

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

Summary

The Board of Governors of the Federal Reserve System (Board), under delegated authority from the Office of Management and Budget (OMB), proposes to extend for three years, with revision, the voluntary Census of Finance Companies and Survey of Finance Companies, continuing the regular five-year series (the quinquennial) (FR 3033; OMB No. 7100-0277). This information collection includes both the Census of Finance Companies (FR 3033p) and the Survey of Finance Companies (FR 3033s). The data collected from this survey would be used to benchmark the consumer and business finance series collected on the monthly Domestic Finance Company Report of Consolidated Assets and Liabilities (FR 2248; OMB No. 7100-0005) and to increase the Board's understanding of an important part of the financial system.

The first stage of the quinquennial, the FR 3033p was implemented in June 2015 and was sent to all companies that met the criteria developed to identify the potential universe of domestic finance companies. An accurate census was required to form a representative sample of finance companies, to which a more detailed survey would be sent. The census gathered limited information including total assets, areas of specialization, and information on the corporate structure of the companies. The Board identified approximately 40,000 firms to which the census was sent.

From the universe of finance companies determined by the FR 3033p, a stratified random sample of 3,000 finance companies was drawn for the FR 3033s. The survey would be sent in March 2016 and collect detailed information, as of December 31, 2015, from both assets and liability sides of the respondents' balance sheets, along with income and expenses, the number of accounts and offices, and the small-business credit they extend, if any.

The Board proposes to revise the FR 3033s by adding a section to solicit information from the finance companies on income and expenses, number of accounts and offices, and small business credit they extend. Based on an estimated response rate of 40 percent, 1,200 of the 3,000 finance companies would complete the FR 3033s. The reporting burden of the FR 3033s is estimated to be 1,800 hours, which is less than the estimated burden of 2,700 hours for the 2010 Survey of Finance Companies. The total annual burden for the FR 3033 information collection is estimated to increase from 8,000 hours to 9,800 hours.

Background and Justification

Since June 1955, the Board has surveyed the assets and liabilities of finance companies at five-year intervals. Finance companies include companies in which 50 percent or more of assets are held in any of the following types of loan or lease assets: liens on real estate; business loans and leases; consumer loans and leases. For purposes of this survey, finance companies do not include commercial banks, cooperative banks, credit unions, investment banks, savings banks, savings and loan institutions and industrial loan corporations or their subsidiaries. However,

subsidiaries of bank holding companies (BHCs), savings and loan holding companies (SLHCs) or foreign banking organizations (FBOs)¹ whose consumer or business loans or leases made up 50 percent or more of their assets may be considered finance companies. Through 1975, the known universe of finance companies was surveyed. To reduce reporting burden, in 1980, the survey was split into a brief census, 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 a finance company was revised to include companies whose real estate loans made up 50 percent or more of their assets; this change effectively brought mortgage companies into the sample. In addition, the survey was revised to instruct finance companies to include the assets and liabilities of their mortgage company subsidiaries.

The Board 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 FR 2248, which is collected from an even smaller longitudinal subsample of surveyed companies. These data are used in internal analysis and estimated aggregate statistics are reported to the public in two monthly statistical releases: *Finance Companies* (G.20) and *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 due to firm entries, exits and mergers that lead to the deterioration of the representativeness of the monthly longitudinal sample.

In addition to benchmarking the above data releases, information from the quinquennial survey also provides Board staff 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 20 percent of total consumer credit outstanding (a market share second to that of commercial banks) and a significant share of the short- and intermediate-term business finance market.

Finance companies played a major role in the financial crisis, dominating the subprime mortgage market (Chomsisengphet and Pennington-Cross (2006)). Outside of the subprime sector, finance companies are thought to account for half of all mortgage originations, with a higher share among FHA-guaranteed mortgage originations. In 2007 and 2008, many finance companies experienced severe liquidity pressures that resulted in a wave of failures. Furthermore, finance companies are significant issuers of commercial paper and had been major users of the Term Asset-Backed Securities Lending Facility (TALF). Historically, regulation of this sector has been light, raising the possibility that finance companies might continue to be the conduit for high risk loans to the household sector. More immediately, as the nonbank lending arms of holding companies are finance companies, understanding the nature of these companies is a necessary step in developing policies for consolidated regulation.

¹ Although the Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies (FR Y-11 and FR Y-11S; OMB No. 7100-0244) and the Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations (FR Y-7N and FR Y-7NS; OMB No. 7100-0125) collect balance sheet and income statement information from the subsidiaries of HCs and FBOs, these reports do not provide the level of granularity necessary to produce detailed series on consumer, real estate, and business credit at finance companies.

Description of Information Collection

FR 3033p

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.

FR 3033s

The FR 3033s would collect balance sheet data on major categories of consumer and business credit receivables and major liabilities. The Board also proposes to gather information on the company's income and expenses, number of accounts and offices, and the small business credit they supply.

Proposed Revisions

The Board proposes to revise the FR 3033s to improve the ability of staff to analyze the cost structure and profitability of the finance companies, and to explore the questions of economies of scale and elasticity of costs by loan size. The Board proposes the following revisions to the survey:

Remove section – Assets Serviced for Others, Geographic Scope of Business, and Office Locations.

