SUPPORTING STATEMENT
Small Business Lending Survey
3064-NEW

The Federal Deposit Insurance Corporation (FDIC) is requesting approval from the Office of Management and Budget (OMB) for a new data collection, the FDIC Small Business Lending Survey. This is a survey of FDIC-insured depository institutions (commercial banks and savings institutions, referred to henceforth as "banks") that is designed to yield heretofore unavailable nationally representative estimates that will describe small business lending conducted by banks. The survey will provide new information on the banks' small business customers, types of loans extended, perceived competition, competitive advantage, and market areas for small business lending. In addition to questions on small business lending, the survey will include some questions related to consumer transaction accounts.

A. JUSTIFICATION

1. Circumstances and Need

Small businesses are an important component of the U.S. economy. According to the Small Business Administration (SBA), small firms accounted for almost half of private-sector employment and 63 percent of net new jobs between mid-1993 and 2013.[1] Many small businesses have little or no direct access to capital markets and are thus reliant on bank financing, both for operating expenses and for investment. For banks, small business lending is an important way that they help meet their communities' needs, especially for the many banks that primarily focus on commercial rather than consumer lending.

Despite the importance of small businesses to the U.S. economy and the importance of bank lending to small businesses, there is little high quality data on small business lending by banks. In the Consolidated Report of Condition and Income (referred to henceforth as the Call Report), banks report their commercial lending in total and separately for three loan size categories ($100,000 or less, greater than $100,000 to $250,000, and greater than $250,000 to $1 million). Loans with origination amounts of more than $1 million are often also extended to small businesses. For example, the maximum loan amount for an SBA 7(a) loan is currently $5 million but the Call Report data do not separately break out loans with origination amounts of greater than $1 million. In addition, the Call Report data contain no information on borrower firm size. In the Community Reinvestment Act (CRA) data, banks report data on commercial loans of up to $1 million that were extended to businesses with revenues of $1 million or less. However, only banks with inflation-adjusted assets of $1 billion or more in two consecutive year-ends are required to report this information; about 12 percent of the roughly 6,500 banks in the United States reported this data in 2014. In addition, the CRA data do not include information on loans extended to businesses with revenues higher than $1 million, many of which are still considered small businesses. For example, baked

[1] https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf, accessed Sep 15, 2015.

goods stores and florists with revenues of up to $7.5 million and jewelry stores with revenues of up to $15 million are considered small businesses for the purposes of Federal Government programs.[2]

The proposed FDIC Small Business Lending Survey, which surveys banks, will provide important data to complement these existing sources of data on small business lending. The proposed survey data will not duplicate existing sources of data and will provide additional insight into many aspects of small business lending, including important, heretofore unavailable, nationally representative information on the general characteristics of small business borrowers to which the banks lend, the types of credit offered to small businesses (such as closed-end loans, lines-of-credit, and credit cards), and the relative importance of commercial lending for banks of different sizes and business models and banks with different levels of urban or rural presence. In addition, the survey will provide new information on banks' market area for small business lending and their perceived competition, and the dimensions on which they compete.

In addition to the questions on small business lending, the new survey will include one section that contains questions related to consumer transaction accounts that are directly responsive to the mandate in Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 ("Reform Act") (Pub. L. 109-173). The mandate calls for the FDIC to conduct ongoing surveys "on efforts by insured depository institutions to bring those individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check cashing account at an insured depository institution (hereafter in this section referred to as the 'unbanked') into the conventional finance system." Section 7 of the Reform Act further instructs the FDIC to consider several factors in its conduct of the surveys, including: "what cultural, language and identification issues as well as transaction costs appear to most prevent 'unbanked' individuals from establishing conventional accounts." The questions in the consumer account section of this new survey are designed to provide a factual basis for examining transaction costs to consumers related to establishing mainstream transaction accounts at banks, and also provide a factual basis for understanding the consumer identification and other requirements for opening bank accounts.

2. Use of Information Collected

The FDIC will use the information collected from the survey to produce studies on small business lending by banks, incorporating information on market areas and competition. We plan to explore if there are differences in small business lending practices across banks of different sizes, banks with different business models, and banks with different urban and rural presences.

