

**Supporting Statement for the
Survey of Small Business and Farm Lending
(FR 2028; OMB No. 7100-0061)**

Summary

The Board of Governors of the Federal Reserve System (Board), under authority delegated by the Office of Management and Budget (OMB), has extended for three years, with revision, the Survey of Small Business and Farm Lending (SSBFL) (FR 2028; OMB No. 7100-0061). This information collection comprises the following three reports:

- Survey of Terms of Bank Lending to Farmers (FR 2028B),
- Prime Rate Supplement of Survey of Terms of Lending (FR 2028S), and
- Small Business Lending Survey (FR 2028D).

The SSBFL collects unique information concerning price and certain nonprice terms of loans made to businesses and farmers each quarter (February, May, August, and November) from a sample of banks. The FR 2028B collects detailed data on individual loans funded during the first full business week of the mid-month of each quarter, and the FR 2028S collects the prime interest rate for each day of the survey week from FR 2028B respondents. The FR 2028D provides focused and enhanced information on small business lending including rates, terms, credit availability, and reasons for their changes. The FR 2028D collects quarterly average quantitative data on terms of small business loans and qualitative information on changes and the reasons for changes in the terms of lending. From these sample SSBFL data, estimates of the terms of business loans and farm loans extended are constructed. The aggregate estimates for business loans are published in the Federal Reserve Bank of Kansas City's quarterly release, *Small Business Lending Survey*, and aggregate estimates for farm loans are published in the statistical release, *Agricultural Finance Databook*.

The Federal Reserve revised the FR 2028D form and instructions. The revisions consist of deleting items, adding items, and modifying or clarifying instructions of existing data items. The Federal Reserve made these changes in an effort to clarify the expectations and intent of reporting instructions and requirements, to improve data quality, and to make slight reductions in reporting burden. One revision added an item to increase clarity in how respondents are defining small business lending for the collection of FR 2028D quantitative loan data. Other revisions reduce survey burden by eliminating questions from the survey form. The revisions are effective for the September 30, 2023, as of date, with the transmission period beginning on October 1, 2023, based on loan activity over the third quarter 2023. No changes are being made to the FR 2028B and FR 2028S.

The current estimated total annual burden for the FR 2028 is 6,276 hours, and would decrease to 5,958 hours. The FR 2028D revisions would result in a decrease of 318 hours. The forms and instructions are available on the Board's public website at <https://www.federalreserve.gov/apps/reportingforms>.

Background and Justification

Analyses of the SSBFL data provide estimates of the cost of important segments of nonfarm 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 pricing for individual loans of all sizes to nonfarm businesses and farmers. Since its inception in February 1977, the SSBFL has been periodically revised to accommodate changes in lending practices.

Survey of Terms of Bank Lending to Farmers (FR 2028B)

The FR 2028B 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 Congress, other government agencies, the media, and academics. This survey collects basic information that the Federal Reserve also 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 FR 2028B provided a timely indicator of the possible effects of the drought on the terms of loans for various purposes. More recently, the FR 2028B 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.

Data from the FR 2028B have been very useful in monitoring the ongoing adjustment of rural banks to the more volatile supply of, and demand for, loan funds in 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 FR 2028B 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 availability of a historical series on farm lending also 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 FR 2028B 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 FR 2028B 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.¹ The FR 2028B data have also been used to analyze recent farm debt trends in relation to historical agricultural boom and bust cycles.²

Prime Rate Supplement to Survey of Terms of Lending (FR 2028S)

The FR 2028S collects quarterly data on prime interest rates as a supplement to the FR 2028B. The prime rate, an administered rate, remains the base rate banks use to price a significant portion of the loans covered by the FR 2028B.³ The prime rate is by far the most common base rate used to price variable rate business and farm loans at small and medium-sized banks. Even for large borrowers and the largest banks, the prime rate is a pricing option frequently available along with market-related rates. 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. It also provides valuable information about variations in the prime-lending rate across banks, which can be considerable.

Small Business Lending Survey (FR 2028D)

The FR 2028D collects quantitative and qualitative information that the Federal Reserve uses to monitor developments in the availability of credit to small businesses. The survey is timed to make reports on developments in small business lending available for the second Federal Open Market Committee meeting of each quarter. The data is also available for Federal Reserve System economists and other staff to use for research purposes.

