

Supporting Statement for the Census of Finance Companies (FR 3033p; OMB No. 7100-0277)

Summary

The Board of Governors of the Federal Reserve System (Federal Reserve), under delegated authority from the Office of Management and Budget (OMB), proposes to conduct, with revision, the voluntary Census of Finance Companies (FR 3033p; OMB No. 7100-0277) in 2015. The FR 3033p is the first part of a two-stage survey series (the “quinquennial”) which has been conducted at a regular five-year interval since 1955. The second part of this information collection, the Survey of Finance Companies (FR 3033s), will be reviewed in a separate proposal in 2015.

The FR 3033p is a simple screening survey, which would be sent in June, 2015, to all companies that meet criteria developed to identify the potential universe of domestic finance companies. An accurate census is required to form a representative sample of finance companies, to which the more detailed FR 3033s would be sent. The census would gather limited information including total assets, areas of specialization, and information on the corporate structure of the companies. The Federal Reserve has identified approximately 40,000 firms to which the census would be sent.

The Federal Reserve proposes to increase the respondent panel size, revise the survey to collect information needed to determine whether a company meets the FR 3033 definition of a finance company, solicit information on the types of credit or financing that a company offers, and make minor modifications to the survey design. Based on an estimated response rate of 40 percent, 16,000 of the 40,000 companies would complete the census; the reporting burden for the census is estimated to be 8,000 hours.

Background and Justification

Since June 1955, the Federal Reserve System has surveyed the assets and liabilities of finance companies at five-year intervals. For purposes of this survey, finance companies were defined as companies whose largest portion of assets is made up of consumer or business loan or leases excluding commercial banks, cooperative banks, investment banks, savings banks, savings and loan institutions and industrial loan corporations or their subsidiaries. Through 1975, the known universe of finance companies was surveyed. To reduce reporting burden, in 1980 the survey was split into an extremely brief screening survey, which has been sent to the known universe of finance companies, and a longer survey, which has been sent to a stratified random sample of finance companies. In 2005, the definition of finance company was revised to include companies whose largest portion of assets was made up of real estate loans; this change effectively brought mortgage companies into the panel. In addition, the survey was revised to instruct finance companies to include the assets and liabilities of their mortgage company subsidiaries.

In 2010, the quinquennial underwent a major revision. The title of the first part of the quinquennial was changed to Census of Finance Companies to stress that every response is

important. Several questions on the census were modified to allow the Federal Reserve to make the determination of whether a company is a finance company rather than asking whether it meets the definition. Similarly, the title of the main survey (FR 3033s) was changed to Survey of Finance Companies. Revisions to the FR 3033s included reordering assets and liability data items from most liquid to least liquid, asking additional detail on assets and liabilities, adding a section to gather information on servicing activities and geographic distribution of the company's activities, and creating a clearer distinction among the broad balance sheet data items, detailed loan and lease data items, and off-balance-sheet securitization data items. The respondent panel sizes for both questionnaires were increased.

The Federal Reserve has used the quinquennial survey data to benchmark monthly data series on major assets and quarterly data series on liabilities of finance companies developed from the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005), which is collected from a smaller sample of companies. These data are used in internal analysis and are reported to the public in two monthly statistical releases, the *Finance Companies* (G.20) and the *Consumer Credit* (G.19), as well as the quarterly *Flow of Funds Account of the United States* (Z.1) release. As with many data series based on a fixed sample, errors of estimation tend to increase over time and thus require periodic correction. These errors reflect the evolution in the financial markets as new companies enter the market and market shares change and the deterioration of the monthly sample panel as respondents close, merge or otherwise leave the panel.

In addition to benchmarking the Flow of Funds data, information from the quinquennial survey also provides the Federal Reserve with an opportunity to learn about an important, and understudied, part of the financial system. Finance companies are a major supplier of credit to households and businesses, holding or managing about 22 percent of total consumer credit outstanding and a significant share of the short- and intermediate-term business finance market. The business and consumer credit holdings of finance companies are key elements of domestic nonfinancial debt, which is monitored by the Board of Governors and the Federal Open Market Committee in the implementation of monetary policy.

