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

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, without revision, two consumer credit reports:

- 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, as such, these data provide 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; and in the Federal Reserve Bulletin. 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 total annual reporting burden for the two consumer credit reports is estimated to be 274 hours.

Background and Justification

The Federal Reserve has been the primary producer of aggregate statistics related to U.S. 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 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.[1]

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

[1] 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.

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.[2] 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 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 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. In 2015, the FR 2835 added an item to collect the most common rate on 72-month loans for new automobile loans.

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 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.

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.

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

The reporting panel for the FR 2835 consists of commercial banks. There are currently 116 commercial banks on the panel.[3] 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).

The data are collected quarterly, in 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.

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.

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

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[3] As of November 2017.

[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).

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 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.

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.

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[5] The magnitude and even the 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 changes, 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, FFIEC 041, and FFIEC 051; 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.

Based on previous filings, there are currently 36 commercial banks on the panel.[7] Although the current respondents represent the largest issuers of bank credit cards, the Federal Reserve will continue 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.

The data are collected quarterly, in 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.

Given the 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

The FR 2835 data are collected quarterly, in February, May, August and November, and correspond to the calendar week beginning on the first Monday of the survey month, with the as-of date being the Saturday of that week. The FR 2835a data are submitted quarterly for February, May, August, and November. The FR 2835 and FR 2835a reports are submitted electronically via the Reporting Central application or by paper to the appropriate Reserve Banks.

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.[8] The G.19 is released on or about the fifth business day of the second month following the reference month. The release contains 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.*

Legal Status

The FR 2835 and FR 2835a is authorized by sections 2A and 11 of the Federal Reserve Act (FRA). Section 2A of the FRA (12 U.S.C. 225a) requires that the Board and the Federal Open Market Committee (FOMC) 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. Section 11 of the FRA (12 U.S.C. 248(a)) authorizes the Board to require reports from each

[7] As of November 2017.

member bank as it may deem necessary and authorizes the Board to prescribe reports of liabilities and assets from insured depository institutions to enable the Board to discharge its responsibility to monitor and control monetary and credit aggregates. The information collected on the FR 2835 and FR 2835a assist the Board and the FOMC with fulfilling these obligations. Both the FR 2835 and FR 2835a are voluntary.

With respect to the FR 2835, only the narrative information to explain large fluctuations in reported data is considered confidential. With respect to the FR 2835a, the individual respondent data is considered confidential. Such treatment is appropriate because the data is not publicly available and the public release of this data is likely to impair the Board's ability to collect necessary information in the future and cause substantial harm to the competitive position of the respondent. Thus, this information may be kept confidential under exemption (b)(4) of the Freedom of Information Act, which exempts from disclosure "trade secrets and commercial or financial information obtained from a person and privileged or confidential" (5 U.S.C. 552(b)(4)).

Consultation Outside the Agency

On February 21, 2018, the Board published an initial notice in the *Federal Register* (83 FR 7475) requesting public comment for 60 days on the extension, without revision, of the FR 2835 and FR 2835a. The comment period for this notice expired on April 23, 2018. The Board did not receive any comments. On May 15, 2018, the Board published a final notice in the *Federal Register* (83 FR 22487) and the FR 2835 and FR 2835a will be extended as proposed.

Estimate of Respondent Burden

As shown in the table below, the total annual reporting burden for the FR 2835 and FR 2835a is estimated to be 274 hours. These reporting requirements represent less than 1 percent of the total Federal Reserve System paperwork burden.

	Number of Respondents[8]	*Annual frequency*	*Estimated average hours per response*	*Estimated annual burden hours*
FR 2835	150	4	0.29	174
FR 2835a	50	4	0.50	100
Total				274

[8] Of these respondents, 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/document/support--table-size-standards.

The total cost to the public is estimated to be $15,358 for the FR 2835 and FR 2835a.[9]

Sensitive Questions

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

Estimates of Costs to the Federal Reserve System

The current cost to the Federal Reserve System for collecting and processing the FR 2835 is estimated to be $36,200 per year. The current cost for collecting and processing the FR 2835a is estimated to be $28,400 per year.

[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 $18, 45% Financial Managers at $69, 15% Lawyers at $68, and 10% Chief Executives at $94). 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 2017*, published March 30, 2018, www.bls.gov/news.release/ocwage.t01.htm. Occupations are defined using the BLS Occupational Classification System, www.bls.gov/soc/.