Supporting Statement Part B for the
Senior Loan Officer Opinion Survey on Bank Lending Practices
(FR 2018; OMB No. 7100-0058)

Summary

For all information collections that involve surveys or require a statistical methodology, the Board of Governors of the Federal Reserve System (Board) is required to provide a complete justification and explanation of the use of such a methodology. For collections that employ surveys without such a methodology, the Board should be prepared to justify its decision not to use statistical methods in any case where such methods might reduce burden or improve accuracy of results.

Background

The Federal Reserve originally initiated a survey on bank lending practices in 1964 with a respondent panel of 120 banks, 22 questions, and a reporting frequency of every 3 months. Since then, the respondent panel, questions, and frequency have changed, depending on the conditions at the time.[1] The last important change occurred in May 2012, when the Federal Reserve reduced the minimum asset size for panel institutions and added an additional 20 domestically charted commercial banks to the panel. The expanded panel provided deeper coverage of commercial real estate loans and small business lending, as well as a more comprehensive picture of differences in lending conditions at the largest banks and regional banks.

The information obtained from the survey provides valuable insights on credit market and banking developments and is helpful in the formulation of monetary policy. Information from the survey is reported regularly to the Board and to the Federal Open Market Committee (FOMC) as an official memorandum to FOMC participants and in other internal briefing materials. This information has been particularly valuable in the recent period as it has provided the Federal Reserve with insight into the potential effects of deposit outflows and funding pressures in the banking sector on the availability of credit to households and businesses. The survey has also attracted considerable attention from the business and financial press and is used in academic research on banking and macroeconomic activity.[2] Aggregate survey responses have been used to study the effects of the more stringent international capital requirements commonly referred to

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[1] The survey was conducted five times in 1985, 1986, and 1987, four times in 1988 and 1989, five times in 1990, and six times in 1991. Since that time, it has been conducted four times every year, except for 1998, 2001, and 2020, in which the survey was conducted five times.

[2] Examples of academic research include William F. Bassett III, Mary Beth Chosak, John C. Driscoll, and Egon Zakrajsek (2014). “Changes in Bank Lending Standards and the Macroeconomy,” *Journal of Monetary Economics*, 62(1), pp. 23-40, Juliane Begenau (2020), Capital requirements, risk choice, and liquidity provision in a business-cycle model, 136(2), pp 355-378, Jose M. Berrospide and Rochelle M. Edge (2011). “The Effects of Bank Capital on Lending: What Do We Know, and What Does it Mean?” *International Journal of Central Banking*, 6(4), pp. 5-54, and Kaiji Chen, Patrick Higgins, Tao Zha (2021) Cyclical lending standards: A structural analysis, Review of Economics Dynamics, 42(October), pp 283-306.

as Basel III.[3] The results are also included in the Board's reports to Congress on *Availability of Credit to Small Businesses*, which are produced every five years pursuant to section 2227 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996. The survey results have also been useful in enabling the Federal Reserve to keep abreast of complex banking developments that have evolved over time, and analysis based on the survey results often appears in Federal Reserve publications as the *Monetary Policy Report*, which is submitted to Congress semiannually, and the recently inaugurated *Financial Stability Report*.

In the last several years, the survey has provided critical information on a number of important banking topics. Recent special questions have addressed issues in rapidly changing credit markets, banks' lending terms and outlook for commercial real estate lending standards and demand, banks' assessments of the levels of their lending standards relative to longer-term norms, and banks' expectations about changes in asset quality and credit standards over the coming year. Regarding lending to households, the survey has provided valuable information on timely topics including the asset quality of consumer loans in areas most affected by falling energy prices and the likelihood of approving credit card applications by borrowers' credit score. In addition, the survey helped shed light on broader issues, such as the relationship between banks' lending policies and movements in the yield curve for Treasury securities, and the factors that influenced banks' and borrowers' participation in the Main Street Lending Program.

Universe and Respondent Selection

The FR 2018 panel comprises domestically chartered commercial banks and U.S. branches and agencies of foreign banks. As of March 31, 2023, the universe of domestically chartered commercial banks comprised over 4,100 banks, and the universe of foreign branches and agencies included over 180 entities. In addition, the Federal Reserve has the option to survey other types of respondents (such as other depository institutions, bank holding companies, or other financial entities) in addition to the current panel.

During the last collection, conducted in late March through early April 2023, 65 out of 71 domestic banks and 19 out of 21 branches and agencies of foreign banks responded to the survey.