The FDIC will also use the consumer account information collected from the survey to produce studies on the costs and other requirements for opening and

[2] https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf, accessed Feb 9, 2016.

maintaining basic, entry-level consumer deposit accounts at banks, banks' general overdraft practices for these accounts, and their policies with respect to identification and other screening requirements for opening these accounts.

3. Use of Technology to Reduce Burden

The Census Bureau, with which the FDIC has contracted to collect the survey data, will collect this data using a web interface that will be user-tested to ensure comprehensibility and ease-of-use. In addition, to ensure that the appropriate bank personnel respond to survey questions to which they have subject-matter expertise, we have organized the questions into distinct sections that can be accessed independently and answered by different bank personnel, reducing the need to coordinate among potentially several respondents within a bank.

4. Efforts to Identify Duplication

In addition to the call report data and CRA data that were described previously, the FDIC also explored data that are publicly available from the SBA and found very little such data. The FDIC has discussed this survey with SBA leadership from a number of SBA Offices, including the Office of Capital Access, the Office of Entrepreneurial Development, and the Office of Advocacy, who expressed interest in what the results will show.

In addition, FDIC staff met with staff from the Federal Reserve and staff from the Consumer Financial Protection Bureau to ensure that neither of these two agencies had collected, or had plans to collect, similar data that would be duplicative of the data to be collected by the FDIC Small Business Lending Survey.

5. Minimizing the Burden on Small Entities

The FDIC has made a concerted effort to streamline the survey and reduce the burden associated with providing responses. This effort included conducting three rounds of cognitive testing with 40 banks of different sizes, headquartered in 10 states and serving different types of market areas, in order to ensure that the survey will capture useful information while minimizing response burden. In response to feedback from the cognitive testing, the FDIC has included in the survey only questions that rely on expert knowledge and do not require the gathering of data, or questions that only require data that can be provided from core data systems or from existing internal reports. Additionally, the FDIC has reduced the number of questions that will be answered by small banks, specifically those with less than $1 billon in assets.

6. Consequences of Less Frequent Collection

The Small Business Lending Survey is currently planned to be a one-time survey.

7. Special Circumstances

There are no special circumstances.

8. Consultation with Persons Outside the FDIC

On October 7, 2015 (80 FR 60678), the FDIC issued a request for comment on a proposed new collection of information, a Small Business Lending Survey of banks that is proposed to be fielded beginning in late June 2016. The FDIC received two comments related to this survey effort.

One commenter suggested that the FDIC separate the proposed survey into two separate surveys, one on small business lending and one on consumer bank accounts, in order to encourage participation, reduce the burden on respondents and ensure the accuracy of information collected regarding consumer bank accounts. To ensure accurate responses and minimize the effort necessary to gather information needed for responses, the FDIC conducted three rounds of cognitive testing of the survey questions across the U.S. in 10 states with 40 banks of different sizes and that serve different types of market areas. The cognitive testing was conducted to ensure that the survey questions are clearly worded and understood by bank personnel, and primarily draw on expert knowledge or data available in existing internal reports. To ensure that the appropriate bank personnel respond to the survey questions for which they have subject-matter expertise, the FDIC has also organized the questions into distinct sections that can be accessed independently and answered by different bank personnel. In addition, the section containing the consumer bank account questions has been renamed "Information about Consumer Bank Accounts" to more clearly indicate its focus. Fielding two separate surveys at about the same time may decrease participation for both surveys, and may increase the challenge of communicating with banks about the surveys, resulting in increased confusion.

One commenter recommended that the FDIC accurately explain the goal of the consumer bank account questions. The FDIC has revised the introduction to the "Information about Consumer Bank Accounts" section that explains the purpose of the consumer bank account questions. Additionally, the FDIC will transmit the survey to respondent banks with a cover letter, which will include an overview of the survey and a discussion of the motivation for each section.

One commenter queried whether the question regarding "network branded general purpose reloadable prepaid cards" is intended to identify the universe of alternatives to full-service checking accounts offered by insured depository institutions, and, more specifically, expressed concern regarding the lack of definition of "network branded general purpose reloadable prepaid cards." The FDIC intends this question to inquire about a specific type of card-based product offered by some insured depository institutions, not the universe of alternatives to full-service checking accounts. This question has been edited to refer specifically to "a Visa or MasterCard branded general purpose reloadable (GPR) prepaid card that your bank markets directly to consumers in your market area." This revision is in response to feedback that the FDIC received from the three rounds of cognitive testing with banks of different sizes and that serve different types of markets.

