

**Supporting Statement for the
Survey of Terms of Lending (OMB No. 7100-0061):
Survey of Terms of Business Lending (FR 2028A),
Survey of Terms of Bank Lending to Farmers (FR 2028B), and
Prime Rate Supplement to Survey of Terms of Lending (FR 2028S)**

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), propose to extend for three years, without revision, the quarterly Survey of Terms of Lending (STL; FR 2028; OMB No. 7100-0061). The voluntary STL collects unique information concerning price and certain nonprice terms of loans made to businesses and farmers during the first full business week of the mid-month of each quarter (February, May, August, and November). The survey comprises three reporting forms: the FR 2028A, Survey of Terms of Business Lending; the FR 2028B, Survey of Terms of Bank Lending to Farmers; and the FR 2028S, Prime Rate Supplement to the Survey of Terms of Lending. The FR 2028A and FR 2028B collect detailed data on individual loans made during the survey week, and the FR 2028S collects the prime interest rate for each day of the survey from both FR 2028A and FR 2028B respondents.

From these sample STL data, estimates of the terms of business loans and farm loans extended during the reporting week are constructed. The aggregate estimates for business loans are published in the quarterly E.2 release, *Survey of Terms of Business Lending*, and aggregate estimates for farm loans are published in the E.15 release, *Agricultural Finance Databook*. The annual reporting burden for the STL reports is estimated to be 7,358 hours.

Background and Justification

The FR 2028A was designed to allow the Federal Reserve to measure the cost of business borrowing from banks and to analyze developments in bank loan markets. It replaced the Quarterly Interest Rate Survey and portions of the Survey of Selected Interest Rates of the Committee on Interest and Dividends (CID survey). It was designed to provide more accurate and detailed information on business loans, especially concerning maturity and nonprice terms, than the aforementioned surveys.¹ The FR 2028B, which replaced the farm loan portion of the CID survey, collects data on the cost and characteristics of farm borrowing from banks. In many areas of the nation, farm lending is the primary form of business lending by commercial banks. The volume and terms of such lending are affected by, and in turn affect, developments and trends in the agricultural sector of the economy.

Analysis of the STL data provides reliable estimates of the cost of important segments of business and agricultural credit at banks that are representative of banking institutions nationwide. Currently, it is the Federal Reserve's only available source of data on bank loan

¹ Construction and land development loans were originally included in the STL but were dropped from the survey in 1989.

pricing for individual loans of all sizes. Since its inception in February 1977, the STL has been revised periodically to accommodate changes in lending practices.

In 1997, the FR 2028A respondent panel was expanded to include U.S. branches and agencies of foreign banks. At the same time, interest rate adjustments and maturity items were added and redefined, and a risk-rating item was added to both the FR 2028A and the FR 2028B. In addition, the prime rate supplement data, previously collected from respondents to the business loan survey, were collected from respondents to the farm loan survey as well.

In 2003, the FR 2028A was modified: an item for the date on which the terms, including pricing, for loans made under formal commitment became effective was added, the number of base pricing rate options was reduced from five to two, and the data item indicating whether loans are callable was deleted. The renewal also entailed a modification in the format of the recalculation and maturity date items for both the FR 2028A and FR 2028B and some minor clarifications to the instructions.

In 2006, for the FR 2028A and FR 2028B the minimum size of loans reported was increased from \$1,000, a level at which it had been held since the inception of the STL in 1977, to \$3,000. The adjustment reflected price inflation over the intervening period and the increased use of business credit cards, developments that likely had added significantly to the burden of reporting small loan amounts. In February 2009, the FR 2028A increased the minimum loan size reported to \$7,500.

In August 2012, the FR 2028A was modified: three items were added (a data item to denote if the loan was guaranteed by the Small Business Administration (SBA), a data item to indicate if the loan was made under either participation or syndication, and a data item to capture the state where the borrower is headquartered for loans that were not participated or syndicated). Also, the minimum loan size reported was raised again, from \$7,500 to \$10,000. The FR 2028B added an item to collect the state where the borrower is headquartered.

