

**Supporting Statement for the
Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans
(FR 2835; OMB 7100-0085) and the
Quarterly Report of Credit Card Plans (FR 2835a; OMB No. 7100-0085)**

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, two voluntary consumer credit reports:¹

- Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835; OMB No. 7100-0085), which collects interest rates on loans for new vehicles and loans for other consumer goods and personal expenses from a sample of commercial banks and
- Quarterly Report of Credit Card Plans (FR 2835a; OMB No. 7100-0085), which collects interest rates, finance charges, and loan balances for credit card accounts, from a sample of commercial banks.

The data from these reports help the Federal Reserve analyze current household financial conditions and the implications of these conditions for household spending and thus these data are a valuable input to the monetary policymaking process. The data are also used to create aggregate statistics on consumer loan terms that are published in the Federal Reserve's monthly statistical releases G.19, Consumer Credit, and G.20, Finance Companies. Some of the aggregates are used by the Federal Reserve in the calculation of the aggregate household debt service and financial obligations ratios for the Federal Reserve's quarterly Financial Obligations statistical release and by the Bureau of Economic Analysis to calculate interest paid by households as part of the *National Income and Product Accounts*.

The Federal Reserve proposes to revise the FR 2835 by adding a data item to collect information on new (72-month) automobile loans. This data item would collect the most common rate on 72-month loans for new automobiles. The Federal Reserve is not proposing any revision to the FR 2835a. The total annual reporting burden for the current two consumer credit reports is estimated to be 232 hours and is estimated to increase by 42 hours for a total proposed annual reporting burden of 274 hours.

Background and Justification

The Federal Reserve has been the primary producer of aggregate statistics related to consumer credit since 1942. This role stems from the Federal Reserve's need to make well-informed monetary policy decisions and its public policy responsibilities related to consumer credit. Since the 1940s, the Federal Reserve has maintained programs for the direct collection of

¹ This family of reports also contains the voluntary Automobile Finance Company Report (FR 2512), which has fewer than 10 respondents and do not require an OMB control number. The Federal Reserve also proposes to discontinue the FR 2512.

consumer credit data from commercial banks and finance companies. It obtains its information on credit provided by other types of financial institutions mainly through secondary sources.²

The Federal Reserve has revised the consumer credit data collection program over the years to lessen reporting burden, to eliminate items of low quality, and to focus on items of highest priority for economic analysis. An exhaustive review of the program in 1982 resulted in major revisions as of January 1983. Data on gross credit flows were eliminated for all major lending groups except finance companies, the number of series on interest rates and non-rate loan terms was reduced sharply, and the size of the bank interest rate panel was cut.³ Overall, respondent burden was reduced by almost 50 percent. In addition, three of four consumer credit statistical releases were eliminated.

In 1994, the Federal Reserve removed a data item on credit card interest rates from the FR 2835 and introduced the FR 2835a in order to collect more useful measures of such rates. In introducing the FR 2835a, the Federal Reserve was able to ask for more detailed information from large issuers of credit cards, without burdening the majority of the FR 2835 respondents.

The Federal Reserve's long-standing interest in consumer credit issues arises from a need to evaluate macroeconomic conditions and the probable consequences of monetary policy actions. The amount that consumers borrow and the terms at which they are able to borrow are major determinants of the general financial conditions of households. These conditions, in turn, play a major role in supporting consumer spending, the largest component of gross domestic product (more than two-thirds of the total). Moreover, some of the more volatile components of consumer spending directly depend on the terms at which households can obtain consumer loans.

In 2006, the Federal Reserve added a data item to the FR 2835 in order to collect the most common interest rate on 60-month loans for new vehicles. This change was motivated by the growing popularity of the 60-month loan term.

Description of Information Collection

The two consumer credit reports gather data from commercial banks and lenders affiliated with the major automobile manufacturers on loan amounts, loan terms, and collection experience.

Quarterly Report of Interest Rates on Selected Direct Consumer Installment Loans (FR 2835)

The FR 2835 collects information from a sample of commercial banks on interest rates charged on loans for new vehicles and loans for other consumer goods and personal expenses. Interest rates on consumer loans made by commercial banks continue to be analytically significant. Auto and personal loans are major components of bank consumer lending, and

² Prior to 1963, the Federal Reserve also operated an extensive data collection and publication program covering department store credit; that responsibility was subsequently transferred to the Bureau of the Census.

³ In 1988, gross flow data were eliminated from the Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005).

changes in the terms of these loans represent an important input to analyses of the household sector prepared for the Federal Reserve. The data are used for internal analysis of household financial conditions.

Data Coverage. The FR 2835 respondents are asked to provide “the most common rate,” meaning the rate at which the largest dollar volume of loans of a particular type was made during the reporting week. For adjustable-rate loans, the initial rate is reported.

Reporting Frequency. The data are collected for February, May, August, and November and correspond to the calendar week beginning on the first Monday of the survey month. Continued collection of these data at least quarterly is necessary to prepare timely analyses of current macroeconomic conditions and the effect of monetary policy for the Federal Reserve.