Domestically Chartered Commercial Banks

Since 2012, the Federal Reserve has tried to maintain a panel of 80 such banks, the authorized size (from 1981 to 2012, the Federal Reserve tried to maintain a panel of 60 insured, domestically chartered commercial banks). To ensure adequate geographic coverage, the survey panel of domestic banks spans all Federal Reserve Districts, while balancing the need to keep it heavily weighted toward the largest banks. When the largest banks in a District are not among its respondents, it is generally because the banks are specialized (for example, credit card banks) or

[3] Examples of Basel III research include BIS (2010). "Assessing the Macroeconomic Impact of the Transition to Stronger Capital and Liquidity Requirements," Macroeconomic Assessment Group. Basel, Switzerland: Bank for International Settlements, and Angela Maddaloni and Jose-Luis Peydro (2011). "Bank Risk-Taking, Securitization, Supervision, and Low Interest Rates: Evidence from U.S. and Euro Area Lending Standards," *Review of Financial Studies*, 24(6), pp. 2121-2165 (https://academic.oup.com/rfs/article/24/6/2121/1587432).

because they are part of a holding company that is already represented in another District. The presence of the largest banks in the survey is critical, as they play an important role in developing and practicing new banking techniques. However, the panel also includes a fair number of large and medium-size regional banks, which allows for a greater diversity of responses and provides a broader view of the banking system.

As of March 31, 2023, the panel of domestic respondents contained 73 banks, 37 of which had assets of $50 billion or more. The assets of the panel banks totaled $15.1 trillion and accounted for about 74 percent of the $20.5 trillion in total assets of all domestically chartered institutions.

Selection Criteria for the Domestic Bank Panel

In selecting the panel, the Federal Reserve generally imposes three constraints. The first is size: Banks that have less than $2 billion of total assets or for which commercial and industrial (C&I) loans are less than 5 percent of total assets are eliminated from consideration, with a few exceptions.[4] The second is geographic diversity: Between three and nine banks are included from each District.[5] The third is mutual independence: With some exceptions, a bank is eliminated from consideration if it is a subsidiary of a bank holding company that is already represented in the panel, because its responses would likely not be independent of those of the related bank already providing responses.[6]

U.S. Branches and Agencies of Foreign Banks

The Federal Reserve tries to maintain a panel size of 24, the authorized size. As of March 2023, the panel included 21 institutions, 20 of which are located in the New York District. In March 2023, the share of C&I loans held by respondent U.S. branches and agencies of foreign banks ($366 billion) relative to that held by the universe of such institutions ($519 billion) was 71 percent, up from 66 percent in June 2017. To keep the panel representative with respect to the parent banks' countries of origin going forward, branches and agencies would continue to be added to the panel based on the location of the parent bank as well as size.

Optional Panel

The panels of large domestically chartered commercial banks and U.S. branches and agencies of foreign banks would be appropriate for most survey topics. In some situations, however, panels based on alternative criteria may be more appropriate or may provide useful additional information. Consequently, the Federal Reserve has the option to survey other types of respondents (such as other depository institutions, bank holding companies, or other financial entities) in addition to the current panel. For example, it may be useful to survey institutional

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[4] As of March 31, 2023, seven banks had C&I loans that were less than 5 percent of total assets.
[5] Two panel members have main offices in Federal Reserve Districts that are different from those that collect their survey responses because in these cases the respondent bank (not the head office) is considered the primary lending bank.
[6] In cases where two banks under a common parent company are included in the panel, the Federal Reserve has made efforts to determine that the banks' responses to survey questions are independent.

loan investors to gain a better understanding of how that part of the syndicated loan market works. This option enhances the potential scope and utility of the survey and is consistent with the FR 2023. Also consistent with the FR 2023, the surveys of optional panels would be conducted either by Federal Reserve Bank staff or Board staff, as appropriate.

Procedures for Collecting Information

This voluntary survey is conducted with a senior loan officer at each respondent bank, generally through an electronic submission via the Survey Central platform, up to six times a year. Senior staff at the Reserve Banks with knowledge of bank lending practices email the survey questions to a senior loan officer at each respondent bank. Federal Reserve Banks conduct follow-up telephone interviews with institutions that did not respond or if the responses require further information. The Reserve Banks electronically transmit survey responses to the Federal Reserve Board, where the data are tabulated and summarized in a public release, which is made available on the Federal Reserve's website. The survey results also are discussed in annual *Federal Reserve Bulletin* articles.

Methods to Maximize Response

A respondent may decline to answer a particular question when answering would entail excessive burden. Experience has shown that only a small number of respondents decline to answer any particular question. Response rates overall have been high and resulted in adequate and informative answers.

Testing of Procedures

There are no testing of procedures for this collection.