Business Loan Survey (FR 2028A)

The survey data are used to assess conditions and to track developments in business credit markets. The results are reported to the Federal Reserve Board in regular economic reviews and to the Federal Open Market Committee in briefing materials. For instance, during the credit market turmoil that began in the second half of 2007 and early 2008, STL data showed a smaller increase in the spread of loan rates over banks' cost of funds than other indicators of business loan pricing suggested. Moreover, information about the date on which commitments were finalized or renewed has been important in understanding how loan rates evolved during the crisis, as it allowed the Federal Reserve to study the terms on new loan commitments separately from commitments written prior to the crisis. More broadly, the survey data have been useful for monitoring the changing role of the prime rate as a benchmark for business loan pricing and of shifts in the mix of fixed-rate and variable-rate lending as financial markets have changed. The STL microdata are not available to researchers outside the Federal Reserve, but

have been used in a number of recent research papers.²

The STL is an important source of individual loan data used by those concerned with lending to small businesses, for which banks are one of the primary sources of credit.³ The SBA publishes aggregate STL data on small-business loans, as well as an analysis of these data, in various publications.⁴ The Federal Reserve is seeking alternative sources of detailed, disaggregated data on small business loans, but there are currently none available. Should a better source for this type of data become available, the Federal Reserve may revisit the need for this survey.

Farm Loan Survey (FR 2028B)

This survey collects basic information that the Federal Reserve uses to monitor financial developments in the agricultural sector of the economy. For example, the data were invaluable during the period of financial stress for many farmers and farm lenders that began early in the 1980s. When that stress began to ease, the severe drought that developed in mid-1988 renewed concerns about the financial health of the farm sector. The STL provided a timely indicator of the possible effects of the drought on the terms of loans for various purposes. More recently, the STL has been able to identify turning points in agricultural lending activity. For example, agricultural loan demand strengthened in 2011 when farm input prices rose and again in 2014 when a steep drop in crop commodity prices boosted the need for short-term financing for operating expenses and record high feeder livestock prices drove a sharp rise in the volume of loans made to the livestock sector.

The STL collects information on farm financial developments that is frequently used by the Federal Reserve in congressional testimony, meetings with legislators, and discussions with farm groups, as well as in response to information requests from the Congress, other government agencies, the media, and academics.

² See, for example, Lamont K. Black and Lieu N. Hazelwood (2013), “The effect of TARP on bank risk-taking.” *Journal of Financial Stability*, v. 9, iss. 4, pp. 790-803; Giovanni Dell’Ariccia, Luc Laeven and Gustavo Suarez (2013), *Bank Leverage and Monetary Policy’s Risk-Taking Channel: Evidence from the United States* (No. 13-143), International Monetary Fund; Huang, Rocco, 2010; “How committed are bank lines of credit? Experiences in the subprime mortgage crisis” Federal Reserve Bank of Philadelphia, Working Papers: 10-25; Benjamin M. Friedman and Kenneth N. Kuttner, “Economic Activity and the Short-term Credit Markets: An Analysis of Prices and Quantities,” *Brookings Papers on Economic Activity*, 2: 1993; Lamont K. Black and Richard J. Rosen (2007) “How the credit channel works: differentiating the bank lending channel and the balance sheet channel.” Federal Reserve Bank of Chicago, *Working Paper Series*: WP-07-13; William B. English and William R. Nelson (1998), “Bank risk rating of business loans” Board of Governors of the Federal Reserve System (U.S.), *Finance and Economics Discussion Series*: 1998-51; Allen N. Berger, Anil K. Kashyap, and Joseph M. Scalise (1995) “The Transformation of the U.S. Banking Industry: What a Long, Strange Trip It’s Been.” *Brookings Papers on Economic Activity*, v. 0, iss. 2, pp. 55-201; or William B. English and William R. Nelson (1998), “Bank risk rating of business loans” Board of Governors of the Federal Reserve System (U.S.), *Finance and Economics Discussion Series*: 1998-51.