Description of Information Collection

The FR 3033p is designed to identify the universe of finance companies eligible for potential inclusion in the FR 3033s and to enable the stratification of the sample for more statistically efficient estimation. The FR 3033p comprises 11 questions to assess the company's asset size, level of loan and lease activity, company structure, and licensing authority.

Proposed Revisions

The Federal Reserve proposes to revise the census to improve the accuracy of identifying finance companies. The proposed revisions, as noted in the attached draft copy of the proposed census, include:

- Adding Question 5. Please indicate the types of credit or financing that your company offers. Check all categories that apply.

Business credit

- Business retail motor vehicle credit (retail sales to businesses and fleet sales)
- Wholesale motor vehicle credit (business inventory financing)
- Commercial, industrial, agricultural, equipment credit (retail sales to businesses and inventory financing)
- Other business credit

Consumer credit

- Indirect motor vehicle credit (sales finance)
- Direct motor vehicle loans to consumers
- Mobile homes credit
- Revolving consumer credit
- Other consumer goods credit (retail or sales finance)
- Other installment cash loans (personal loans)
- Pawn loans
- Payday loans
- Motor vehicle title loans
- Other consumer credit

Real estate credit

- Revolving credit (open-end)
- Closed-end loans secured by first liens
- Closed-end loans secured by junior liens
- Multifamily real estate loans
- Commercial or farm real estate loans

Capital leases

- Consumer motor vehicle leases
- Other consumer leases
- Business motor vehicle leases
- Commercial, industrial, agricultural, and equipment leases
- Other business leases

Operating leases

- Consumer motor vehicle leases
- Other consumer leases
- Business motor vehicle leases
- Commercial, industrial, agricultural, and equipment leases
- Other business leases

Question 5 would be used to assess the extent of offerings of specific credit products by the finance company industry and the availability of such products from single-product and multi-product companies. The question relates directly to public policy issues regarding the ability of small and specialized finance companies to compete with large and diversified companies.

- Revising Question 5 and renumbering as 6. “Is the company licensed by a state or federal authority as a:” would be revised to include an option for “Government or nonprofit agency” for clarification.
- Revising Question 9 and renumbering as 10. “Is your parent company licensed by a state or federal authority as a:” would be revised to include an option for “Government or nonprofit agency” for clarification.

Some respondents from the 2010 census handwrote in the margin of the form that they are a government or nonprofit agency and therefore are not part of the universe of finance companies. Adding this option would alleviate unnecessary notations by respondents.

Reporting Panel

Currently, the Federal Reserve is in the process of identifying the potential universe of finance companies. There is no national registry of finance companies to serve as the sample frame for the census. In 2010, a sample frame was obtained primarily from Dun and Bradstreet (D&B) and to a lesser degree from other sources. Although D&B attempted to consolidate subsidiaries to the highest level within any given corporate structure, responses to the census revealed their algorithm was not adequate. Furthermore, there were a substantial number of the census forms returned by the post office as undeliverable. To improve the methodology for identifying potential finance companies to be used for the 2015 census, the Federal Reserve focused on three states (Delaware, Idaho and Pennsylvania) which have information available in public records and procured sample data sets from several vendors to perform a comparison study. The objective of the study was to identify the vendor with the best coverage of companies that are likely to meet the definition of a finance company. At the time of writing, this study is still underway.

For the nation as a whole, approximately 38,000 companies which, based on their North American Industry Classification System (NAICS) or Standard Industrial Classification (SIC) code, may meet the FR 3033 definition of a finance company. In addition, the Federal Reserve used the Home Mortgage Disclosure Act (HMDA)¹ data to identify approximately 850 additional mortgage lenders that may meet the FR 3033 definition of a finance company. As in the past, the Federal Reserve proposes to contact all companies identified as likely finance companies with the exception of companies that file the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11, OMB No. 7100-0244).² The Federal Reserve would mail census forms to up to 40,000 companies. This is an increase over the 2010 census in which approximately 27,000 censuses were mailed. This proposed increase is driven by improvements in the data available to identify potential finance companies. The Federal Reserve believes that the increase in cost and burden from expanding the panel is warranted by the significant improvement in the statistical basis of the census and the important role that finance companies have played. Once the companies return the census, the Federal Reserve would determine the panel of respondents for inclusion in the FR 3033s.