Reporting Panel. The reporting panel for the FR 2835 consists of commercial banks. There are currently 115 commercial banks on the panel. Although some banks have merged or otherwise dropped out of this voluntary survey, the Federal Reserve has attempted to maintain the panel as close as possible to the authorized size of 150. The FR 2835 panel is drawn from a sample of 150 member banks (most large banks and a random sample of smaller banks).

Proposed revisions to the FR 2835

New Automobiles (72-month). The division proposes to add new item, New automobiles (72-month). This item would collect the most common interest rate on 72-month loans for new vehicles. This change is motivated by the need to better understand market developments, such as the growing popularity of the 72-month maturity.

Quarterly Report of Credit Card Plans (FR 2835a)

The FR 2835a collects information on two measures of credit card interest rates from a sample of commercial banks with \$1 billion or more in credit card receivables and a representative group of smaller issuers. This panel design is used so that the data will be representative of interest rates paid by consumers on bank credit cards. The outstanding balances of the respondents represent about 60 percent of all owned and managed credit card receivables at commercial banks. The Federal Reserve uses the data to analyze the credit card market and draw implications for the household sector. No revision are being proposed for the FR 2835a.

Data Coverage. The FR 2835a collects information on two measures of average credit card interest rates from card-issuing commercial banks. One measure reflects the interest rate offered to credit cardholders, and the other reflects finance charges paid by cardholders with balances.

(1) *Average nominal finance rate.* For the measure termed the “average nominal finance rate, all accounts,” respondents are asked to report the simple average of interest rates across

all of the issuer's card accounts.⁴ Equivalently, respondents may provide the weighted average of interest rates across types of accounts that carry different rates, with the weights equaling the percentage of accounts of each type. Respondents also are asked to provide the total number of accounts, which the Federal Reserve uses to calculate the weighted average of the nominal finance rate across banks.

This measure represents the rate at which banks are offering to make credit available to cardholders. It abstracts from what cardholders actually pay on average. In particular, many cardholders are "convenience users" who generally avoid finance charges by paying balances in full within an interest-free grace period. For a variety of reasons, interest rates on the accounts of convenience users may tend to differ from rates on the accounts cardholders who revolve balances and incur finance charges.⁵ Although these convenience users may rarely pay interest on credit card balances, the average nominal finance rate reflects the interest rate at which they could borrow (in addition to the rate paid by cardholders revolving balances).

(2) *Average computed finance rate.* For the measure termed the "average computed finance rate," respondents report the total finance charges billed during the survey month and the total balances on which finance charges are computed. The Federal Reserve calculates the average computed finance rate by dividing reported finance charges by the balances to which they apply (multiplying the result by 12 to obtain an annualized rate). The Federal Reserve then computes a volume-weighted average finance rate across banks.

The average computed finance rate reveals the interest rates actually paid by those consumers who use their credit cards to obtain credit (beyond any initial grace period), as distinct from the rates offered to all cardholders.⁶

Both measures of credit card interest rates are necessary, given the range of Board activities that require data on credit card interest rates. For example, Board members have been asked in the past to testify before the Congress on proposed federal legislation to set ceilings on credit card rates. The average nominal finance rate is more relevant to these inquiries. On the other hand, the average computed finance rate is usually more relevant to the macro-economic issues addressed in monetary policy deliberations. For example, in analyzing consumer spending behavior, the Federal Reserve needs accurate data on rates faced by those who are actually in debt and thus most vulnerable to income disruptions.

⁴ In both cases, respondents are asked to report the rate applicable to purchases, as opposed to cash advances (which often are associated with a different rate).

⁵ The magnitude and even sign of differences in interest rates across cardholders of differing payment habits are a priori unclear. Convenience users, since they ordinarily do not incur finance charges, should be fairly insensitive to rates and thus seem as likely to choose a high-rate card as a low-rate card. However, insofar as convenience users are low-risk customers, card issuers may offer them lower rates (perhaps hoping that a low enough rate may stimulate some revolving of balances). Cardholders who revolve balances would be likely to seek low-rate cards. But insofar as they are higher-risk customers, card issuers may not offer them lower rates.

⁶ It might appear that data from the Consolidated Reports of Condition and Income (Call Report; FFIEC 031 and FFIEC 041; OMB No. 7100-0036) could be used to calculate a similar finance rate, as it collects outstanding receivables and interest income for revolving credit. However, the report does not distinguish the balances of convenience users from those of cardholders revolving balances; only the latter should be used in deriving an implicit interest rate from finance charges. In addition, the Call Report provides data corresponding to a mixture of revolving credit types rather than data exclusively for credit cards.

Respondents also are asked to provide *initial total ending balances* for all accounts and for accounts with finance charges. The difference between these amounts represents a measure of convenience credit—balances that are incurred during the billing cycle but are paid off in full within the grace period. The share of convenience credit in total debt has varied over time in a way that potentially distorts traditional measures of household financial vulnerability. For example, the Federal Reserve has done research showing that some of the uptrend in the aggregate financial obligations ratio has stemmed from greater convenience use of credit; this complicates the interpretation of the evolution of the financial obligations ratio since convenience balances are not necessarily associated with greater household financial strain in the way that longer-term debt might be.