The FR 2028D improves the ability to assess and analyze developments in nonfarm small business credit markets and to answer policy questions in a timely manner. The information collected is not available from existing or planned surveys conducted by either the private or public sectors. Bank lending to small businesses is critical for employment and economic growth at the local, regional, and national levels because it is a primary source of funding for these businesses. The FR 2028D was created due to the inability to answer basic policy questions raised by Federal Reserve policymakers on small business credit during the recent financial crisis and subsequent recovery. It also contributes to a better understanding of the role of community

¹ 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.

² 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.

³ The FR 2028S defines the prime rate to be "the 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."

banks in providing loans to small businesses and on small business access to credit in local communities.

The FR 2028D also improves upon current information on outstanding loans collected on the Report of Condition and Income (Call Reports) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB No. 7100-0036), which collects data on loans less than a certain dollar amount rather than on loans to small businesses. The Call Report data may result in information distortions about the availability of credit to small businesses because not all small loans are made to small businesses. The FR 2028D data collection addresses the gaps in existing and planned new surveys on small business lending. In addition, other Federal Reserve reports that have been developed in recent years provide information on large nonfarm business loans. As a result, the information used for assessing and analyzing developments in nonfarm business credit markets is improved by combining the FR 2028D data collection on the terms of small business loans with the existing reports on large business loans.

Description of Information Collection

Survey of Terms of Bank Lending to Farmers (FR 2028B)

The FR 2028B collects unique information from a stratified sample of up to 250 banking institutions on lending terms for farm borrowers including interest rates for loans of \$3,000 or more; the primary purpose of the loan; and the maturity, commitment, Federal Insurance, and syndication statuses of the loan.

Prime Rate Supplement to Survey of Terms of Lending (FR 2028S)

The FR 2028S collects the prime interest rate for loans for each day of the survey week from FR 2028B respondents and serves as a supplement to the data collected in the FR 2028B.

Small Business Lending Survey (FR 2028D)

The FR 2028D collects information on loans to small businesses from a stratified sample of up to 398 banking institutions. The survey is administered at a quarterly frequency and distributed during the first month of each quarter. Survey responses are based on loan activity over the previous quarter. Quantitative information collected includes the aggregate number and dollar amount of outstanding loans and new loans extended by banks to small businesses each quarter, as well as line-of-credit drawdowns and the average interest rate. Loans are separated into two categories: term loans and lines of credit, with each category further separated into fixed rate and variable rate. Additionally, quantitative information on loan maturity and the use of interest rate floors is collected. The FR 2028D also collects quantitative information on applications approved during the survey quarter.

Qualitative information collected by the FR 2028D includes questions to gauge changes in lending terms, loan demand, and credit standards for small business loans during the survey

period.⁴ Furthermore, respondents are asked to identify possible reasons for indicated changes in lending terms or credit standards. The survey also includes qualitative questions on the demand for small business loans, changes in credit line usage, and changes in the credit quality of small business loan applicants. Respondents are asked to identify potential factors underlying a reported change in applicant credit quality (e.g., credit scores, quality of collateral) and to identify top reasons for denying small business loans during the survey quarter.

Respondent Panel

The FR 2028B panel has an authorized size of 250 domestically chartered commercial banks. The panel of banks has been drawn from a random sample of banks stratified according to farm loan volumes since 1989. Since that time, the authorized size of the panel has been 250 banks, with 164 banks currently reporting. The number of respondents is less than the authorized size due to mergers among reporters and loss of respondents due to the voluntary nature of the panel. Table 1 presents the number of reporters disaggregated by Federal Reserve District and by bank-size group for the current panel. If the authorized size of the panel is reduced to 164, the standard errors for the data items would increase 23 percentage points. Moreover, the standard errors on the regional estimates, which are based on smaller samples, likely would be greatly increased. In addition, the Federal Reserve has implemented an on-going effort to recruit new reporting banks and expand the panel to the authorized size of 250. Consequently, the recommendation is not to change the authorized number of banks.