³ Allen N. Berger (2006) “Potential Competitive Effects of Basel II on Banks in SME Credit Markets in the United States.” *Journal of Financial Services Research*, v. 29, iss. 1, pp. 5-36.

⁴ See, for example, “The Small Business Economy: A Report to the President.” United States Government Printing Office. Washington, DC: 2007, pp. 26-28.

Data from the STL have been very useful in monitoring the ongoing adjustment of rural banks to the more volatile supply of, and demand for, loan funds of recent years. In 1978, bank regulators removed fixed ceilings on interest rates paid on certain retail deposits, which were most prevalent at rural banks, leading these small banks to compete more vigorously for deposits. Since that time the agricultural sector—the underlying source of prosperity in many small communities—has experienced large swings in farm income, asset values, and rates of resource utilization. Data from the STL on the level and distribution of loan maturities and loan rates among smaller banks have provided a useful indicator of the degree to which these additional sources of risk have been passed through to rural borrowers.

The STL collects unique information on lending terms for farm borrowers, and the availability of a historical series on farm lending frequently proves useful in addressing new questions that arise. For example, the data have been quite useful in providing a scale to measure the amount of government subsidy that is provided to farmers through governmental or quasi-governmental agencies. Legislation passed in 1987 to assist the Farm Credit System (FCS) forbade the FCS from offering unusually low rates of interest, by basing the interest rate it charged on farm loans on its average cost of funds rather than its marginal cost. Aggregate estimates from the STL data provided a useful benchmark in a General Accounting Office study of the FCS's performance in this regard (GAO-94-39, March 1994). The aggregate STL data also have been used in recent years by analysts at the Department of Agriculture to monitor compliance with the North American Free Trade Agreement by estimating the magnitude of farm subsidies arising from loans to U.S. farmers from the FCS and the Farmers' Home Administration. In addition, the Federal Reserve has used the information on farm lending terms and the risk ratings for individual loans to examine the degree to which commercial banks price the riskiness of agricultural loans. This study found that only about half of the reporters for the FR 2028B used a risk rating system, but most of the banks that did not were quite small, and so roughly four-fifths of the survey loans carried an informative risk rating. Furthermore, after controlling for the size and performance of the bank and as many nonprice terms of the loan as possible, banks consistently charged higher rates of interest for farm loans that they characterized as riskier.⁵ The STL data has also been used to analyze recent farm debt trends in relation to historical agricultural boom and bust cycles.⁶

Prime Rate Supplement (FR 2028S)

The prime rate remains the base rate banks use to price a significant portion of the loans covered by the STL.⁷ Even for large borrowers and the largest banks, the prime rate, an administered rate, is a pricing option frequently available along with market-related rates.

The FR 2028S is completed by banks that file either the FR 2028A (loans to businesses) or the FR 2028B (loans to farmers) or both. The prime rate is by far the most common base rate

⁵ Nick Walraven and Peter Barry (2004) "Bank Risk Ratings and the Pricing of Agricultural Loans." *Agricultural Finance Review*, Vol. 64, No. 2, pp. 107-118.

⁶ Jason Henderson and Nathan Kauffman (2013) "Farm Investment and Leverage Cycles: Will This Time Be Different?" Federal Reserve Bank of Kansas City *Economic Review*, Second Quarter, pp. 89-114.

⁷ The FR 2028S defines the prime rate to be, "[T]he administered rate used [by the bank] for pricing business and other credit, which [is adjusted] from time to time in response to changes in market conditions. [The] institution may set this rate internally or may adopt as its own a published rate."

used to price variable rate business and farm loans at small and medium-sized banks. The FR 2028S imposes little burden, and the information it provides is useful in interpreting movements in rates charged on business and farm loans, especially for small loans and for loans at smaller banks. The FR 2028S data are also collected from the fifty U.S. branches and agencies of foreign banks on the business loan survey. They provide valuable information about variations in the prime-lending rate across banks, which can be considerable. The STL is the only national source of data on the prime rate at banks of all sizes.