One commenter recommended that two questions about bank applicant screening processes, specifically inquiring whether prior account closure due to account mismanagement or applicant fraud on a prior account would make an applicant ineligible to open a basic, entry-level consumer checking account, be changed from accepting only “yes” and “no” responses to also including a third potential response of “it depends.” This commenter also suggested the addition of a follow-up question asking whether the bank offers an alternative account to those ineligible for the standard checking account. The FDIC has removed from the survey the question regarding applicant fraud on a prior account. The question regarding account mismanagement has been revised to include a third response, that applicants in this situation would be “eligible to open a second-chance account or an account with more limited features.” The additional answer was developed in response to feedback from cognitive testing and is responsive to the suggestion offered here by the commenter.

One commenter cautioned that the FDIC should be mindful of the complexity and range of reasons why unbanked and under banked consumers do not fully engage with the banking system. This commenter expressed concern that the proposed consumer account questions in the survey focus on the costs of bank accounts and prior account mismanagement as impediments to opening bank accounts when studies suggest that the primary reasons for consumers not having an account are not having enough money or not wanting or needing an account. This commenter also cautioned that regulations may impede banks’ ability to offer consumer products that might encourage greater participation within the banking system.

The FDIC is interested in the full range of reasons why some consumers are unbanked. To that end, the FDIC has asked, in each biennial Survey of Unbanked and Underbanked Households, for all the reasons that households are unbanked. The consumer banking section of this survey is intended, in large part, to provide a factual context for interpreting some of the results of other FDIC research efforts into consumer engagement with financial services and institutions. The consumer bank account questions in this survey represent one prong in a multi-pronged approach to understanding how unbanked and lower-income consumers make decisions about using financial services, how banks engage with those consumers through the development of products and services and outreach programs, and contextual factors that influence the choices of both consumers and banks.

One commenter expressed concern regarding the level of effort required of banks, especially community banks, to respond to the survey. The FDIC has made a concerted effort to streamline the survey and reduce the burden associated with providing responses. This effort included three rounds of cognitive testing of the survey questions with banks of different sizes and that serve different types of market areas to ensure that the survey will capture useful information while minimizing response burden. In response to feedback from the cognitive testing, the FDIC has significantly reduced the number of questions in the survey, retaining only questions that rely on expert knowledge and do not require the gathering of data, or questions that only require data that can be provided from core data systems or from existing internal reports. Additionally, the FDIC has also reduced the number of question that will be answered by banks with less than $1 billion in assets. Furthermore, the FDIC has revised the survey to include screener questions that will also reduce the number of questions for banks with $1 billion or more in assets whose systems do not collect specific information. Therefore, the revised survey is now significantly shorter for banks of all sizes.

9. Payment or Gift to Respondents

No payments or gifts will be given to respondents.

10. Confidentiality

The Census Bureau will maintain the confidentiality of the data and information that are the subject of this study in accordance with applicable law, including but not limited to the Privacy Act. Although Title 13 U.S.C. Section 9 does not apply to the work, information, and data that are subject to this study, Census will, nonetheless, hold all data and information obtained in this survey up to the strict standards of Title 13 U.S.C. Section 9. The Census Bureau will take all necessary steps to protect the privacy of the respondents and commercial and proprietary information to the extent allowed by law.

11. Information of a Sensitive Nature

The study does not request any information of a sensitive nature.

12. Estimate of Annual Burden

Number of respondents:
- 1,500 respondents with assets less than $1 billion.
- 500 respondents with assets of $1 billion or greater.

Average time per response:
- 3 hours per respondent with assets of less than $1 billion.
- 6 hours per respondent with assets of $1 billion or greater.

Total burden = (1,500 X 3) + (500 X 6) = 7,500 hours.

13. Capital, Start-up, and Operating Costs

There are no anticipated capital, start-up, or operating costs.

14. Estimates of Annualized Cost to the Federal Government

The estimated annual cost to the FDIC is approximately $809,457.

15. Reason for Change in Burden

This is a new data collection.

16. Publication

The findings of this survey will be published by the FDIC.

17. Exceptions to Expiration Date Display

None.

18. Exceptions to Certification

None.

ATTACHMENTS

A1. FDIC Small Business Lending Survey

A2. Advance Letter