¹ The HMDA data are collected on the FR HMDA-LAR (OMB No. 7100-0247).

² The Federal Reserve would use data from the FR Y-11 to replace the census for large subsidiaries of bank holding companies.

If the census fails to achieve an 80 percent response rate, the Federal Reserve would conduct a nonresponse bias study as required by OMB. In 2010, the census had a response rate of 22 percent. The Federal Reserve is uncertain as to likely response rates for the 2015 census but expects that it would be below 80 percent. Thus, the Federal Reserve is planning for the required nonresponse bias study.

In an effort to improve the response rate for the census, which has been trending lower in the past two decades, the Federal Reserve is planning to conduct census mailings based on experience from other surveys, including a pre-survey notification letter, three waves of mailings of the entire survey package to nonrespondents 15 days after the previous mailing, and a postcard reminder sent to nonrespondents approximately 10 days after the third and the last wave of mailing. The Federal Reserve believes that these measures should bolster response rates. The adoption of a web-based survey, which was inaugurated in 2010, is also expected to have positive effects on response rates.

To cope with the expected level of nonresponse to the census, the Federal Reserve intends to select a subsample of nonrespondents for further follow-up with phone calls. Comparison of the characteristics between this subsample and the general population would form the basis for the nonresponse bias study for the census and consequently serve to shape the design of the sample for the FR 3033s. The Federal Reserve anticipates following up on 4,000 nonrespondents for the census.

Frequency

The Federal Reserve recommends retaining the five-year frequency for the census. Conducting the census less frequently would be undesirable because it would not provide the Federal Reserve with timely enough information. This first step allows the Federal Reserve to select more appropriate respondents for the FR 3033s and ultimately benchmark the FR 2248 accurately.

Time Schedule for Information Collection and Publication

The census would be mailed in June 2015 and would be due to the Federal Reserve within 15 business days of its receipt by respondents. In an effort to reduce burden and increase response rates, respondents would be encouraged to complete the census online. Also, the Federal Reserve has targeted the period following the March 2015 quarter-end and tax season for mailing the census. Federal Reserve would target the 2nd quarter of 2015 so that the FR 3033s could be deployed on schedule to obtain year-end data.

The Federal Reserve would process the results and approach Reserve Banks in early August 2015 requesting assistance on the nonresponse follow-up. The Federal Reserve believes that the Reserve Banks would spend approximately 20 minutes per follow-up for the census. The total Reserve Bank time for follow-up for the census would be approximately 1,333 hours.

Legal Status

The Federal Reserve Board's Legal Division has determined that the census is authorized by sections 2A and 12A of the Federal Reserve Act (12 U.S.C. §§ 225a, 263, and 348a) and is voluntary. Individual responses are exempt from disclosure pursuant to section (b)(4) of the Freedom of Information Act (5 U.S.C. § 552(b)(4)).

Consultation Outside the Agency

For the renewal of this information collection, the Federal Reserve consulted with AtoZdatabases, Avention, D&B, and Infogroup to identify finance companies as potential respondents for the census.

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 3033p. The comment period for this notice expired on May 11, 2015. The Federal Reserve did not receive any comments. On May 29, 2015, the Federal Reserve published a final notice in the *Federal Register* (80 FR 30680). The Federal Reserve is adopting the revisions as proposed.

Estimate of Respondent Burden

Based on an estimated response rate of 40 percent, 16,000 of the 40,000 companies would complete the census. The total reporting burden for FR 3033p is estimated to be 8,000 hours. The total estimated annual burden represents less than 1 percent of the total paperwork burden for the Federal Reserve System.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
FR 3033p	16,000	1	0.5	8,000

The proposed total cost to the public is estimated to be \$414,000.³

Sensitive Questions

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

³ 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/.

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System is \$230,000 for mailing, collecting, and processing the FR 3033p.