Description of Information Collection

The STL comprises three reporting forms. The FR 2028A collects information on loans to businesses from a stratified sample of 398 banking institutions on the face amount, the rate of interest (including the base pricing rate), the frequency of compounding, the date on which the loan rate can be recalculated (if any), the maturity date (if any), the commitment status, whether the loan is secured, and the risk rating. The FR 2028B collects much the same information on loans to farmers from a stratified sample of 250 banks and collects additional data items on federal insurance status, security status, participation status, and primary purpose. The FR 2028S collects from both FR 2028A and FR 2028B respondents their prime lending rate on each day of the survey week.⁸ The data are collected for the first full business week of the mid-month of each quarter (February, May, August, and November). The Federal Reserve has determined that the quarterly frequency provides an adequate balance between the timeliness of the data and reporting burden. The Federal Reserve proposes to keep the size of the FR 2028 panels at their current levels as the current levels are sufficient for analysis of changes in conditions in these diverse loan markets.

The loan risk ratings added in 1997 have proven very valuable to the survey data users to inform monetary policy and conduct economic research. In the STL, banks report the risk rating of the loan by mapping their internal loan risk ratings to a scale defined by the Federal Reserve, which takes on values between 1 and 5, with the rating of 1 indicating lowest risk and the rating of 5 indicating highest risk. Because of the importance of the risk ratings, the Federal Reserve recommends that the Reserve Banks periodically verify that each respondent bank is correctly mapping its most current risk rating system to the risk categories defined in the STL. This verification would occur no more frequently than once per year unless an anomaly in the data was found during the normal course of editing the data.

Time Schedule for Information Collection

The STL is filed every quarter. Reserve Banks collect the data from respondents in their respective districts, edit the data, and transmit them to the Board for central processing. Data are transmitted from the Reserve Banks to the Board by the fourth Thursday following the Monday as-of date. The final report and statistical release tables are completed at the Board about six weeks after the end of the survey period.

The Federal Reserve publishes aggregated data for business loans quarterly in a widely distributed statistical release, *Survey of Terms of Business Lending* (E.2); the tables contained in

⁸ Some banks report for only part of the survey week (and some report for only some of their offices).

it summarize data from the FR 2028A and FR 2028S. These data also appear in the statistical supplement to the *Federal Reserve Bulletin* in a table titled “Terms of Lending at Commercial Banks” (4.23). Aggregate information on farm loans from the FR 2028B is published in the Federal Reserve Bank of Kansas City’s quarterly statistical release, *Agricultural Finance Databook* (E.15). The survey results are also included in statistical compilations published both within and outside the Federal Reserve.

Legal Status

The Board’s Legal Division has determined that this survey is authorized by section 11(a)(2) of the Federal Reserve Act (12 U.S.C. § 248(a)(2)) and is voluntary. Individual responses reported on the FR 2028A and FR 2028B are regarded as confidential under the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

On February 11, 2015, the Federal Reserve published a notice in the *Federal Register* (80 FR 7592) requesting public comment for 60 days on the extension, without revision, of the FR 2028. The comment period for this notice expired on April 13, 2015. The Federal Reserve did not receive any comments on the extension. On April 27, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 23274) for the FR 2028.

Estimate of Respondent Burden

As presented in the table below, the current annual reporting burden for the STL reports is estimated to be 7,358 hours. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	<i>Number of respondents⁹</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 2028A	398	4	3.6	5,731
FR 2028B	250	4	1.4	1,400
FR 2028S	567	4	0.1	227
<i>Total</i>				<u>7,358</u>

⁹ Of the actual respondents, 84 for the FR 2028A, 154 for the FR 2028B, and 219 for the FR 2028S are small entities as defined by the Small Business Administration (i.e., entities with less than \$550 million in total assets) www.sba.gov/content/table-small-business-size-standards.

The total cost to the public is estimated to be \$380,777 for the STL survey.¹⁰

Sensitive Questions

These reports contain no questions of a sensitive nature, as defined by OMB guidelines.

Estimate of Cost to the Federal Reserve System

The current cost to the Federal Reserve System for collecting and processing the FR 2028 is estimated to be \$346,600 per year.

¹⁰ 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/.