- Remove Questions 10-12, as they were special-topic questions added for the 2010 survey.

Revise Question 3.C.2 (Commercial, Industrial, and Agricultural Equipment Loans).

- Split this item into two parts: 3.C.2(a) which asks about the revolving, open-end loans, and 3.C.2(b) which is for closed-end loans. Finance companies are relatively important providers of revolving credit to businesses. The proposed change would be consistent with the treatment of revolving credit to consumers and for real estate loans on this survey form.

Add section – Income, Expenses, and Scale of Operations.

- Add a Question 10 with 12 sub-items and a Question 11 with 3 sub-items to collect the income, expenses, number of accounts, and number of U.S. offices from finance companies. These data relate directly to public policy issues regarding the ability of small and specialized finance companies to compete with large and diversified companies and the availability of credit to businesses and households. The data will help answer questions about the cost structure and profitability of the finance companies and facilitate studies on the economies of scale and elasticity of costs by loan size. The data are not available from any other source, and no other entity is in a position to collect data on the cost structure of the industry. The proposed questions follow customary reporting practices in the industry and are similar to those used in 1989, which was the last time such data were collected. Advances in credit reporting (credit bureaus) and information

processing technology (credit scoring) make 1989 data obsolete. The common questions will help facilitate comparisons of the new information with earlier data.

Add section – Small Business Credit.

- Add a Question 12 with 4 subparts to collect information on the small business credit that finance companies supply. Small businesses comprise a large and very important segment of the US economy. They account for about half of all private sector employment and about two-thirds of net new private sector jobs (see www.sba.gov/sites/default/files/advocacy/FAQ_March_2014_0.pdf). Thus, the formation and growth of small businesses has important implications for the macroeconomy. In order to grow and thrive, many small businesses require access to financing. Small firms generally have more limited alternatives to bank financing than do larger firms, and finance companies are one alternative. The Board currently does not have information on the amount of credit that is provided to small businesses by finance companies. The addition of these new questions will help to fill this gap in our knowledge regarding credit flows to small businesses.

Reporting Panel

The Board proposes keeping the FR 3033s survey sample size at 3,000 finance companies, as in 2010. As a result of the FR 3033p responses, the Board identified the universe of finance companies for the survey.² The survey is stratified by size of total assets and by specialization in receivables. The survey sample includes all FR 3033p respondents that reported at least \$1 billion in total assets. For coverage of smaller respondents³, the main survey sample includes a sufficient number of companies with assets under \$1 billion to provide adequate representation for the expected analytical purposes.

In 2010, the Board sent the survey to 2,348 finance companies and received 911 responses (39 percent). After additional data cleaning, 692 of these 911 responses were deemed to be usable. The 2010 population size, total sample, and the number of usable responses in each stratum are shown in Table 1.

Given that the universe of finance companies has most likely changed since December 2010, error estimates based on the 2010 data must be interpreted as a rough guideline for the census panel structure. The Board calculated the standard errors of aggregate levels of finance company receivables in selected balance sheet categories in Table 2. Response rates for the upcoming FR 3033s may fall below the level of 2010, but the Board will make a concerted effort to raise response rates, and the estimated standard errors would fall if this effort is successful.

² The Board has the following pre-determined set of characteristics to internally determine if the respondent is a finance company. A finance company is defined as (1) a domestic entity, (2) a company with 50 percent or more of its assets in the form of loans or leases, and (3) a nondepository institution.

³ For the purposes of this proposal, the term small or smaller respondent or company is defined as a company that reports less than \$1 billion in assets.

Table 1
Survey Response Distribution by Asset Size of Finance Company

Asset size	2010 FR 3033p Estimated population	2010 FR 3033s Total sample	2010 FR 3033s Number of usable responses
Less than \$1 million	2,339	943	170
\$1 to less than \$10 million	1,348	702	200
\$10 to less than \$100 million	1,261	472	186
\$100 million to less than \$1 billion	290	153	88
\$1 to less than \$3 billion	63	39	15
\$3 to less than \$20 billion	25	21	16
\$20 billion or more	20	18	17
Totals	5,346	2,348	692

Table 2
Standard Errors of Aggregate Levels of Finance Company
Receivables in Selected Balance Sheet Categories
(\$ in billions with % of outstanding in parentheses)

Financial items	2010 Panel size
	2,348
	Number of usable responses
	692
Total	41.77 (2.22)
Total consumer	26.15 (3.20)
Motor vehicle	9.24 (2.37)
Revolving	5.43 (6.49)
Other	12.83 (3.72)
Real estate	7.19 (2.91)
Total business	17.17 (4.13)
Motor vehicle	4.65 (3.94)
Equipment	9.16 (4.38)
Other	3.86 (4.36)
Bank loans	6.56 (6.79)

To cope with the expected level of nonresponse to the survey, the Board intends to select a subsample of non-respondents for further follow-up that would include both additional letters and phone calls. The follow-up study would explore nonresponse bias and would include questions related to, but not necessarily identical to, the survey questions. These follow-up questions may be helpful in understanding the key dimensions of nonresponse.