⁴ The inclusion of qualitative questions, which are the same as those in the Senior Loan Officer Opinion Survey on Bank Lending Practices (FR 2018; OMB No. 7100-0058), is meant to supplement the existing FR 2018 data to get a more comprehensive view of the availability of credit to businesses. Importantly, the definitions of a small business are different in the FR 2018 and the FR 2028D. The FR 2018 covers lending to both small and large firms and defines small firms as those with annual sales of less than \$50 million, which is significantly larger than the \$5 million threshold in the FR 2028D. Furthermore, the FR 2018 panel only includes large institutions while the FR 2028D panel is a stratified sample of up to 398 domestic banks and includes institutions of all sizes. Therefore, there is not much overlap in the panels for the two data collections.

Table 1
Number of Reporters on FR 2028B and FR 2028S

District	Number of Small FR 2028B and FR 2028S Respondents ⁵	Number of Large FR 2028B and FR 2028S Respondents ⁶
1	0	0
2	0	1
3	0	3
4	11	13
5	4	2
6	3	4
7	24	1
8	14	8
9	11	2
10	34	10
11	6	6
12	3	4
TOTAL	110	54

The authorized panel for the FR 2028D panel is 398 domestically chartered commercial banks. The size is based on obtaining survey results with a 95% confidence level and 5% standard error, allowing for a 10% nonresponse rate. The panel of banks is a random sample of banks stratified according to the dollar volumes of commercial and industrial loans with original amounts of \$1,000,000 or less. Table 2 presents the current number of reporters disaggregated by district and by bank size group for the panel.

The number of respondents is less than the authorized panel size due primarily to the voluntary nature of the report, recruiting challenges during the pandemic, and because it is a relatively new survey. If the authorized size of the panel is reduced to 122, the standard errors for the data items would increase 81 percentage points. No changes to the authorized panel size are recommended.

⁵ Institutions with total consolidated assets less than \$750 million.

⁶ Institutions with total consolidated assets of \$750 million or more.

Table 2
Number of Reporters on FR 2028D Panel

District	Number of Small FR 2028D Respondents⁷	Number of Large FR 2028D Respondents⁸
1	0	5
2	0	6
3	0	8
4	2	12
5	4	6
6	3	10
7	7	13
8	1	1
9	4	3
10	7	14
11	0	8
12	1	7
TOTAL	29	93

Frequency and Time Schedule

The FR 2028B, FR 2028S, and FR 2028D are submitted quarterly. The FR 2028B and FR 2028S are filed every mid-quarter as of the first full week of February, May, August, and November. The FR 2028D transmission period begins the day following the last day of each calendar quarter (March, June, September and December) and concludes 14 days after the first business day in the second month of each quarter.

Revisions to the FR 2028D

The Federal Reserve revised the FR 2028D form and instructions, effective for the September 30, 2023, as of date with the transmission period beginning on October 1, 2023, based on loan activity over the third quarter 2023. The revisions add clarity in reporting instructions and requirements, improve data quality, and make slight reductions in reporting burden. These changes include removing items related to credit card lending and net drawdowns on lines of credit. A question requesting information on how respondents define small businesses for the purposes of small business lending would be added. Additionally three questions were modified to add open-ended text fields offering respondents the opportunity to provide additional information on reasons for changes in lending. Minor wording changes are proposed to the form and instructions to add clarity to the survey or address changes to the form. Additionally, minor changes were made to the Frequently Asked Questions section to increase clarity of form definitions.

⁷ Institutions with total consolidated assets less than \$750 million.

⁸ Institutions with total consolidated assets of \$750 million or more.

FR 2028D Deletions

Questions determined to provide lower value, in comparison to the burden imposed on respondents required to track and respond, were removed from the survey. Specifically, a survey question requesting net amounts of drawdowns on commercial and industrial (C&I) commitments broken out by fixed rate and variable rate was removed. Additionally, questions related to new and outstanding credit card loans were removed, eliminating 6 questions each for fixed rate and variable rate small business C&I loans along with one qualitative question.

FR 2028D Additions

An open-ended question was added to increase clarity in how respondents are defining small business lending for quantitative and qualitative loan data. The question clarifies whether a respondent is utilizing the survey definition of a small business, non-farm businesses domiciled in the U.S. with no more than \$5 million in total annual revenue, or another internal definition. Current reporters would be asked to respond annually to the new question or when a change occurs in their internal small business definition. First time reporters would respond in the quarter that they are added to the respondent panel. Additionally three questions were modified to add voluntary open-ended text fields, offering respondents the opportunity to provide additional information on reasons for changes in credit standards/terms and credit quality of applicants.

