreserve.gov/releases/Z1/Current/>.

³ The Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (Form 10K; OMB No. 3235-0063) and the Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (Form 10Q; OMB No. 3235-0070).

Because data on securities holdings by finance companies are not currently collected separately, the Flow of Funds accounts currently assume that finance companies do not hold securities.

Reporting Instructions. The FR 2248 instructions would be revised to reflect the revisions to the reporting forms, as discussed above. In addition, the instructions would be updated and clarified as shown in Attachment 1.

Authorized Reporting Panel. The current FR 2248 authorized panel size is 80 finance companies. The reporting panel for the FR 2248 is drawn from the sample of finance companies that responded to the FR 3033 conducted in 2005. Recently, approximately 40 finance companies have voluntarily filed the FR 2248 each month. Finance company assets are concentrated among a relatively small number of firms, many of which are survey respondents. Based on information from the 2005 FR 3033, the Federal Reserve estimates that FR 2248 reporters covered two-thirds of the universe of finance company assets as of year-end 2007. The Federal Reserve proposes to reduce the current authorized panel size from 80 finance companies to 70 finance companies. The Federal Reserve believes that approximately 23 companies who filed the 2005 FR 3033 survey may also be willing to file the FR 2248 survey.

Frequency. The Federal Reserve recommends retaining the monthly frequency, with some data items continuing to be reported only for the quarter-end months. Monitoring the sources of funding to businesses less frequently would provide the data two months – or at least one Federal Open Market Committee cycle – later than it is currently received.

Time Schedule for Information Collection and Publication

Thirty respondents submit their FR 2248 data monthly to the Federal Reserve Banks; approximately 10 respondents file directly with the Federal Reserve Board on a monthly basis. Respondents submit quarterly data to the Federal Reserve Banks for quarter-end months only. To help ease the reporting burden on respondents, any semiannual special addendum questions would be sent to the respondents approximately three weeks in advance of the report as-of date. This advance notice would allow the respondents to submit the addendum data along with their regular monthly data. The data are then edited and transmitted to the Federal Reserve Board for central processing. All data are due at the Federal Reserve Board on the eighteenth business day after the end of the month. Aggregate data are published in the Federal Reserve Board's monthly statistical releases Consumer Credit (G.19) and Finance Companies (G.20), in the quarterly statistical release Flow of Funds Accounts of the United States (Z.1), and in the *Federal Reserve Bulletin* (Tables 1.51, 1.52, and 1.55).

Legal Status

The Federal Reserve Board's Legal Division has determined that the FR 2248 is authorized by law (12 U.S.C. §225(a)) and is voluntary. Individual respondent data are confidential under section (b)(4) of the Freedom of Information Act (5 U.S.C. §552).

Estimate of Respondent Burden

The following table shows estimates of the burden imposed by the Federal Reserve System on the domestic finance companies that participate in the FR 2248. The current annual burden for the FR 2248 is estimated to be 352 hours. The proposed revisions to the reporting form would increase the burden by 2 minutes per respondent (11 hours total). Many finance companies already report similar information on their SEC filings, the Federal Reserve believes that providing this additional information would not significantly increase the respondent burden. The proposed reduction in the authorized panel size would decrease the burden by 46 hours. On net, the estimated total annual burden would decrease from 352 hours to 317 hours. The estimated annual burden for the FR 2248 represents less than 1 percent of total Federal Reserve System burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average minutes per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 2248 monthly	80	8	18	192
FR 2248 quarterly	80	4	25	133
FR 2248 addendum	80	2	10	<u>27</u>
<i>Total</i>				352
Proposed				
FR 2248 monthly	70	8	18	168
FR 2248 quarterly	70	4	27	126
FR 2248 addendum	70	2	10	<u>23</u>
<i>Total</i>				317
Change				(35)

The total cost to the public is estimated to decrease from the current level of \$21,701 to \$19,543 for the proposed revisions.

Estimate of Cost to the Federal Reserve System

The total annual cost to the Federal Reserve System for the support and processing of the FR 2248 report is estimated to be \$43,900.00.

Consultation Outside the Agency

The Federal Reserve contacted nine out of the top 10 FR 2248 respondents to gather feedback on the extent to which splitting data item 6 into three separate data items would increase the respondent's burden. On July 1, 2008, the Federal Reserve published a notice in the *Federal Register* (73 FR 37455) requesting public comment for 60 days on the extension, with revision, for the FR 2900 and FR 2910a. The comment period for this notice expired on September 2, 2008. The Federal Reserve received no comments. On September 17, 2008, the Federal Reserve published a final notice in the *Federal Register* (73 FR 53872).

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.