Reporting Frequency. The data are collected for February, May, August, and November. As with the FR 2835, the quarterly frequency of the FR 2835a is adequate to track movements in credit card finance rates, but reporting on a less frequent schedule would not be sufficient for cyclical analysis.

Reporting Panel. Currently, there are 40 commercial banks on the panel. Although the current respondents represent the largest issuers of bank credit cards, the Federal Reserve will increase its efforts to recruit additional respondents to bring the panel up to its authorized size (50 commercial banks) so that the data will better represent the entire industry.

Given the recent financial crisis and the pivotal roles played by the consumer credit industry, it is increasingly likely that Board members and Congress will request more information about the availability of general revolving credit, credit usage, and pricing practice. To meet potential requests, it will be critical to monitor credit card industry dynamics using a sample of commercial banks that is as representative as possible – consisting of both large banks that operate nationally and smaller regional and community banks.

Time Schedule for Information Collection and Publication

<i>Report</i>	<i>Frequency</i>	<i>Reference period</i>	<i>Due date at Board⁷</i>
FR 2835	quarterly	first full week of the mid-month of the quarter	second week following the reference week
FR 2835a	quarterly	end of mid-month of the quarter, or activity during the mid-month of the quarter	21 st day of month following the reference month

The data from the FR 2835 and FR 2835a are used to create aggregates that are published in the Federal Reserve’s monthly G.19 statistical release. The G.19 is released on or about the fifth business day of the second month following the reference month. The release contains

⁷ Respondents submit the FR 2835 and FR 2835a data to the Federal Reserve Banks. Subsequently, the Reserve Banks edit and transmit the data to the Board for central processing.

aggregate data on consumer credit outstanding and lending terms. Additional information about finance company lending terms is included in the Federal Reserve's monthly G.20 statistical release. Loan term data are also used by the Federal Reserve in the calculation of the aggregate household debt service and financial obligations ratio for the Federal Reserve's quarterly Financial Obligations release, and they are used by the Bureau of Economic Analysis to calculate interest paid by households as part of the *National Income and Product Accounts*.

Copies of the statistical releases and all reporting forms and instructions are available on the Federal Reserve's public website (www.federalreserve.gov).

Legal Status

The Board's Legal Division has determined that the FR 2835 and FR 2835a are authorized by sections 2A, 11, 12A, and 353-359 of the Federal Reserve Act and are voluntary (12 U.S.C. §§ 225a, 248(a), 263, and 348a). Information requested on the FR 2835 is not confidential and respondents are made aware that information reported is made available to the public. Aggregate information collected on the FR 2835a is not considered confidential; however, individual respondent data is considered confidential under section (b)(4) of the Freedom of Information Act (FOIA) (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

On March 12, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 13001) requesting public comment for 60 days on the extension, with revision, of the FR 2835 and FR 2835a. The comment period for this notice expired on May 11, 2015. The Federal Reserve received one supportive comment. The revisions will be implemented as proposed. On May 29, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 30680).

Estimate of Respondent Burden

As shown in the table below, the proposed total annual burden would increase from 232 hours to 274 hours. The proposed revision to the FR 2835 would increase its estimated annual burden from 132 hours to 174 hours, an increase of 42 hours. The estimated average hours per response for the FR 2835 would increase from 0.22 hours to 0.29 hours associated with the proposed revisions. These reporting requirements represent less than 1 percent of the total Federal Reserve System annual paperwork burden.

	<i>Number of respondents⁸</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 2835	150	4	0.22	132
FR 2835a	50	4	0.50	<u>100</u>
<i>Total</i>				232
Proposed				
FR 2835	150	4	0.29	174
FR 2835a	50	4	0.50	<u>100</u>
<i>Total</i>				274
<i>Change</i>				42

The total cost to the public is estimated to increase from the current level of \$12,006 to \$14,180 for the FR 2835 and FR 2835a.⁹

Sensitive Questions

These collections of information contain no questions of a sensitive nature, as defined by OMB guidelines

Estimates of Costs to the Federal Reserve System

The proposed cost to the Federal Reserve System for collecting and processing the FR 2835 and FR 2835a is estimated to be \$57,050 per year, an increase of \$600 from the current cost of \$56,450. The one-time cost to implement the revised report is estimated to be \$5,900.

⁸ Of these respondents required to comply with this information collection, 45 for the FR 2835 and 1 for the FR 2835a are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/content/small-business-size-standards.

⁹ Total cost to the public was estimated using the following formula: percent of staff time, multiplied by annual burden hours, multiplied by hourly rates (30% Office & Administrative Support at \$17, 45% Financial Managers at \$63, 15% Lawyers at \$64, and 10% Chief Executives at \$87). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor and Statistics (BLS), *Occupational Employment and Wages May 2014*, published March 25, 2015, www.bls.gov/news.release/ocwage.nr0.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.