Public Availability of Data

The Federal Reserve Bank of Kansas City publishes aggregated data for the FR 2028B and FR 2028D in separate quarterly statistical releases on its public website at <https://www.kansascityfed.org/research/>. Aggregate information on farm loans from the FR 2028B is also published in the quarterly statistical release, National Survey of Terms of Lending to Farmers, <https://www.kansascityfed.org/agriculture/agfinance-updates/>. The aggregate survey results are also included in statistical compilations published both within and outside the Federal Reserve. Aggregate information on small business loans from the FR 2028D is published in a quarterly statistical release approximately ten weeks after the transmission period begins on the Federal Reserve Bank of Kansas City's public website, <https://www.kansascityfed.org/surveys/small-business-lending-survey/>, and on the Board's website, <https://www.federalreserve.gov/data.htm>.

Legal Status

The FR 2028 is authorized by section 11(a)(2) of the Federal Reserve Act (12 U.S.C. § 248(a)(2)), which authorizes the Board to require any depository institution to make such reports of its assets and liabilities as the Board may determine to be necessary or desirable to enable the Board to discharge its responsibilities to monitor and control monetary and credit aggregates. Survey submissions are voluntary.

Individual respondents may request that information submitted to the Board through a survey under FR 2028 be kept confidential. If a respondent requests confidential treatment, the

Board will determine whether the information is entitled to confidential treatment on a case-by-case basis. Information collected through these surveys may be kept confidential under exemption 4 for the Freedom of Information Act (FOIA) (5 U.S.C. § 552(b)(4)), which protects privileged or confidential commercial or financial information, or any other applicable FOIA exemption.

Consultation Outside the Agency

There has been no consultation outside the Federal Reserve System.

Public Comments

On March 1, 2023, the Board published an initial notice in the *Federal Register* (88 FR 12934) requesting public comment for 60 days on the extension, with revision, of the FR 2028. The comment period for this notice expired on May 1, 2023. The Board did not receive any comments. The Board adopted the extension, with revision, of the FR 2028 as originally proposed. On June 7, 2023, the Board published a final notice in the *Federal Register* (88 FR 37249).

Estimate of Respondent Burden

As shown in the table below, the estimated total annual burden for the FR 2028 surveys is 6,276 hours, and would decrease to 5,958 hours with the revisions. The Federal Reserve estimates that the average hours per response for the FR 2028D would decrease by 0.2 hours. These reporting requirements represent less than 1 percent of the Board's total paperwork burden.

FR 2028	<i>Estimated number of respondents⁹</i>	<i>Estimated annual frequency</i>	<i>Estimated average hours per response</i>	<i>Estimated annual burden hours</i>
Current				
FR 2028B	250	4	1.4	1,400
FR 2028S	250	4	0.1	100
FR 2028D	398	4	3.0	<u>4,776</u>
	<i>Current Total</i>			6,276
Proposed				
FR 2028B	250	4	1.4	1,400
FR 2028S	250	4	0.1	100
FR 2028D	398	4	2.8	<u>4,458</u>
	<i>Proposed Total</i>			5,958
	<i>Change</i>			(318)

The estimated total annual cost to the public for the FR 2028 surveys is \$415,785, and would decrease to \$394,718 with the revisions.¹⁰

Sensitive Questions

These collections of information contain 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 2028 surveys is \$241,700.

⁹ Of the actual respondents, 110 for the FR 2028B and FR 2028S and 29 for the FR 2028D are considered small entities as defined by the Small Business Administration (i.e., entities with less than \$750 million in total assets), <https://www.sba.gov/document/support-table-size-standards>. There are no special accommodations given to mitigate the burden on small institutions.

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 \$22, 45% Financial Managers at \$80, 15% Lawyers at \$79, and 10% Chief Executives at \$118). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS), *Occupational Employment and Wages*, May 2022, published April 25, 2023, <https://www.bls.gov/news.release/ocwage.t01.htm>. Occupations are defined using the BLS Standard Occupational Classification System, <https://www.bls.gov/soc/>.