Frequency

The Board will retain the five-year frequency of the survey. Conducting the survey less frequently would be undesirable because it would lengthen the time between benchmarks of the FR 2248, which in turn would decrease the accuracy of the aggregate estimates.

Time Schedule for Information Collection and Publication

The FR 3033p was mailed to the respondents in June 2015 and responses were due to the Board within 15 business days of its receipt by respondents. In an effort to reduce burden and

increase response rates, respondents were encouraged to complete the census online. Also, the Board targeted the period following the March 2015 quarter-end and tax season for mailing the census. The Board targeted the 2nd quarter of 2015 so that the FR 3033s could be deployed on schedule to obtain year-end data. The Board processed the results and the Federal Reserve Banks conducted follow-up telephone calls of selected companies that did not respond to the census in early August 2015.

The FR 3033s would be mailed in late March 2016. The respondent panel of 3,000 finance companies would include 52 companies that are FR 2248 reporters and 2,948 companies that are non-reporters. Respondents would be directed to either complete the survey online or mail paper responses to the Board. Before commencement of the FR 3033s, post cards were mailed to respondents to thank them for taking part in the FR 3033p and to encourage their participation in the FR 3033s as well.

To maximize the response rate, the timing of the FR 3033s would coincide as closely as possible to fourth-quarter SEC 10-K filings. The Board believes that by targeting the time period just after the 10-K filings, it is more likely that respondents will have the necessary information easily available to complete the FR 3033s. The survey would be mailed after March 21, 2016, with instructions to respond by April 21, 2016. After April 21, 2016, follow-up mailings would be sent to companies that do not respond and follow-up calls would be made after June 1, 2016.

Once the data from FR 3033s have been analyzed, they would be used as a benchmark to the FR 2248 for the period December 2010 through December 2015. It is anticipated that this phase of analysis would be completed by mid-2017, at which time benchmark estimates based on the FR 3033s data would be publicly reported. The newly benchmarked series would be published at a later date in the Board's monthly *Finance Companies* (G.20), monthly *Consumer Credit* (G.19), and quarterly *Flow of Funds Accounts of the United States* (Z.1) releases.

Legal Status

The Board's Legal Division has determined that section 2A of the Federal Reserve Act (FRA) requires that the Board and the Federal Open Market Committee maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates (12 U.S.C. § 225a). Under section 12A of the FRA, the Federal Open Market Committee is required to implement regulations relating to the open market operations conducted by Federal Reserve Banks with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country (12 U.S.C. § 263). Section 14 of the FRA authorizes the reserve banks, under rules and regulations prescribed by the Board, to engage in open market operations (12 U.S.C. § 355-59). Because the Board and the Federal Open Market Committee use the information obtained on the FR 3033 to fulfill these obligations, these statutory provisions provide the legal authorization for the collection of information on the FR 3033. The FR 3033 is voluntary.

The FR 3033 informs respondents that answers will be kept confidential. Though a promise of confidentiality may not be dispositive, commercial and financial information

contained in individual responses collected on the FR 3033 may be exempt from disclosure under exemption 4 of the Freedom of Information Act (5 U.S.C. § 552(b)(4)), if disclosure would likely have the effect of (1) impairing the government's ability to obtain the necessary information in the future, or (2) causing substantial harm to the competitive position of the respondent. The types of information contained on the FR 3033 would appear to be the type of commercial or financial information covered by exemption 4.

Consultation Outside the Agency

On January 12, 2016, the Board published a notice in the *Federal Register* (81 FR 1421) requesting public comment for 60 days on the extension, with revision, of the FR 3033. The comment period for this notice expired on March 14, 2016. The Board did not receive any comments. On March 21, 2016, the Board published a final notice in the *Federal Register* (81 FR 15109) for the FR 3033.

Estimate of Respondent Burden

The total reporting burden for FR 3033p is estimated to be 8,000 hours. Based on an estimated response rate of 40 percent, approximately 1,200 of the 3,000 finance companies would complete the FR 3033s. The total reporting burden for FR 3033s is estimated to be 1,800 hours. The total annual burden for the FR 3033 information collection is estimated to increase from 8,000 hours to 9,800 hours. These reporting requirements represent less than 1 percent of total Federal Reserve System paperwork burden.

	<i>Number of respondents</i>	<i>Annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 3033p	16,000	1	0.5	8,000
Proposed				
FR 3033p	16,000	1	0.5	8,000
FR 3033s	1,200	1	1.5	<u>1,800</u>
	<i>Total</i>			9,800
	<i>Change</i>			1,800

The total annual cost to the public for this information collection is estimated to be to \$414,000 and would increase to \$507,150.⁴

Sensitive Questions

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

Estimate of Cost to the Federal Reserve System

The estimated cost to the Federal Reserve System for collecting and processing the FR 3033p is \$230,000 and for the FR 3033s is \$26,000.

⁴ 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/.